

1.06 SUSTAINABILITY RESULTS

The Group's commitment to reporting to stakeholders as to the results achieved in the areas of creating shared value (CSV) and sustainability was confirmed again this year by the Sustainability Report, available at bs.gruppohera.it and on the Group's website in the sustainability section.

The Sustainability Report contains the Hera Group's consolidated non-financial statement prepared pursuant to legislative decree 254/16 and constitutes a separate report from this directors' report, as provided for in Article 5, paragraph 3, letter b) of legislative decree 254/16. The Sustainability Report also includes indicators and information relating to the environment, personnel and research and development activities.

What follows is a summary of the main results reported in the 2020 Sustainability Report.

Further progress was made during 2020 in aspects of CSV and in the area of sustainability, concerning both the results achieved and the new projects launched, as well as measurement and reporting outside the company. With regard to the latter aspects, several elements enhanced the Group's corporate social responsibility and accountability profile:

- Hera stock was included in the Dow Jones Sustainability Index, World and Europe, with a ranking that sees the Group defined as "Industry leader" among the approximately 3,500 companies with the largest capitalization in the world evaluated;
- reporting was brought even more in line with the recommendations of the Task force on climate-related financial disclosure (TCFD), through additional information on the actions taken to mitigate and adapt to climate change with regard to governance, scenario analysis, risk and opportunity management methods and the related measurement indicators;
- greenhouse gas emission reduction targets (and the first correlated year-end reporting) were defined, in line with the criteria of the "Science Based Target initiative" (with particular regard to the "well below 2°C" paradigm, aimed at limiting the increase in the average temperature of the earth to considerably less than 2°C), with a decrease in emissions coming to over 15% by 2024 and roughly 33% by 2030, in both cases compared to 2019, taking into account both the Group's emissions (Scope 1 and 2) and those of customers (Scope 3, relating to electricity and downstream methane gas sales);
- disclosure for the new areas was broadened, defined on the basis of the material analyses such as, for example, resilience and adaptation to climate change and health emergency management for Covid 19, which characterized almost all of 2020 and is still ongoing.

Creating shared value: CSV Ebitda rises to 420.0 million euro (37.4% of total Ebitda); CSV investments come to 297.4 million euro (55.5% of total investments)

The 2020 Sustainability Report consolidates the innovative content representation introduced in 2017, focused on creating shared value thanks to the Group's strategic approach, inspired by the indications offered by Porter and Kramer. The results achieved and the objectives set for the future are flanked by a summary of the scenario concerning the three drivers for creating shared value, defined in 2016 and updated in 2020 based on an analysis of European, national and local policies, megatrends and communications. The three drivers for creating shared value are: (i) Energy – pursuing carbon neutrality, (ii) Environment – regenerating resources and closing the circle, (iii) Local areas (and Enterprise) – enabling resilience and innovating. One chapter is dedicated to each of them in the 2020 report as well, forming the most significant part of this report.

One of the strong points of the Group's CSV reporting is its quantification of CSV Ebitda, i.e., the portion of Ebitda that derives from business activities that respond to the goals on the "Global Agenda", i.e., the calls to action for sustainable growth (linked to the Group's activities) indicated by 98 policies at the global, European, national and local levels, analyzed since 2016 and summarized in the three drivers mentioned above.

In 2020, CSV Ebitda came to 420.0 million euro, corresponding to 37.4% of the Group's total Ebitda. CSV Ebitda recorded an increase of 7.2% in 2020 compared to the amount seen in 2019, in line with the newly defined calculation criteria and the new CSV drivers. 2020 CSV Ebitda was thus in line with the path set out in the 2021-2024 Business Plan, designed so that approximately 50% of total 2024

Ebitda comes from business activities that meet the priorities of the “Global Agenda”. The Group’s contribution to creating shared value also involves making investments in the three CSV drivers, which in 2020 amounted to 297.4 million euro, about 55% of the total.

This quantification of shared value Ebitda and investments for 2020 has been submitted, for the second consecutive year, to verification by an auditing company, in order to confirm the value of these distinctive aspects of the Group’s reporting to all stakeholders.

The Hera Group’s commitment to aspects of CSV is also proven by its active participation in numerous national and international networks, such as the Ellen MacArthur Foundation, the association of companies most committed globally to the transition towards a circular economy. In particular, mention should go to the Group’s participation in the New Plastics Economy Global Commitment, where it specified explicit objectives to increase the collection and recycling of plastic through to 2025, and to the second report drafted in 2020 concerning the objectives stated, which show positive results in plastic collected, sorted and recycled.

Pursuing carbon neutrality: -6.2% in energy consumption; 20% of contracts with energy efficiency services; -22% in carbon intensity

Hera pursues carbon neutrality in its own activities and those of its customers, by promoting energy efficiency and projects aimed at the energy transition and renewable energies.

With regard to energy efficiency, note that:

- the initiatives defined by Hera Spa, Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa, falling under Iso 50001 (included in the energy improvement plan) and already implemented at the end of 2020, allowed energy consumption to be reduced by 13,745 TOE, equivalent to 6.2% of 2013 consumption, far exceeding the target of 5%;
- at the end of 2020, gas and electricity contracts with energy efficiency solutions accounted for 20% of total contracts; this figure comes to 27% over the same scope of operations as 2019, i.e. excluding the sales companies that came into the Group’s consolidated scope thanks to the “Ascopiave transaction”; initiatives aimed at promoting energy efficiency among residential customers include commercial offers such as Hera Led, Hera Thermo, Hera ContaWatt and Hera Caldaia, as well as the “Consumption Log”, a free report intended to raise awareness among customers on energy savings, based on the principles of behavioural economics.

With regard to the energy transition and renewable energies, Hera continued to promote the Hera Zero Footprint offer in 2020 as well, alongside other commercial offers based on carbon neutrality, achieving at the end of the year:

- an increased amount of electricity from renewable sources sold compared to 2019, coming to 32.2% of total electricity sold (excluding the amount sold under the safeguarded plan);
- an amount of methane gas with CO₂ emissions compensation coming to 4.4% of the total volume of gas sold, as compared to 0.8% in 2019 (excluding volumes sold to wholesalers, in the default service and in last resort supply);

For the third consecutive year, Hera continued to guarantee 100% electricity from renewable sources to all its residential customers on the free market.

Within the company itself, in 2020 Hera achieved production of biomethane from the organic portion of waste coming to 7.8 million m³ (+20% compared to 2019), 83% of its own electricity consumption covered by renewable sources, and a 22% reduction in the carbon intensity index for energy production compared to the 2013 baseline.

Lastly, based on the first report carried out according to the Science Based Target Initiative method referred to above, the Group’s greenhouse gas emissions saw a 5.4% reduction in 2020 compared to 2019.

Regenerating resources and closing the circle: sorted waste at 65.3%; 72% of packaging recycled; -12% in water consumption

Hera regenerates resources and “closes the circle” through initiatives and projects falling into three areas: (i) transition towards a circular economy, (ii) sustainable water resource management, (iii) air, soil and biodiversity protection.

With regard to the transition to a circular economy, 2020 saw a further increase in sorted waste collection, which reached 65.3% (national 2019 average: 61.3%) and a very limited use of landfills for municipal waste disposal, coming to 3.4% (national 2019 average: 23%). In this respect, Hera is almost 20 years ahead of the EU target for a circular economy and ranks at the same level as the most virtuous European countries. Last November, Hera published the eleventh edition of its Tracking Waste report, verified by DNV-GL, thus providing citizens with a guarantee as to the actual recovery of all sorted waste collected, which comes to 92%. This report contains a ranking of the area served by Hera s regards the recycling targets defined by the EU, as part of its circular economy package. In the overall recycling rate, with 56% Hera is already over the target of 55% set for 2025, and in the packaging recycling rate, with 72% the Group has already reached the target set for 2030.

Once again concerning a circular economy, 2020 saw the material and energy recovery rate in Herambiente Spa's selection plants come to 81%, and quantity of plastic recycled by the Aliplast Group come to approximately 69 thousand tons which. Even considering the 5% drop compared to 2019 owing to the health emergency, this is still 16% higher than 2017, the baseline of the commitments made in the aforementioned New Plastics Economy Global Commitment.

As regards sustainable water resource management, Hera's commitment in the sewage-purification sector continued in 2020 with a multi-year plan to bring municipal agglomerates into compliance with regulations: at the end of 2020, 97.6% of these agglomerates were adequate in terms of population equivalent (as against 96.5% in 2019). Initiatives to preserve water as a resource important were also important, such as the Group's internal water management project, which led to a 12% reduction in consumption in 2020 (compared to the 2017 baseline), agreements with local authorities that make 5% of the water leaving purification plants reusable, and the aforementioned Consumption Log that is now distributed to roughly 20% of household customers of the water service.

With regard to air protection, positive results were confirmed in the environmental performance of the Group's waste-to-energy plants, which in 2020 as well recorded very low levels of atmospheric emissions, on average 86% lower than the legal limits, and the Imola cogeneration plant with average PM10 concentrations 99% lower than the limits. Lastly, as far as soil protection is concerned, it should be noted that in 2020 the projects carried out by HeraTech involved the soil reuse coming to 87% of total soil.

Enabling resilience and innovating: 86 million euro invested in innovation and digitisation; 2.1 billion euro in economic value distributed to local areas; local suppliers account for 65% of the total

Significant results were achieved by the Group in 2020 in areas of CSV related to developing the economy and employment in local areas, innovation and digitisation. Equally important initiatives and projects were aimed at ensuring resilience in its operating activities and therefore in the local areas served.

The overall economic value distributed to local areas amounted to 2,118 million euro, or 75% of total economic value. The amount distributed to local suppliers came to 65% of the total, reaching 740 million (+6% compared to the previous year), while indirectly generated employment is estimated at around 8,800 people; these figures confirm the leading role played by the Group in developing local areas. As regards indirectly generated employment, the 864 jobs provided for disadvantaged people should be noted, linked to supplies from social cooperatives coming to 67.1 million euro in 2020.

Investments in the area of innovation amounted to approximately 86 million euro and were related to projects in three areas: energy transition, circular economy and digital transformation. With regard to digital transformation, the 2020 Sustainability Report introduced, for 24 projects, an innovative reporting on objectives, results and impacts, based on the framework of Corporate digital responsibility, defined as the set of practices and behaviours that help an organization use data and digital technologies in an ethical and responsible manner, from a social, environmental, economic and technological point of view. In addition to digital transformation projects aimed at further optimizing operating processes to the benefit of quality, safety and continuity in services, as well as work quality and internal efficiency, further efforts were made in 2020 to develop digital channels for customer relations. At the end of 2020, the Acquologo and Rifiutologo apps reached about 622 thousand downloads and over 61 thousand photos were sent by from citizens (+2% compared to 2019), whereas the My Hera app, dedicated to residential customers, saw more than 415 thousand downloads. Digitisation in customer relations is also marked by a steady increase in practices managed through

web channels: in 2020, customers taking advantage of online services rose to 28.7%, while those who requested e-billing reached 34.3%. The Group's commitment in this area, along with the attention given to local communities, led in 2020 to launching of the fourth edition of the campaign to promote e-billing and digital behaviour in customers, called Digi e Lode, allocating an additional 125 thousand euro in economic prizes for the digitisation of local schools.

Once again regarding digitisation, the experience gained by the Group since 2017 made it possible to resiliently manage the emergency seen in 2020. From mid-2020, the number of workers permanently involved in the remote working project came to roughly 4 thousand, equivalent to 77% of total permanent employees, only excluding blue-collar workers.

The results achieved in terms of shared value generated are rounded off by those relating to the following areas, which complete the Group's social responsibility and sustainability profile.

- Thanks to awareness raising programs and the adoption of Iso 45001 certification, which covers 86% of Group workers, in 2020 the accident frequency index showed a further decrease, reaching 12.6 (as against 14.1 in 2019). In 2020, the Hextra welfare system was used by workers for a total amount coming to over than 4.5 million euro, and 99.2% of workers took part in it. Training remains high, thanks to elements including the redesign of initiatives in digital mode: in 2020, 26 hours of training were provided per capita, of which over half remotely. The role of sustainability objectives in the balanced scorecard system, linked to the incentive system involving all management, further increased: in 2020, 35% (34% in 2019) of the variable remuneration of the Group's executives and middle managers was linked to sustainability projects, and the weight of sustainability projects oriented towards creating shared value amounted to 23% (as against 20% in 2019).
- In 2020, a year marked by the health emergency, the quality of customer contact channels remained high: the average waiting time at the call centre settled at 33 seconds for residential customers (as against 27 in 2019), and remained at 25 seconds for business customers, even though these contacts increased by 24% and 6% respectively compared to the previous year. Average waiting time at help desks was further reduced from 9.4 minutes in 2019 to 5.4 minutes, for reasons including a 37% fall in contacts. The survey carried out in 2020 on the quality of services provided by the Group (over 9,200 interviews carried out with residential customers) showed a high customer satisfaction rate (73/100), unchanged with respect to the previous year.
- In 2020, in selecting its suppliers, the Group used the most economically advantageous offer method for 86% of public tenders and 64% of overall contracts (in terms of value). In both cases, the average score going towards social and environmental aspects came to over 40/100. Monitoring suppliers based on social responsibility towards workers continued in 2020, as did controls of accidents in the main suppliers (those involved accounted for 79% of the value of service supplies and the most relevant works in terms of occupational safety). The "circular purchases" project also continued in 2020, defining specific guidelines on this topic and identifying the technical criteria used to increase scores during tenders: eco-efficiency, dematerialization, renewability and recyclability. In 2020, the average score reserved for circularity criteria in the overall tenders awarded with the economically most advantageous offer came to 8/100 (as against 2/100 in 2019).
- Lastly, activities in communicating with local communities continued in 2020, with the introduction of HeraLABs in Modena and Forli-Cesena, partially made possible by holding some meetings by videoconference. HeraLAB is the tool Hera offers to the areas served in order to activate a structured channel for listening and communication with local communities. Each LAB is made up of 12 representatives of local stakeholders, appointed by Hera's Board of Directors. Activities in the Modena and Forli-Cesena LABs will continue in 2021, and the initiatives co-designed with the Rimini and Bologna LABs will be carried out over the two-year period 2021-22.

Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

During 2020, a path was developed to come into line with the recommendations provided by the Task Force on Climate-related Financial Disclosures (TCFD), involving the entire corporate organization, across the board. The Task Force came into being as a result of the 2015 Paris Agreement, by which the member states of the United Nations committed to keeping the increase in average global temperature below 2°C compared to pre-industrial levels, possibly limiting the increase to 1.5°C by the

end of the 21st century. During the same year, the G20 Financial Stability Board (FSB) established the TCFD, with the aim of introducing greater transparency on the financial opportunities and risks associated with climate change. In 2017, the TCFD published the reporting recommendations mentioned above, which have now become an international benchmark for climate change disclosure by companies. The TCFD's recommendations are applicable to organizations in all sectors and are classified into four areas: governance, strategy, risk management and metrics & targets.

The path initiated by the Group took shape according to three main steps:

- the establishment of a dedicated cross-functional working group;
- an in-depth analysis of gaps in the reporting system and the ways in which Hera Group manages climate opportunities and risks with respect to the recommendations;
- the definition of a working plan to increase the Group's alignment with the TCFD's recommendations. The first results of this had already appeared in the 2019 Sustainability Report and the specific Value to Energy report published in 2020, and were further strengthened in this Consolidated Financial Report and the 2020 Sustainability Report, which can be consulted for a comprehensive illustration of the four reporting areas, by topic.

