

1.08 COVID-19 EMERGENCY MANAGEMENT

For more than a year now, owing to the Coronavirus pandemic that struck the entire planet, new challenges have arisen for people, institutions and companies. These new demands primarily involve protecting people's health, but also the economy due to the effect on production, as well as social issues due to the sudden change in people's lives and habits.

At the very beginning of the health emergency, the Group adopted a structured and organic crisis management model, counting on its resilience in every strategic area and proactively committing itself to constantly updating its operational plans according to the evolving situation. This was done to ensure compliance with all measures aimed at service and safety, provide continuous information to company personnel and stakeholders, and implement all containment initiatives intended to reduce the economic and financial impact. Regarding this latter aspect, management provided itself with weekly reports that, by way of specific indicators, made it possible to monitor business performance in relation to the impact of the pandemic on the socio-economic fabric in which the Group operates. In these reports, the focus went on the one hand to quantitative business data (consumption recorded, volumes managed, services provided) that, with their fluctuations, offered the best indication of economic trends in the industrial sector, and on the other to data relating to customer management, to better understand the financial factors related to liquidity risk. This continuous monitoring enabled management to promptly take the necessary corrective actions to mitigate or offset the negative effects deriving from the crisis. The Group was also able to seize a number of opportunities from the crisis, especially in terms of a digital transformation in services and processes, while at the same time managing the consequent emerging risks, especially in the area of IT security.

For each key area impacted by the crisis, the actions taken by the Group to deal with the health emergency and adapt to the new context in which its operating processes must be carried out are outlined below.

Service continuity and stakeholder relations

In order to guarantee continuity in essential services for citizens, in compliance with safety, reliability and efficiency criteria, programs for network and plant operations and maintenance were reviewed. Only those that could not be postponed were carried out, and those that were not essential, according to the limitations provided by emergency regulations, were delayed. Physical contacts were limited to activities essential for service continuity and those for which the physical presence of personnel is concretely necessary. In accordance with government regulations, help desks were closed during the most critical periods of the emergency. During these periods, however, the Group always ensured service continuity for customers, via pre-existing phone and digital channels, which were reinforced. When help desks were reopened, adequate prevention and protection measures were put in place for workers and users.

Based on agreements with **Municipal Administrations**, targeted street sanitation interventions were carried out and dedicated services for collecting waste produced by Covid-19 positive or quarantined citizens were introduced. In the case of door-to-door collection, the possibility to request additional service was provided. For people in isolation, following the indications of the municipalities served, a household collection service was introduced with specialized suppliers.

The Group was also involved in an experimental project launched by the National Health Institute to detect the presence of Covid-19 in municipal sewage, in order to search for and measure the concentration of the virus in the samples collected, and thus monitor and give indications as to the spread of the epidemic. The Group also collaborated actively with Utilitalia, to provide the Civil Protection and the Ministry of Health with the data necessary to quantify the amount of vaccine to be dedicated to all employees of Italian multi-utilities who provide essential public services.

In order to prevent critical issues from arising along the **supply chain**, a number of essential categories for the Group's activities were identified and monitoring indicators were introduced. Suppliers working with the Group were required to adopt the same safety measures for their employees as those already identified by Hera. Criteria for accessing sites continued to be demanding,

limited to situations of necessary. In order to support small and medium-sized companies having credits for supplies or services, and allow these companies to have an additional source of financing, the Group continued to be willing to pay receivables owed by it, providing all support necessary to complete the related factoring operations. Moreover, as of the second half of 2020, the Group granted advance payment for the amounts contracted to suppliers who were awarded tenders.

Customers were encouraged to use digital channels, for meter readings as well. Arera adopted specific regulatory measures to protect electricity, gas and integrated water service users (for further details see the section "Businesses and regulations" in paragraph 1.01 "Contexts and trends"). The Group had in any case decided to act in advance, granting instalment payments to all customers receiving unemployment benefits or income support measures, and owners of businesses closed due to national or local regulations. Nevertheless, the delayed payments granted did not have a negative impact on the Group's liquidity, thanks to credit management and a considerable improvement in the time required to collect receivables when due.

Health and safety

In implementation of the national protocol signed by the social partners and the government, a regulatory document was developed containing a set of prevention and protection measures adopted to counter the spread of the virus. This document was subject to various evaluations by the competent authorities (Local health authorities/Labour inspectorate), who confirmed the validity of its contents, and was then presented to and signed by the national trade unions on 15 May 2020. This protocol is continuously updated based on changes in the pandemic, in order to keep it always consistent with the development of the national regulatory framework and the evolution of prevention and protection measures.

As regards the specific nature of its business and its local presence, the Group established criteria for identifying risk scenarios caused by the spread of the Covid-19 virus, from an Enterprise Risk Management point of view. These criteria, along with the measures defined in the Group's protocol, were used to update the risk assessment document. The choice of having a single Group model for assessing of risks and defining prevention and protection measures made it possible to follow an integrated and synergic approach. After the protocol was drawn up, the measures adopted and their implementation were indeed periodically monitored. In this regard, a specific checklist was developed allowing the heads of the various organizational units to periodically monitor the situation. As of the date on which this report was prepared, roughly 5 thousand checklists have been completed and managed.

Respecting the indications provided by health authorities, and in order to safeguard and protect employees, a specific procedure was defined for managing workers with specific fragilities, i.e. those with current or previous illnesses that make them susceptible to particularly serious consequences in the event of infection. This procedure was developed in a collaboration with medical authorities and in full respect of privacy. In order to immediately interrupt any chains of transmission of the virus on the workplace, rapid tests were carried out to identify any asymptomatic positive carriers. 42 accredited laboratories were identified in the areas where the Group operates and could be activated if necessary, with the active collaboration of the appropriate doctors. The measures introduced by the Group since the onset of the pandemic proved to be effective in limiting the spread of the virus among employees, as shown by the fact that the incidence rate (number of cases per thousand people) in the Hera Group was about 15% lower than the amount found among the overall population of Northern Italy.

Additional cleaning and sanitization of company premises (compared to regular standards) was carried out using disinfectants, and the frequency of these activities was increased. All staff on external service were constantly provided with the personal protection equipment needed to deal with the health emergency (e.g. respiratory protection masks, disinfectant gels, disposable gloves and overalls). Disinfectant gel dispensers were introduced in company offices, at entrances and near communal areas, and a supply of surgical masks was given to each employee. In company cafeterias and other shared areas, behavioural norms were defined that provided for staggered entries and a specific logistics for space management that allowed for an appropriate distancing between people.

Additionally, methods for carrying out on-field services were defined, introducing health safety standards for workers, including reduced travelling (including the extension of the "vehicle at home" program for maintenance workers) and the elimination of the use of locker rooms or, where this was not possible, revised work shifts to reduce overlap between operating units.

Lastly, Hera introduced a Covid-19 insurance policy for all employees infected by the virus, with all costs covered by the company. This policy provides, as additional benefits, a package of guarantees and services and, in particular, provides hospitalization indemnity, recovery indemnity and post-hospitalization assistance.

Work organization and technology

The intensive use of alternative work and communication tools made necessary by the pandemic raised a major challenge for the Group, which immediately set itself the objective of enabling thousands of its employees to continue working remotely, in order to ensure service continuity, but also to allow them to more easily manage their private lives. Making the most of the experience previously gained in remote working for hundreds of its employees, the Group was able to extend this program by effectively addressing its significant technical and organizational impact, in compliance with IT security requirements and without interrupting work activities. More specifically, remote working was confirmed as a structural element of the company's work organization, and training was aimed at further encouraging an agile corporate culture, based on flexibility, delegation skills, activity planning and remote collaboration. This strategic approach made it possible to additionally extend remote working, understood as the possibility of working from one's own home or, more generally, in a place other than the assigned headquarters, for two days a week, in a structural way.

In order to ensure the security of information systems, controls on virtual private network (VPN) access were increased and more in-depth automated controls are constantly being introduced. However, the increased use of remote working tools also heightened the risk of exposure to cyberattacks. From an organizational point of view, the Group decided to provide itself with central structures, dedicated in particular to analysing and measuring risks and managing IT security for all company areas. In its approach to cyber-threat management, Hera focused on three main aspects:

- increasing the level of awareness among company employees regarding cybersecurity;
- moving from a reactive model for incident management to one that is as predictive as possible;
- identifying and adopting targeted technological solutions, able to ensure continuous evolution.

Awareness-raising policies were introduced through the use of dedicated platforms, and ethical phishing campaigns were made systematic, correlating the results of these campaigns to specific training proposals.

From a technological point of view, advanced tools were introduced to protect workstations and servers, as were functions aimed at making digital identity and IT access management increasingly secure. Protection was strengthened through by analysing data traffic on the internal network and, thanks to an optimization of the intrusion detection system, a method of merely reporting possible intrusion attempts was replaced by automatic blockage when certain conditions occur. Vulnerability assessment activities were intensified in order to intercept any vulnerability found in systems or applications that could be exploited by an attacker. Moreover, a threat intelligence service was introduced which, by following the main bulletins and through a direct relationship with the national Computer Security Incident Response Team, allows the state of the systems to be monitored with respect to particularly serious vulnerabilities that require rapid remediation.

Lastly, the pandemic led to a drastic reduction in business trips, with internal events also cancelled and, as a result, an exponential increase in remote meetings and virtual training rooms. Since Hera had already started a process of digitalization of processes some time ago, thanks to its adoption of the digital workplace, the Group's IT architecture was already adequate and able to support the increased use of digital collaboration tools.

See the section "Technology and human capital: innovation" in paragraph 1.01.02, "Strategic approach and management policies", for further details on the strategy adopted by the Group regarding cybersecurity, as well as paragraph 1.02.03 "Areas of risk: identification and management of risk factors" for an analysis of the related risks and management methods.

Potential impact on business, the financial situation and operating performance

The Group, much like the entire utilities sector, did not directly suffer from the interruption of activities due to the lockdown and subsequent restrictions. It did, however, have to cope with the fall in consumption resulting from the crisis. This reduction did not lead to a decrease in the Group's overall results, which continue to show growth, even though they were partially affected by the pandemic. Therefore, there are no critical issues regarding the Group's corporate continuity.

The sector that suffered most significantly was the commodities area, where a reduction was seen in demand for electricity and gas, especially from industrial customers, primarily due to the restrictions caused by the lockdown and the slow progress of economic recovery, as a result of further measures taken by the national and regional governments. The reduction in consumption primarily concerned Northern Italy, due to its industrial and productive fabric, characterized by intensive energy use. Alongside the reduction in demand, a decrease was also seen in electricity and gas prices. It should be noted that this reduction in prices was not caused solely by the economic impact of the restrictive measures, which accentuated a downtrend linked to the entry of new players and a changed mix of sources of generation, which caused a reduction in the PUN coming to around 24% compared to the previous year. As regards gas, the reduced price is well shown by the average annual trend for the CMEM tariff component, which decreased by 34% compared to 2019. For a more detailed analysis of these economic effects, see paragraphs 1.07.01 "Gas" and 1.07.02 "Electricity".

In the waste management sector, a reduction occurred in volumes of both municipal and special waste, as a result of the standstill in many production and commercial activities. Additionally, the slowdown in the construction sector led to a drop in new connections and customer services. These trends are described in paragraphs 1.07.03 "Integrated water cycle" and 1.07.04 "Waste management".

Faced with this crisis situation, the breakdown of the Group's business portfolio, marked by balance between free-market and regulated activities, is an initial factor that allowed the economic impact to be contained, since regulated activities were not affected in the short term by market phenomena related to the pandemic. The high level of resilience that characterizes the Group, not only in terms of infrastructures but also from an operational and organizational point of view, allowed it to maintain a positive trend of growth, containing the operating and financial impacts of the crisis. The year-end figures show, considering all business areas as a whole, a reduction in earnings caused by the Covid-19 health emergency coming to approximately 31.4 million euro (see paragraph 1.04.01 "Operating results and investments").

From a financial point of view, bearing in mind the positive trend in cash generation, the first part of the year saw an increase in requests for payment by instalments, which resumed in the last quarter when the second wave of the epidemic arrived. However, this trend was more than offset by an improved performance in collecting receivables because, thanks to an optimization of the credit origination and monitoring process, the Group was able to maintain the percentage of receivables collected at the same level as the previous year.

As regards the prospective management of financial requirements and the related cost, note that as of 31 December 2020 the Group has cash and cash equivalents coming to approximately 987.1 million euro, which can be freely used, committed lines of credit amounting to 650 million euro and uncommitted lines of credit totalling 537 million euro (as indicated in note 27 "Non-current and current financial liabilities" in paragraph 2.02.05 "Commentary notes to the financial statement formats"). Furthermore, in December 2020 the Group issued a new 500 million euro 10-year bond at a very low nominal rate, coming to 0.25%, which amply demonstrates Hera's ability to obtain resources on financial markets at sustainable costs. The Group's current financial situation, supported by careful management applied to all phases of the credit process and prospects for future performance in all businesses, enables the Group to maintain, even during the ongoing pandemic, the financial planning outlined in the 2021 budget. The projected investments have therefore been confirmed, as a necessary driving force for development especially in network activities, as have dividend payments, the latter increasing compared to the previous year, as already foreseen by the 2021-2024 Business Plan.

Considerations as to financial reporting

What follows are the considerations made and the analyses carried out based on factors including the updated planning information resulting from the Business Plan to 2024, approved by the BoD on 13 January 2021.

- Impairment test - due to its evolution and the ensuing pervasive effects on the economic environment in which the Group operates, Covid-19 represents a trigger event as regards impairment for the assets recorded in the financial statements. Owing to the uncertainty of the

current context, the Group has considered two sensitivity scenarios, in order to measure its exposure to the risk of non-recoverable balance sheet items subject to impairment testing (as described in further detail in Note 32 of paragraph 2.02.05 "Commentary notes to the financial statement formats"). In the first scenario, the reduction in earnings seen in 2020 for all businesses in which the Group operates was projected for the next two years, hence reducing the cash flows used in valuations for 2021 and 2022 and expecting full recovery in earnings starting from 2023. This scenario would not entail any effect in terms of reducing the value of the assets below their recoverable value. For the second hypothesis, a worst-case scenario, a sensitivity analysis was carried out for the earnings of each individual business, aimed at identifying the percentage decrease that would essentially determine a correspondence between the book value of the individual CGUs and their recoverable value. As a result, only a reduction in Ebitda coming to over 12% concerning all years covered by the business plan (and therefore without assuming any recovery after the drop in 2020), would lead to an equivalence between the carrying amount and the recoverable value of the assets, moreover only concerning some CGUs;

- Valuation of derivative instruments – the impact of the health emergency on financial and raw material markets caused a reduction in the fair value of these instruments, and thus had an ensuing impact on equity and the balance sheets. As regards derivative financial instruments on commodities designated in hedge accounting, future transactions are currently still considered highly probable. Note 20 of paragraph 2.02.05 "Commentary notes to the financial statement formats" contains a sensitivity analysis, in the event of a shock to the underlying variables;
- Estimate of losses on receivables – the Hera Group uses probability measures for default, exposure at default and loss given default, to estimate annual provisions in the income statement and thus determine the allowance for doubtful accounts. These measures were developed on the basis of the available historical series, estimated according to the payment behaviour of customers and current credit processes, and thus calculated the expected lifetime loss, as defined by IFRS 9. During 2020, analyses were carried out in order to verify the resilience of the valuation models, considering both internal and external information that could act as a benchmark for the evolving macroeconomic context. Additional verifications concerning the forecast model for expected loss included:
 - an enrichment of the customer base of corporate clients, using Covid-impact information supplied by an external provider, aimed at identifying the impact of the pandemic on the counterparty's specific risk, with reference going to the sector of products. Using this information, the Group was able to quantify turnover exposure and the related unpaid items exposure;
 - the use of specific tools to go into even further detail concerning the financial situation of customers, by analysing balance sheets and additional specific scores with a view to Covid-19 risk. Through these tools, a few highly concentrated clusters of credit portfolios were subjected to monitoring, in order to obtain specific daily assessments of the corresponding risks;
 - close monitoring of the corporate customer base, through daily updating in the rating supplied by a service provider, which made it possible to identify situations showing a deterioration in risk, immediately communicated to the specific management channels;
 - a focus on trends in new insolvency proceedings and bankruptcies.
 - the results of stress tests carried out on three forecast scenarios (baseline, medium and worst) regarding the Group's unpaid receivables showed that the allowance for doubtful accounts recorded is adequate.

Events occurred after year-end

The Group's constant monitoring of quantitative indicators, as described above, indicates a situation still undergoing a crisis, which is however less acute than the one seen in the first months of 2020. The pandemic is not currently expected to have an effect on the Group's business model in all its operating sectors over the medium-long term, nor therefore on its ability to generate profit or its financial performance. The Group's operating and financial targets for 2021 have therefore been confirmed, since the Group does not believe that current conditions require it to revise its growth forecasts.