

1.01.02 - Strategic approach and management policies

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 lever:

- 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, carefully selecting interventions that can ensure that the Group's assets and processes have the greatest possible capacity to cope with increasingly frequent and intense exogenous phenomena;
- carbon neutrality, pursuing decarbonisation goals within the Group's own 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 require leveraging 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, with the aim of increasing the efficiency and quality of the services provided, multiplying opportunities for stakeholder engagement and accelerating the widespread adoption of behaviours and skills capable of responding to the challenges of a constantly evolving context.

As is clear from what has been stated thus far, sustainability issues pervade the Hera Group's strategy, being both an integral part of it and a point of reference. For a detailed representation of objectives and results, as better defined by the reference standards, see paragraph 1.07 "Consolidated sustainability statement" (hereinafter Sustainability reporting) of this document.

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 approach and minimising risk.

The Group's financial structure is based on an attentive long-term planning of the necessary financial resources, which it carries out, based on its Business plan, by estimating, analysing and monitoring prospective 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 aimed at limiting the risk of interest rate fluctuations, and through the evaluation of liability management operations aimed at seizing favourable market opportunities and maintaining a debt repayment profile that is evenly distributed over time.

Whereas the Group's financial structure currently shows 96.7% of fixed-rate debt, by the end of the outlook of the Business plan, in 2028, it is expected that 50% of the current debt will be residual, of which 49% will be fixed-rate and 1% variable-rate. For the remaining 50%, refinancing has been planned in relation to residual needs, whose type of rate will be defined on the basis of future market conditions and within the limits of the financial risk policy. In addition, the strategy of meeting financial requirements through bond issues, including green and/or sustainable bonds, and through subsidised finance lines (including loans granted by the European Investment Bank) has been confirmed, in order to meet the Group's 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 are 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 2024, Moody's rating was confirmed at BAA2, with a stable outlook, in line with the sovereign rating's outlook (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, one notch higher than the sovereign rating and among the best compared to other 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, adopting financial sustainability 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 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. Over the years, the Hera Group has issued three additional Green Bonds, in 2019, 2022 and 2025. 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.

In this context, the Group's presence in the Dow Jones Sustainability Index (DJSI) as one of the world's leading companies in terms of sustainability in its sector, bears witness to the validity and credibility of the path undertaken. 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.

The Hera Group recently approved its 2024-2028 Business plan, which confirms the objective of creating sustainable value to the benefit of all stakeholders through the development of a balanced business portfolio, creating resilient industrial assets even in a scenario characterised by continuous volatility and an increasing frequency of extreme weather events linked to climate change.

**BUSINESS
AREAS AND
INDUSTRIAL
STRATEGY**

Focusing on a just transition will lead to a path of excellence in creating shared value, with 77% of planned investments between 2024 and 2028 contributing to 11 of the 17 goals set by the UN 2030 Agenda. These investments fall under the three areas of shared value creation defined by the Group: pursuing carbon neutrality, regenerating resources and closing the circle, enabling resilience and innovating.

More specifically, 22% of total investments will be dedicated to accelerating the decarbonisation process, mainly by developing renewable plants, energy efficiency initiatives and projects supporting the transition for stakeholders. In relation to this commitment, and in line with the target of a 37% reduction in climate-altering emissions by 2030 (compared to 2019) validated by the international network Science Based Targets initiative (SBTi), the Hera Group, in its Climate transition plan drafted in 2024, has set itself the goal of achieving Net Zero emissions by 2050.

In the area of resource regeneration, 39% of the planned investments will reduce natural resource consumption through the development and adoption of circular economy solutions and models.

At the same time, to enable the organisation to respond effectively to increasingly frequent and intense exogenous events, 47% of the investments defined in the Plan will be allocated to further increasing the resilience of the assets under the Group's management and its operations, ensuring quality and continuity of service.

Regulated businesses will receive 61% of the investments, while the remaining 39% will go towards fuelling growth in market-based businesses.

As regards free-market businesses, the Group's main guidelines involve three strategic levers: working towards growth in its customer base, expanding and diversifying its commercial offer, and reinforcing its set of plants.

In energy sales, the Group is now the third largest operator in Italy in terms of number of customers, and intends to continue developing its customer base from 3.8 million in 2023 to reach 4.5 million by 2028, with a substantial growth in electricity customers, which will reach 2.4 million, surpassing the number of gas customers, thanks to the important contribution resulting from the 7 lots awarded in the Gradual protection service tender in 2024 and the development of a rich and diversified portfolio of services for decarbonisation.

The growing demand for integrated energy solutions coming from public administrations, apartment blocks and industrial customers will lead the Group's Energy service companies (Escos) to introduce new multi-business commercial proposals with an integration and differentiation of the offer, which will be developed in services for energy requalification, sustainable mobility, public lighting and smart cities.

In order to achieve its ambitious decarbonisation targets, in the area of photovoltaic power generation, the Hera Group confirms its goal of installing more than 300 MW by 2028, favouring solutions involving plants at consumption centres as well as Group sites that do not require further land consumption, such as agrivoltaic plants and the numerous projects being implemented on landfills or water cycle plants, alongside installations at clients' facilities, including renewable energy communities.

In the waste treatment and recovery market, the Group aims to further consolidate its nationwide leadership and strengthen its presence in Europe, by leveraging the integration of plant development and commercial growth, addressing the needs of an increasingly diversified and qualified customer base.

Thanks to its set of plants, consisting of more than one hundred state-of-the-art facilities (with five new structures planned by 2028) that treat municipal and special waste, the Hera Group expects to reach a total of approximately 9.6 million tonnes disposed of and marketed by 2028, as against 7.7 million tonnes in 2023 (+24% of waste treated).

With reference to commercial development, opportunities for collaboration will drive growth in the reclamation area (given the country's need to reclaim over 13,000 sites), in which the Hera Group has significantly strengthened its market leadership by integrating the Modena-based A.C.R. di Reggiani Albertino Spa (ACR Spa).

In the plastics recovery market, Group subsidiary Aliplast Spa, one of Italy's main operators in the flexible plastics segment, will continue along its path of growth, increasing volumes of recycling and, at the same time, expanding the range of polymers processed thanks to the development of an innovative multi-matrix plant. The increasing European legislative trend with Single use plastics (SUP) and Packaging and packaging waste regulation (PPWR) will cause progressive growth in demand, against which the Plan expects to double the plants in Novara for polyethylene (PE) and Polyethylene terephthalate (PET) regeneration, alongside innovative projects such as the Imola plant for carbon fibre recovery, inaugurated in March 2025, and the one for the regeneration of high quality rigid plastics under construction in Modena.

In regulated businesses, the Group's strategy will be based on infrastructure development, in line with the needs of the local area and system, facing significant challenges related to the management of water scarcity and surplus, decarbonisation and the electrification of consumption, while maintaining high quality standards and increasing the efficiency of operations.

In particular, the Group's initiatives in the integrated water cycle will focus on implementing works to ensure a secure and stable supply, as well as introducing advanced technological and digital solutions to ensure greater resilience to exogenous events, which are increasingly frequent and intense, optimising end uses. For example, applying innovative technologies and predictive maintenance will make it possible to reduce network leakage, supported by the implementation of districtisation and network reclamation, as well as the installation of more than 640 thousand smart meters by 2028. In addition, initiatives are planned for upgrading purification and sewage systems to enable better water outflow and promoting reuse and regeneration of resources to support the ecological transition.

As regards electricity distribution, the increased electrification of consumption will require initiatives to ensure asset reliability and flexibility for additional service quality and continuity, such as the evolution of electricity grids to improve energy management and increase hosting capacity (+400 MW to 2028, +30% compared to 2023). Asset renewal will also go towards an even better governance of electrification through automation and technological development, also ensured by the deployment of 2G smart metering (464 thousand installations by 2028).

To encourage the decarbonisation of gas distribution, the Group will focus on enabling networks to transport green molecules as well, as is the case with the experimentation currently underway on the municipal distribution network in Castelfranco Emilia (MO). At the same time, the Group will also focus on innovative solutions such as the installation of the Group's patented NexMeter Gas smart meters (523 thousand by 2028), with advanced safety functions in the event of leaks or earthquakes, which can also be used for mixtures of natural and green gas. Or again, the power-to-gas plant in Bologna will make it possible to reuse purified water to produce first renewable hydrogen and then biomethane, using waste oxygen for purification processes.

Lastly, among the assets enabling the energy transition of the local areas served, the Group's strategy now includes an additional development of district heating, to adapt the distribution network and optimise management, making the systems more efficient and reducing the carbon footprint of the heat produced.

In the area of municipal waste, thanks to the recent renewal of long-term concessions, the Group aims to further improve the efficiency and completeness of the service offered to local communities, including through the introduction of new devices and innovative infrastructures and the active involvement of citizens and stakeholders. The validity of

this strategy is proven by the results already achieved by the Group, which has reached the goals set for the recycling rate and the reduction of waste going to landfills ahead of the EU targets: by 2028, the percentage of urban waste disposed of in landfills will fall below 3%, compared to the European limit set at 10%. In addition, the recycling rate will reach 64% by 2028, exceeding the EU target of 60% by 2030, while packaging recycling will stand at 68%, as against the EU target of 70% by 2030.

The industrial strategy outlined hereto projects an Ebitda target of 1,700 million euro in 2028. Shared-value Ebitda is also expected to grow significantly, exceeding 1,100 million euro in 2028, compared to 776 million euro in 2023, reaching 66% of the Group's total Earnings before interest, taxes, depreciation and amortisation (Ebitda), in line with the target set at 70% by 2030.

Shared-value Ebitda is the portion of the Group's Ebitda generated by activities that create shared value in the three areas defined by the Group (pursuing carbon neutrality; regenerating resources and closing the circle; enabling resilience and innovating) and that contribute to 11 of the 17 goals of the UN 2030 Agenda.

Gross investments totalling 5.1 billion euro are foreseen by the Plan, up more than 6% compared to the previous strategic document and 46% higher than the resources invested in the last five years. Of this, 500 million euro will come from PNRR funding and contributions from other institutions, while the remaining 4.6 billion euro will be directly financed by the Group.

In terms of distribution by business area, networks will receive more than half of the investments (2.5 billion euro), ensuring the resilience and adaptation of assets and thus confirming their position as the most capital-intensive business area. Waste management follows, with 24% of total investments (1.1 billion euro), and energy with 21% (1 billion euro).

Consistent with the dictates of the European framework, the Group estimates that 2.6 billion euro of its own expected operational investments (or 96% of eligible investments) will be aligned with the European Taxonomy for sustainable projects, thus gaining full access to subsidised sustainable finance instruments, with a benefit also in terms of financial costs.

The significant financial commitment required over the five-year period to support the investment plan, to benefit industrial development and expand the scope of operations with external growth, will be financed by a significant cash flow produced by the Group, which will make it possible to keep financial leverage below the prudential level of 3x (2.8x by 2028), confirming financial solidity. The robust cashflow also allowed for an upward revision of the prospective dividend curve, to reach 17 eurocents in 2028, up +21% from the last coupon paid.

For Hera, the need to guarantee quality and continuity of essential services in such a changing context, subject to an increase in climatic risks, represents a cost but at the same time an opportunity. The necessary increase in investments to increase the resilience of its assets puts the Group, thanks to its solidity and financial capacity, in an advantageous position with respect to smaller competitors, which could meet greater difficulties in facing such an amount of investments. Furthermore, strengthening internal skills, accompanied by external growth and tenders, will allow the Group to seize all opportunities for development that may arise in the most effective way.

In paragraph 1.07 Sustainability reporting, the actions that the Group promotes and intends to promote with respect to the issues of resilience and adaptation to climate change, as well as the objectives and metrics that guide its environmental strategy, are comprehensively and articulately represented in accordance with the Corporate sustainability reporting directive (CSRD).

Advances in the chemical and engineering industries are at the forefront of technological developments in production processes, and concern the waste management (plastics first and foremost) or energy (biofuels and bio-combustibles) sectors, in a search for concrete solutions that may prove to be fruitful in facing the challenge of adapting to climate change or combating the depletion of natural resources. The Group makes strategic use of these advances in order to identify plastic recycling processes that are complementary to mechanical recycling and make the process effective even for less pure and less valuable portions of plastic. 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 it into synthetic methane gas by adding carbon (from CO₂).

Hera has formulated a Group strategy to make the best possible use of all available information and ensure high quality and speed in data flow exchange. The guiding principles for the implementation of this strategy involve an organisational approach for data architecture, which is subdivided into an 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.

The Group's data strategy model and related guidelines are discussed in training courses dedicated to individual business units, with the aim of raising awareness of the strategic plan at all levels. For an increased ability to prepare for anomalous events, the data sources used in the convergence between management environments (applications)

and industrial environments (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 includes 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.

The dynamic nature of the main sectors in which the Group operates, in a market and regulatory context characterised by high instability and constantly evolving scenarios, requires an ability to evolve rapidly and experiment with new digital and technological solutions. Therefore, it becomes crucial to build and consolidate agile processes for adopting and applying new technologies, in order to give value to open innovation activities in time for the Group's adaptation and resilience strategies.

Data strategy development is increasingly aimed at transforming the Group into a data-driven company, where data-driven decisions, valued as a corporate asset and subject to ethical and conscious interpretation, highlight the growing importance of data management and the resources dedicated to its protection.

The evolution of technology and digitalisation, which requires employees' skills and their ensuing training needs to be continuously developed, confirms the Group's strategic decision to introduce cloud-based platforms to increase individual productivity and as main collaboration tools, since cooperation between humans and technology requires continuous evolution in our way of working. Based on this approach, advanced functionalities based on generative artificial intelligence were introduced in digital workplaces. In conjunction with this, an adoption programme was initiated that follows employees from the initial stages of getting to know the new functionalities, through to defining best practices in the use of AI in these applications and stimulating employee initiatives to create or discover new applications of AI in business processes.

The Group intends to use data to generate value for people and for business, and this intention is confirmed by the progressive digitalisation of human resources management processes, as well as the creation of the reference architecture for the integration of systems and data available following a rationale of prescriptive analytics.

In the light of the challenges and transitions described, the Hera Group's strategy in the area of human capital is based on the following people value proposition: "we wish to generate value for people, the company and the community, developing innovative approaches guided by our purpose and based on individual responsibility, skills, well-being and the uniqueness of people."

HUMAN RESOURCES

Five main lines for development in valorising the Hera Group's people emerge from the context and the strategic direction defined:

- cultivate a working environment based on a deep sense of belonging, consistency and transparency, where trust and empowerment of each person are pillars for shared evolution and growth;
- consolidate behaviour and promote the evolution and application of skills to address the energy, digital and environmental transition in a programmatic way;
- understand and anticipate changes in the context, to reshape strategy, operational and organisational models, processes and technologies to support business;
- create a working environment that is oriented towards well-being, that embraces the uniqueness of individuals and encourages each person to give full expression to his or her potential;
- develop HR processes to offer customised solutions, making people participative, aware of and responsible for their own activities.