

HERA TOWARDS NET ZERO

Climate transition plan

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INTRODUCTION



About us

The **Hera Group** is one of Italy's leading multi-utilities:

- It offers a sustainable management of multiple public services (gas and electricity distribution; district heating; aqueduct, sewerage and purification; urban waste collection and treatment; public lightning) to 4.2 million residents in 311 municipalities spread across five of the country's regions (Emilia-Romagna, Veneto, Friuli-Venezia Giulia, Marche and Tuscany).
- It operates throughout the national territory in free market services for gas and electricity sales, special waste collection and treatment, and energy efficiency services for buildings and in the industrial sector.

THE HERA GROUP AMONG THE LEADING OPERATORS NATIONWIDE IN ALL ITS BUSINESSES

The Group is also present in other European countries through its subsidiaries AresGas, which provides methane gas distribution and sales services in Bulgaria, and Aliplast, which owns plastic recycling plants in Spain, France and Poland.

The Group's strengths include:

- a **balance** between free market and regulated services;
- strong **local roots** and a focus on many aspects of sustainability;
- a **broad shareholder base**, with approximately 25,000 shareholders.

The Hera Group has confirmed its position among the leading operators nationwide in all businesses in which it operates, ranking as:

1st operator in the waste management sector by waste treated;

2nd operator in the water cycle by volumes of water delivered;

3rd operator in the gas and electricity sales business by number of customers served;

4th operator in gas distribution by volumes delivered;

5th operator in electricity distribution by volumes delivered;

5th operator in public lighting.

Internal processing on 2023 data

Our purpose

"The Company's business model aims at creating long-term value for its shareholders through the creation of a shared value with its stakeholders.

For this purpose, the Company organises and carries out its business activities also in order to promote social equity and contribute to achieving carbon neutrality, the regeneration of resources and the resilience of the services system managed for the benefit of customers, the ecosystem of its territory and future generations. (Hera for the Planet, People and Prosperity)".

Hera's 'purpose' was included in its Articles of Association by the Shareholders Meeting of Hera Spa held on 28 April 2021.

HERA'S PURPOSE, I.E. WHY HERA EXISTS

Mission

WHAT HERA IS
CALLED TO DO
TODAY AND IN THE
FUTURE, AND HOW
IT INTENDS
TO DO IT

“The Hera Group wants to be the best Italian multi-utility for its customers, workers and shareholders, by further enhancing an original business model capable of innovation with strong local roots, while respecting the environment.

For Hera, being the best multi-utility means representing a reason for pride and trust for:

- **customers** - so that by constantly listening to them they receive quality services that live up to their expectations;
- **the women and men who work in the company** - so that they can be the protagonists of the results thanks to their expertise, their involvement, and their passion;
- **shareholders** - so that they can be sure that economic value continues to be created for the company while respecting the principles of Social Responsibility;
- **the reference local area** - so that its economic, social and environmental wealth is fostered for a sustainable future;
- **suppliers** - so that they can be key players in the value chain and partners in growth.”

Hera's mission was approved by Hera Spa's Board of Directors on 26 June 2006.

The challenge of climate change and the Hera Group's commitment

HORIZON 2050:
A NEW COMMITMENT
THAT RESTS ON
SOLID FOUNDATIONS

Climate change is one of the greatest challenges humanity must face today, and calls for an ecological transformation in technological, economic, industrial and social terms.

This awareness led the Hera Group to identify **reduction of greenhouse gas emissions** as an area for **creating shared value** in one of the earliest definitions of this strategic corporate approach, introduced in 2016 with the main goal of renewing the Group's sustainability reporting and responding to the priorities of the 'Global Agenda' on sustainable development, primarily the UN 2030 Agenda. Among the **drivers** for creating shared value was the '**Smart Use of Energy**', which in 2020 evolved into 'Pursuing Carbon Neutrality'. It is precisely in this context that the **first comprehensive reporting of the Group's emissions** (Scope 1, 2, and 3) took place in 2017.

To further expand the reporting of objectives and results in the area of climate change, in 2020 the Group adopted the **TCFD Recommendations** (Task force on Climate-related Financial Disclosures), established by the Financial Stability Board. This allowed the Group to analyse different climate scenarios and test the resilience of the business under various assumptions of future developments, to understand how risks and opportunities may influence the strategy over time.

The definition of risk management methods and the identification of initiatives to seize opportunities arising from climate change were the preliminary steps to defining **medium-term** (2030) greenhouse gas **emission reduction targets**, going beyond the short-term horizon of the Industrial Plan. These targets were consistent with the criteria of the **Science Based Targets initiative** and were validated by it in 2021.

Furthermore, in 2021 the Hera Group integrated its **Articles of Association** with the concept of ‘purpose,’ explicitly stating the goal of **contributing to achieving carbon neutrality** as an essential solution to mitigate the impacts of climate change.

With regard to the external context, and regulatory developments in particular, the **Corporate Sustainability Reporting Directive (CSRD)** requires European companies to include a description of their Transition Plan for climate change mitigation in their sustainability disclosures. This is aligned to limiting global warming to within 1.5 °C, the target considered by the Paris Agreement as crucial to curb the most severe and irreversible effects of climate change.

The **growing attention shown by investors and financiers** towards Esg (Environmental, Social and Governance) issues is also clear, as is, with regard to environmental aspects, their interest in the adoption of emissions reduction strategies. Standard & Poor’s questionnaire for the Dow Jones Sustainability Index requires information to be published concerning companies’ Net Zero commitments, while the CDP (formerly Carbon Disclosure Project) rating assigns leadership status, on the so-called ‘A List’, only to companies with a Net Zero commitment and a climate transition plan aligned with the 1.5 °C scenario. In Europe, starting from the Action Plan on Sustainable Finance, various measures have been implemented to **steer the capital market** towards a sustainable and inclusive development model, in line with the commitments made under the Paris Agreement. These measures include, for example, the definition of the European Taxonomy of environmentally sustainable economic activities and the publication of the new Green Bond Standard, aligned with it.

Supported by this path and the **convergence between the corporate purpose and the external context**, the Hera Group has recognised the need and opportunity to develop a decarbonisation plan with a **longer-term outlook**, an integral part of the activities already undertaken to combat climate change. Bearing this in mind, this document defines the Hera Group’s **first Climate Transition Plan**, which presents the strategy and commitment to achieve **Net Zero emissions by 2050**, outlining the key aspects of this strategy over the short, medium and long term and supporting future objectives with the actions and levers foreseen to promote the transition to a low-carbon economy.

The **Net Zero target** involves **reducing its own greenhouse gas emissions by 2050, in line with the indications and paths defined by science to limit global warming to 1.5 °C by the end of the century**, and **neutralising all residual emissions** that cannot be reduced at the end of the path towards decarbonisation.

The following sections describe the Group’s goal, quantifying its current and future impact in terms of emissions, and illustrate the decarbonisation levers the company will use to achieve Net Zero by 2050, outlining its vision and commitments for a sustainable future. The Climate Transition Plan continues with a description of the governance of climate-related aspects, as well as the analysis of the considered climate scenarios and the stakeholder engagement initiatives.

Commitments and reporting on climate change

2016

Introducing Hera's approach to the **shared value creation**: reduction of greenhouse gas emissions among the **drivers** for its creation

2017

First **complete reporting** on Group's scope 1, 2 and 3 emissions

2020

Beginning of path towards alignment with TCFD¹ Recommendations with the involvement of all Business Units. Definition of decarbonisation initiatives exceeding the period covered by the Industrial plan

2021

Articles of Association

Contribute to reaching carbon neutrality in the Hera Group's "purpose"

Validation of 2030 target as per Science Based Targets initiative
CO₂ emissions:-37% by 2030 compared to 2019 (ambition: "well below 2 °C")

2023

CDP² rating: Hera obtains score A-

Third CO₂ emissions reporting:
-13.8% compared to 2019

2024

Definition of a **Net Zero** long-term commitment

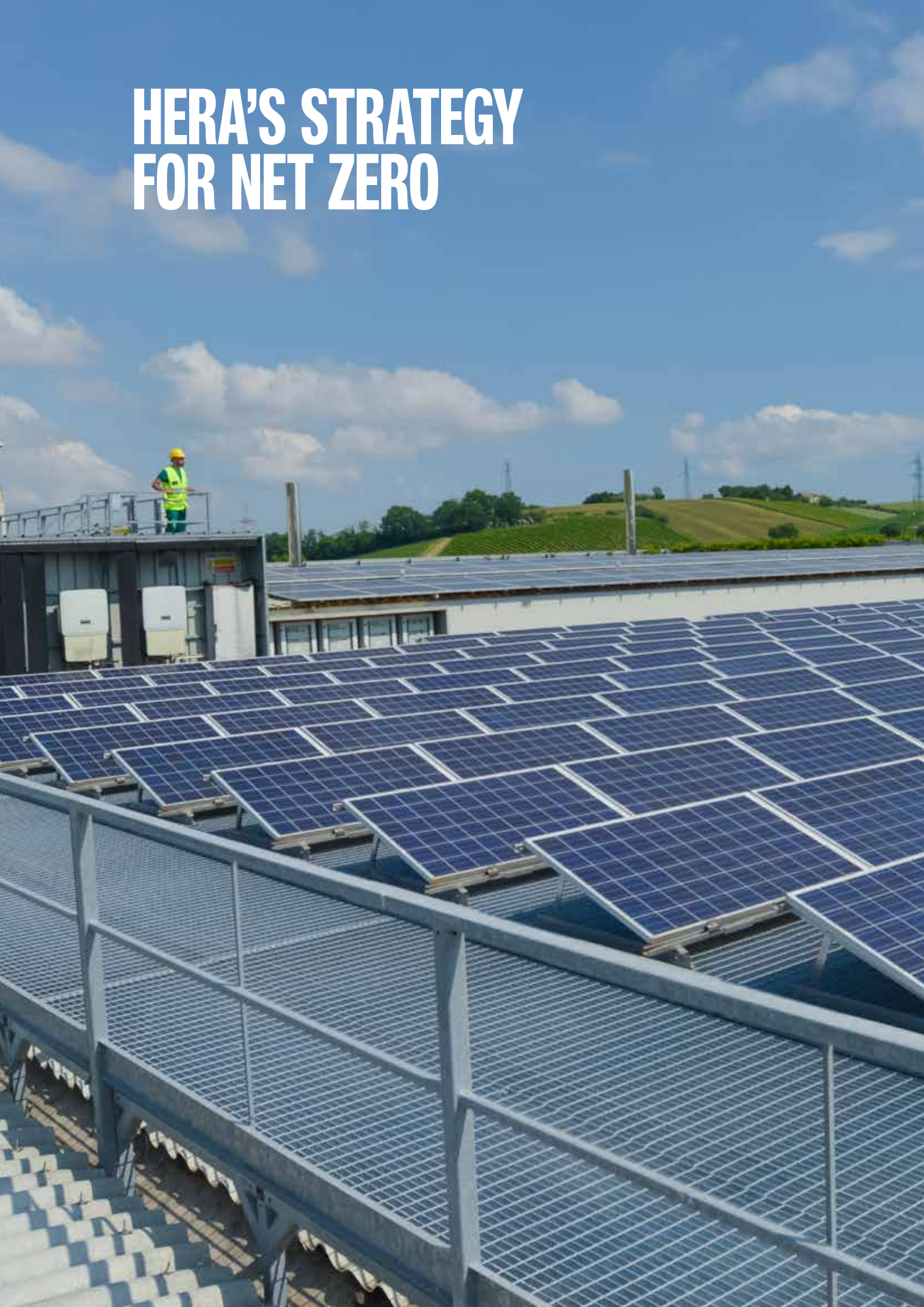
2030

-37%
of emissions

**Net zero
by 2050**

¹ TCFD: Task force on climate-related financial disclosure ² CDP: ex Carbon Disclosure Project

HERA'S STRATEGY FOR NET ZERO



Emissions inventory

SINCE 2017 HERA
HAS REPORTED
SCOPE 1, 2 AND 3
EMISSIONS

The Hera Group's **greenhouse gas emissions inventory** includes direct emissions (Scope 1), indirect emissions from energy purchased and consumed (Scope 2) and indirect emissions from other activities along the upstream (Scope 3 upstream) and downstream (Scope 3 downstream) value chains.

Scope 1 emissions involve the following activities: waste treatment (waste-to-energy plants and landfills for municipal waste); district heating; energy services for industries, residential buildings and public administrations; other internal fuel consumption; gas network leaks; company fleets.

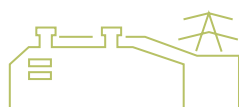
Scope 2 emissions come from internal consumption of electricity purchased from the grid.

Lastly, **Scope 3 emissions** refer to activities such as: consumption by customers of the methane gas sold (downstream emissions); generation of the electricity sold to customers (upstream emissions); production of the methane gas sold to customers (upstream emissions); other minor emissions related to energy production and consumption (not already included in Scope 1 or 2) or to the services managed.

Overall, the Hera Group's total emissions in 2023 amounted to approximately **12.6 million tonnes of CO₂e**. More specifically, Scope 1 emissions came to 936 thousand tonnes of CO₂e and accounted for 7.4% of the Group's total emissions. Scope 2 emissions, calculated using the market-based method, amounted to zero thanks to the total coverage of internal electricity consumption with energy from renewable sources, certified through a Guarantee of Origin. Scope 3 emissions stood at about 11.7 million tonnes of CO₂e, or 92.6% of total Group emissions.

The Group's website dedicated to the Sustainability Report can be consulted for further details on this inventory, noting in advance that the boundary covered by the 2030 and by 2050 targets refers to a subset of this inventory, as discussed below.

Indirect emissions of the upstream value chain



Scope 3 - upstream

Emissions deriving from the activities of the Group's suppliers, such as:

- the production of electricity sold to customers;
- the production of methane gas sold to customers;
- the use of waste collection and transport vehicles.



Scope 2

Emissions deriving from the production of electricity purchased by the Hera Group and consumed to carry out its activities.

Hera's emissions



Scope 1

Emissions deriving from the activities, plants and infrastructures owned or under the control of the Hera Group.

Indirect emissions of the downstream value chain



Scope 3 - downstream

Emissions deriving from the activities of the Group's customers (families, condominiums, third-party companies, and public administration), such as the consumption of methane gas sold to them.

Hera Group's upstream and downstream Scope 3 emissions mainly depend on the sale of gas and electricity to customers.

Short- and medium-term targets

Following an in-depth analysis of its emissions profile, in 2021 the Hera Group defined **short- to medium-term** decarbonisation targets (with a 2030 outlook), **validated by the Science Based Targets initiative¹** and in line with the '**Well-below 2 °C**' level of ambition, i.e. intended to limit the increase in the Earth's average temperature to well below 2 °C.

These targets, which refer to 2019 as the base year, include both emissions under the Group's direct control (**Scope 1 and 2**) and those of its customers (**Scope 3**), concerning sales of electricity (upstream) and methane gas (downstream). To be precise, in 2019 the Group's emissions included in the scope of the target came to 11.8 million tonnes of CO₂e (86.5% of total emissions, amounting to 13.6 million). Direct emissions (Scope 1) accounted for about 1.1 million tonnes of this total, while indirect emissions from energy consumption (Scope 2), calculated using the market-based method, came to approximately 48 thousand tonnes. Indirect emissions from methane gas sales (Scope 3 downstream) stood at 6.3 million tonnes, and indirect emissions from electricity sales (Scope 3 upstream) amounted to approximately 4.4 million tonnes.

The targets validated by the Science Based Targets initiative are:

- **Scope 1+2:** absolute reduction of 28% by 2030 compared to 2019;
- **Scope 2:** increase the portion of certified renewable electricity purchased to cover internal consumption from 83% to 100% by 2023;
- **Scope 3 methane gas sales²:** absolute reduction of 30% by 2030 compared to 2019;
- **Scope 3 electricity sales³:** reduction of the carbon intensity from sales (tCO₂e/MWh) by 50% by 2030 compared to 2019.

Based on these targets, the overall reduction in **absolute** greenhouse gas emissions **by 2030** for the boundary defined comes to **-37% compared to 2019**.

This result will be achieved both through emission **reduction initiatives** under the direct control of the Hera Group and thanks to the evolution of the external context and the **energy scenario** taken as reference for the definition of the targets. This includes the trend of decarbonisation in power generation, an increase in energy efficiency, the electrification of consumption and the penetration of so-called green gases (biomethane, hydrogen, etc.) within the energy mix.

In **2023**, emissions related to the science-based target boundary **decreased by 14% compared to 2019**, without taking into account any non-recurring and transitory increases in emissions related to last resort gas services. Scope 1+2 emissions decreased by 17%, due to the purchase of only renewable electricity for internal consumption, the reduction of emissions from waste treatment plants and gas networks in the form of methane leakages, also thanks to predictive maintenance, and the reduction of consumption in the district heating service, industrial cogeneration, and internal plants. Scope 3 emissions, instead, dropped by 15% in gas sales as a result of milder temperatures, energy efficiency measures and more virtuous behaviour shown by customers, and by 24% in the carbon intensity index of electricity sales as a result of volumes sold increasingly covered by renewables (from 30% in 2019 to 43% in 2023 on the free market).

SCOPE 1, 2 AND 3
GREENHOUSE GAS
EMISSIONS BY 2030:
-37% COMPARED
TO 2019

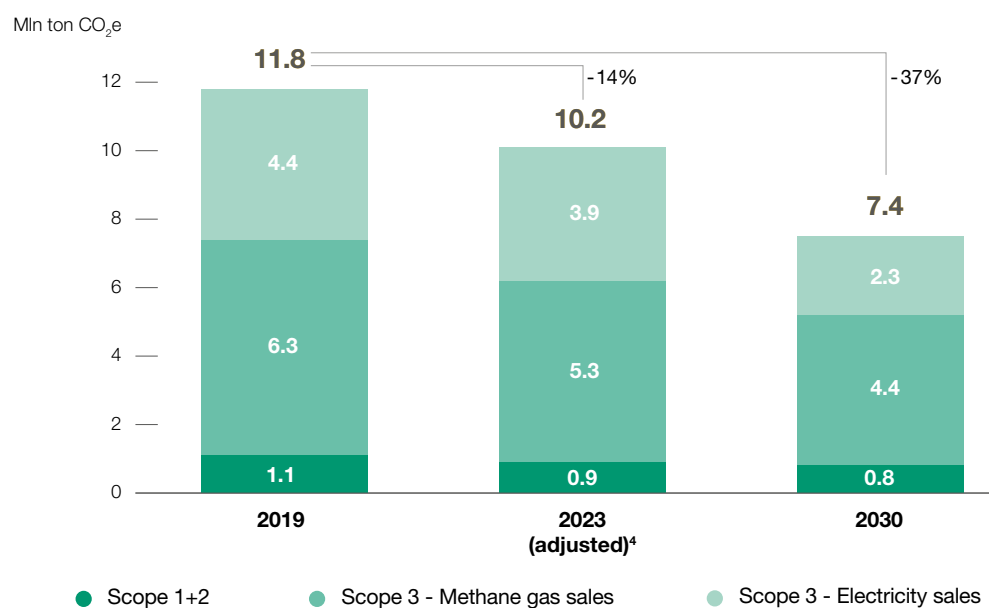
¹ The Science Based Targets initiative (SBTi) is an organisation that helps companies set science-based targets for reducing greenhouse gas emissions. SBTi is a collaboration between CDP, the UN Global Compact, the World Resources Institute (WRI) and the WWF. To be validated, targets must be in line with climate models to limit global warming to below 2 °C, with efforts to keep it within 1.5 °C and achieve Net Zero.

² In the GHG Protocol classification, these emissions correspond to Scope 3, Category 11.

³ In the GHG Protocol classification, these emissions fall under Scope 3, Category 3.

| | 2019 (base year) | Delta 2023/2019 (adjusted) ⁴ | 2030 |
|---|-----------------------------------|---|--------------|
| Direct and indirect Scope 1+2 emissions (market-based) | 1,131.0 ktCO ₂ e | -17% | -28% |
| Indirect Scope 2 emissions (market-based)* | 48.4 ktCO ₂ e | -100% | -100% |
| Indirect Scope 3 downstream emissions from methane gas sales | 6,263.5 ktCO ₂ e | -15% | -30% |
| Carbon intensity Scope 3 upstream from electricity sales | 0.365 tCO ₂ e/MWh | -24% | -50% |
| Total SBTi target boundary | 11,781.2 ktCO₂e | -14% | -37% |

*Corresponds to 100 per cent renewable electricity purchased to power internal consumption.
Scope 3 data on methane gas sales does not take into account the transitory increases in emissions related to last resort gas services.



⁴ In order to better represent the trend of emissions with respect to medium- and long-term targets, this data is presented in an adjusted version, which offsets the increase in emissions related to volumes of gas sold in last resort services, which since late 2021 saw an extraordinary and transitory increase as a consequence of the sharp increase in energy vector prices.

Long-term targets

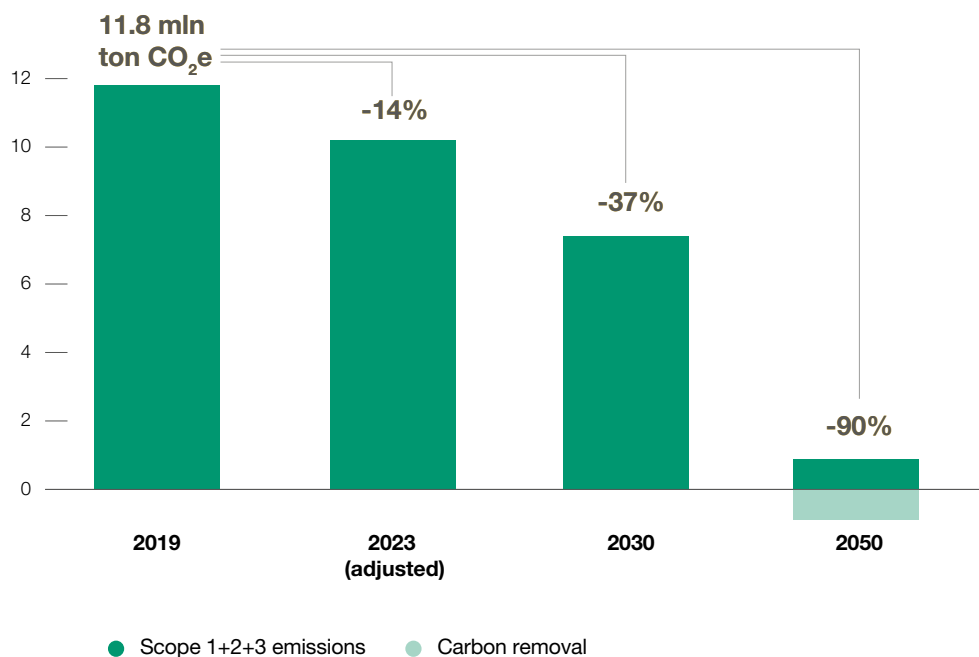
Thanks to this Climate Transition Plan, the Hera Group's climate change mitigation strategy has been enhanced with an ambitious long-term target: to achieve **Net Zero** status by **2050**. This commitment calls for a gradual reduction of emissions, along a **path in line with IPCC scenarios**, consistent with keeping global warming **within 1.5 °C compared to pre-industrial temperatures**.

In order to define this path, the Hera Group made reference to the various possible decarbonisation scenarios defined by the **IPCC in its Sixth Assessment Report (AR6)**, finalised in 2023, in which Working Group III, dedicated to Climate Change Mitigation, classified emission scenarios into different categories. Hera has chosen to follow the reduction levels defined by category C1, **the most ambitious** among those classified by the IPCC. This category brings together the emission scenarios consistent with keeping global warming within 1.5 °C at the end of the century, with at least a 50% probability and no or limited risk of temporarily exceeding this limit.

The Hera Group is committed to achieving Net Zero emissions by 2050, by reducing Scope 1, 2 and 3 emissions by around 90% compared to 2019 and neutralising all residual emissions at the end of the path towards decarbonisation.

More specifically, the greenhouse gas emission reduction targets aligned with the IPCC scenarios for achieving Net Zero are:

- **Scope 1+2 + Scope 3 from gas and electricity sales:** around 90% reduction by 2050 compared to 2019;
- **Scope 2:** commitment to maintain 100% certified renewable electricity purchased to cover internal consumption;
- **Carbon removal:** commitment to neutralise residual emissions by 2050 through carbon removal solutions and technologies.



SCOPE 1, 2 AND 3 GREENHOUSE GAS EMISSIONS BY 2050: -90% COMPARED TO 2019, COMMITMENT CONSISTENT WITH KEEPING GLOBAL WARMING WITHIN 1.5 °C

Decarbonisation levers

Achieving the Net Zero target by 2050 requires a solid and well-defined **Transition Plan** that integrates and specifies both the actions under the **direct control** of the Hera Group and the **external factors** expected from the evolution of the national and European energy scenario.

INNOVATION,
ENERGY
EFFICIENCY AND
RENEWABLES
FOR HERA,
CUSTOMERS AND
TERRITORY

The Hera Group has already been able to define a set of **long-term actions** aimed at reducing Scope 1 and 2 and Scope 3 customer-related emissions:

- installing **carbon capture and storage (CCS) technologies** on several waste-to-energy plants that make up the Group's set of facilities (Scope 1);
- maintaining full coverage of internal electricity consumption through **certified renewable energy**, eliminating Scope 2 emissions;
- a gradual **electrification of the Group's customer base** and the offer and wider use of **energy-saving solutions** (Scope 3);
- constantly increasing volumes of **renewable electricity** sold to customers through Guarantee of origin (GO) certificates (Scope 3).

With reference to **carbon capture and storage (CCS) systems**, the Hera Group is already exploring which solutions are most suitable to be installed at waste-to-energy plants, and the initial feasibility assessments point towards positive results. One fundamental element in adopting these systems in the upcoming years consists in **technological evolution**, which may enable a significant reduction in costs and facilitate their wider use.

As regards indirect Scope 2 emissions, Hera is committed to maintaining at 100% the amount of certified **renewable electricity** covering internal consumption.

Finally, Scope 3 emissions related to **customers' energy consumption** will be reduced by a combination of sales offers favouring energy savings, electrification of consumption, and the sale of renewable electricity (covering at least 75% of total volumes sold), as well as energy efficiency solutions in buildings and public lighting plants and district heating development.

THE EVOLUTION
OF THE EXTERNAL
SCENARIO WILL
CONTRIBUTE TO
THE ACHIEVEMENT
OF THE NET ZERO
TARGET

At the same time, the Hera Group will also benefit from **external factors**. For example, the adoption of more sustainable energy policies at a national and European level will encourage the reduction of fossil fuel demand, increase of energy efficiency, electrification of consumption, and decarbonisation of the energy mix, with a greater contribution coming from renewable and low-carbon energies. All these aspects are crucial elements in support of decarbonising the system as a whole.

The **decrease in gas demand** in the civil and industrial sectors, driven by trends such as **electrification** and **efficiency in consumption**, along with the **development and more widespread use of green gases** (hydrogen and biomethane), provides valuable cross-sector support for the strategy of decarbonising the Hera Group and its customers. The gradual **reduction in heating degree days** will also lead to lower fuel consumption to meet heating needs.

Electricity demand is expected to increase, driven by the aforementioned trend of

electrification of consumption, as well as a strong **increase in the portion of renewable** and **low-carbon energy sources** in the national mix, and with an even greater increase in solar energy, the reintroduction of nuclear power and a significant decrease in electricity generation from methane gas.

Overall, the **effects of the external scenario on the Hera Group's emission hotspots** will lead to a further reduction in emissions through electrification, a wider use of renewables and the introduction of green gases into the overall energy mix.

Despite various internal decarbonisation levers and external scenario factors, the Hera Group is still expected to have a certain level of **residual emissions** in 2050 that cannot be further eliminated. The use of **carbon removal solutions** is the element that completes the Group's Net Zero strategy to **neutralise** all residual emissions as of 2050.




In addition to its commitments to Net Zero and the actions planned for 2050, the Hera Group is also active in climate change mitigation through activities that, while not reducing its own emissions, **support the decarbonisation of the local areas** in which it operates, under the form of avoided emissions. In fact, as a partner of local communities, the Group deploys numerous initiatives aimed at encouraging the reduction of emissions and supporting the energy transition.

The achievement of Net Zero emissions by 2050 by the Hera Group will lead to a reduction in Scope 3 emissions for each gas or electricity contract from 3.3 tonnes in 2019 to less than 0.2 tonnes by 2050.

Climate transition plans: decarbonization levers

“... the Company organises and carries out its business activities also in order to ... **contribute to achieving carbon neutrality** ... for the benefit of customers, the ecosystem of its territory and future generations”

Art.3 ‘Purpose’ (excerpt) - Hera Group’s Articles of Association

|  Hera |  Customers |  Territory |
|---|--|--|
| Development of district heating <ul style="list-style-type: none"> • System optimisation, new interconnections and geothermal power enhancement to reduce fossil fuels by 2030. • Further plant modernisation and efficiency upgrades by 2050. | Sale of “green” electricity and gas <ul style="list-style-type: none"> • More than 50% of renewable electricity sold by 2030 and more than 75% by 2050. • Sale of methane gas with emission offsetting through certified carbon credits. • Contracts with at least one energy efficiency solution: 43% by 2030. | Sustainable energy for industries, residential buildings and public administrations <ul style="list-style-type: none"> • Energy efficiency services and requalification of buildings. • Installation and operation of photovoltaic and co/trigeneration plants. • Increased volumes served by district heating. |
| Decarbonization of internal energy consumption <ul style="list-style-type: none"> • Energy efficiency and plant optimisation. • Renewable electricity for 100% of internal consumption. | Sale of photovoltaic plants for households and businesses | Efficient and renewable energy public lighting |
| Reduction of waste-to-energy emissions Study and implementation of CO₂ capture and storage systems . | Development of renewable energy communities | Development of photovoltaic systems <ul style="list-style-type: none"> • Installation on landfills and water cycle plants. • Construction of agrivoltaic plants and Energy parks. |
| Reduction of gas network leaks Initiatives to reduce fugitive emissions , including using artificial intelligence algorithms in programmed searches. | | Production of renewable gases 200 GWh produced by 2030: <ul style="list-style-type: none"> • biomethane production from organic waste and power-to-methane plants. • development of hydrogen as an energy carrier. |
| Sustainable corporate vehicle fleet Replacing vehicles with lower - or zero-emission alternatives. | | Development of smart grids Initiatives to support the electrification of consumption and the capacity of the networks to manage energy from renewable sources. Actions of circular economy Promotion and development of sorted waste collection and commitments on plastic recycling . Development of electric mobility |



Stakeholder engagement

Trade associations

Local communities

Customers and citizens

People at Hera

Suppliers

GOVERNANCE AND STAKEHOLDER ENGAGEMENT



Governance of climate-related aspects

Governance of climate-related aspects is a central and fully integrated part of the Hera Group's overall corporate governance.

The **Board of Directors** oversees the risks and opportunities related to climate change with the support of the Risk and Control Committee, the Risk Committee and, indirectly, the Ethics and Sustainability Committee, whose tasks include monitoring the implementation of sustainability policies and the prior review of sustainability reporting to submit to the Board of Directors.

The **Strategy, Regulation and Local Authorities Department**, reporting to the **Executive Chairman**, is responsible for defining the Group's strategic guidelines, including translating them into economic and investment objectives, ensuring the overall integration of the main initiatives with the Group's strategic references, including those related to the commitments made in the Climate Transition Plan.

The **Shared Value and Sustainability Department**, reporting to the **CEO**, is responsible for proposing and defining, at the Group level, corporate guidelines related to corporate social responsibility and the creation of shared value, as well as policies regarding reporting and accountability on shared value and sustainability, coordinating all corporate stakeholders involved in these issues.

THE GROUP'S
INCENTIVE SYSTEM
IS SIGNIFICANTLY
LINKED TO
SUSTAINABILITY
TARGETS

The Hera Group's **incentive system** includes a share of variable remuneration based on annual targets, with a significant amount linked to achieving **sustainability goals**. In 2023, for example, 40% of variable remuneration for executives and middle managers was linked to sustainability projects, with a particular focus on creating shared value (24%). Overall, 78% of executives and middle managers were involved in these projects, demonstrating the importance and transversality of the Group's sustainable approach, internally as well. The main sustainability aspects, such as the **energy transition, resilience and adaptation (with particular reference to climate change)**, and the **circular economy**, had an influence on 12% of variable remuneration.

The final disbursement of the bonus for all executives and middle managers depends not only on achieving the targets set out in the individual balanced scorecards, but is also weighted according to the results achieved in terms of creating **shared value EBITDA**, confirming the constant importance of the goals of the UN 2030 Agenda in the Group's strategy. Measuring shared value EBITDA (CSV EBITDA), introduced for the first time in 2016, represents the share of EBITDA attributable to business activities that create shared value in the following three areas:

- pursuing carbon neutrality
- regenerating resources and closing the circle
- enabling resilience and innovating

which respond to the seven Sustainable Development Goals (SDGs) prioritised by the Hera Group: Goal 6, clean water and sanitation; Goal 7, clean and affordable energy; Goal 9, business, innovation and infrastructure; Goal 11, sustainable cities and communities; Goal 12, responsible consumption and production; Goal 13, combating climate change; and Goal 17, partnership for the goals.

Shared value EBITDA was also included:

- in the long-term incentive system for certain managers, with a weight of 33.3%;
- in the incentive system for the Executive Chairman and the CEO, with a weight of 20%;
- in the performance bonus for all Group employees with a weight of 25%, as planned by the Good Work Agreement signed with the trade unions.

For more details, see the Sustainability Report and the Group's Report on Remuneration Policy.

This governance system ensures the integration of aspects linked to climate change within the corporate strategy, ensuring regular monitoring and appropriate reviews of the climate change mitigation strategy.

This Climate Transition Plan has been **approved by the Board of Directors** of Hera Spa as an integral part of the company's strategy, confirming its commitment to charting a course of development for the Group that is **consistent with its corporate purpose** (and thus also with the explicit aim of contributing to carbon neutrality) and towards increasing the sustainability and resilience of its business, fully integrating climate issues into its corporate strategy and daily operations. The Plan also includes a **feedback mechanism** from the supervisory bodies, including through approval at the annual Shareholders Meeting.

The Climate Transition Plan in Hera's strategy and financial planning

The Hera Group's **Climate Transition Plan** naturally represents a strategic reference for the company and, as such, will contribute to preparing future business plans. Today, environmental, social and governance (Esg) aspects, along with sustainability and creating shared value, are already **a crucial part of the Group's strategy** and, as such, the business plan also includes goals concerning indicators consistent with these issues, including, by way of example and not limited to, EBITDA and investments planned to generate shared value. Other industrial objectives covering five years or more are related to **decarbonisation processes** and the **circular economy**, such as reducing internal energy consumption, producing green gas, reusing waste water, producing recycled plastic and increasing the percentage of sorted waste collection.

The Business Plan also contains a forecast of the portion of investments aligned with the **European Taxonomy**, i.e. the system developed by the European Union to identify economic activities that contribute significantly to EU environmental sustainability objectives, including climate change mitigation. EU Regulation 2020/852 on the European Taxonomy requires companies to report the value of CapEx (capital expenditure), OpEx (operating expenditure) and revenues from activities aligned with the Taxonomy criteria. This ensures transparency and clear reporting of the resources allocated to sustainability initiatives and the correlated financial performance. For further information, see the Hera Group's Sustainability Report, section "Information on eco-sustainable economic activities (EU Regulation 2020/852)" available at Sustainability Report - Hera Group.

The close adherence between strategy and Esg aspects, including the Net Zero targets, ensures that the Group's industrial and financial planning is developed in line with short- to medium-term decarbonisation targets (e.g. SBT Target to 2030) and, indirectly, with long-term goals. As a result, most of the actions foreseen in the five-year business plan address the energy transition and the role that the Hera Group can play in its own right or as an enabler thereof, thanks to the many activities it oversees and the skills it has developed in the energy, waste management and water sectors.

For more details on the contents of the Hera Group's most recent Business Plan, see the "Strategy" section Hera Group website.

Managing climate risks and opportunities

As described in the previous chapter, Hera Spa's Board of Directors plays a crucial role in overseeing climate risks and making the most of opportunities arising from climate change. This strategic vision is clearly reflected in Hera's Business Plan, which is designed to grasp the opportunities arising from the climate transition.

As a consequence, for years the Group has introduced **climate scenario analysis** to test the resilience of its business under different assumptions of future climate change developments. The goal is to understand how physical and transitional climate opportunities and risks may affect its business and strategy in the long term.

In order to have a **longer vision** than the five-year Business Plan, and in line with a Net Zero decarbonisation strategy, the Group has defined short- (0-5 years), medium- (5-10 years) and long-term (10-30 years) outlooks. A scenario analysis identified the various **physical risks, transition risks and opportunities** to which the company may be exposed, each of which was associated with a timeline horizon, a priority level, and one or more management modes or business initiatives. The risk management methods and the initiatives to seize the opportunities identified are described in detail in the Directors' Report within the Group's Annual Financial Statements. Reference can also be made to the Group's Sustainability Report for an in-depth discussion of climate opportunities in relation to short- to medium-term greenhouse gas reduction targets.

The Group's commitment to reviewing and managing climate risks and opportunities in the medium to long term is a key step towards a **long-term sustainability strategy**. This methodical and integrated approach ensures that business decisions are resilient and aligned with climate neutrality goals, guaranteeing a sustainable future for the company and its stakeholders.

Stakeholder engagement

The Hera Group is aware that in order to achieve concrete results in the fight against climate change, a **collaboration between different local figures and stakeholders** is essential. For this reason, the Group actively involves **customers and residents** in various environmental sustainability initiatives, carries out internal initiatives intended for **people at Hera**, and involves its **suppliers and partners** along the value chain. Furthermore, it actively collaborates with **local and national organisations**, participates in discussion forums, and advocates.

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Hera Comm's **commercial proposition** includes solutions for reducing the carbon footprint such as the supply to its household customers on the free market (and, upon request, to non-domestic customers) of electricity from certified renewable sources with Guarantee of Origin and methane gas with greenhouse gas emissions offsetting (for a duration explicitly stated in the contract conditions) through carbon credits certified by international standards. These initiatives are complemented by an offer of tools for reducing and monitoring consumption and promoting self-consumption (including collective consumption) to improve energy efficiency and independence, providing all-round support to global efforts to tackle climate change.

The Hera Group implements initiatives aimed at involving **local communities**. One tangible example is HeraLAB, the multi-stakeholder board active since 2013 in seven areas of Emilia-Romagna that facilitates a structured dialogue, listening to local needs concerning different issues, with climate change always among the priorities. Future editions of HeraLAB, in continuity with the 2023 edition, will focus on carbon neutrality, with a focus on energy efficiency, renewables and new energy sharing models, in order to raise awareness among local stakeholders on existing opportunities and identify possible areas for collaboration. Another example is the #genHERAZIONI programme, a green loyalty initiative that aims to actively involve customers and citizens by rewarding their sustainable actions and behaviour. The project, developed by Hera Comm, aims to nurture relationships over time with current and potential customers and residents, encouraging environmentally friendly choices and behaviour to generate shared value.

The Group has also developed internal training initiatives for **people at Hera** to address the evolution towards new skills related to the transitions underway: digital, energy and environmental. In 2023, the ecoHERA programme also continued, focused on enhancing skills in the business chains through specific training activities on the energy and environmental transition through professional Academies, consolidating support for development and innovation in the energy and environmental sector.

Within its **supply chain**, the Hera Group integrates sustainability criteria into its tenders, with the aim of involving suppliers as well in achieving sustainability objectives, as a significant way of creating shared value. In addition, a concise Esg score is drawn up thanks to questionnaires aiming at evaluating aspects concerning impacts in terms of energy efficiency and use of renewable energy, greenhouse gas and pollutant emissions, circular economy, and efficiency in the use of materials and water resource. The Esg scoring influences the qualification rating which affects the frequency of invitation to privately negotiated tenders. The Group's commitment to involving the supply chain is completed with the recent launch, through the Hera Pro Empower platform, of a capacity building program to incentivize the improvement of the suppliers' Esg profile as well as their technical, production and quality capabilities.

Finally, the Hera Group actively participates in organisations representing local and national **public services** (e.g. the trade association Utilitalia) to support institutional communication on various topics, including the climate just transition. This participation allows the Group to actively contribute to the institutional debate with policymakers on strategies for achieving sustainability and decarbonisation targets, making the experience concretely gained available to institutions, in order to support effective and rapid legislation.

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