Introduction

Sustainability, strategy and shared value

422.5 million euro
shared value Ebitda,
39% of total Ebitda
(+13% over 2018)

202.4 million euro
shared value investments,
40% of total investments

73/100
customer satisfaction
our annual survey confirms the high
quality of Group services

68/100
employee satisfaction
improved results in the eighth
workplace climate survey

CE100
Hera among the world’s leading
circular economy companies,
part of the Ellen MacArthur
Foundation’s program

Hera in the Diversity
and Inclusion Index
Hera ranked 3rd in Italy and
14th worldwide in the Refinitiv
index for its diversity and inclusion
policies
Letter to stakeholders

“Shared value” Ebitda: +13% in 2019, towards 42% of total Ebitda

The sustainability report we are currently presenting was drafted during the health emergency caused by the spread of the Coronavirus in our Country. As of 21 February, we prepared for the ensuing operational difficulties and introduced health protection and safety measures to guarantee continuity in our services, collaborating with our main suppliers. We decided to describe the impact of this emergency in this report, along with the measures we have taken, including those intended to help our customers experiencing economic difficulties due to the epidemic. Smart working was already widely used in our company and was extended during the most critical period. We were thus able to maintain continuity in all administrative services, including the preparation of this report, which reaffirms the innovative representation of its content, focused on our new strategic approach: Creating shared value (CSV).

In 2019, “shared value” Ebitda, i.e. the portion of Ebitda deriving from business activities able to meet the goals included in the “global agenda”, amounted to 422.5 million euro, with a 13% increase over 2018, now corresponding to 39% of total Ebitda. This result well respects the path set out by our Business plan, designed so that “shared value” Ebitda accounts for 42% of total Ebitda as at 2023. For us and our stakeholders, this indicator has become the gauge of our progress in working towards sustainability, and 20% of variable compensation for the Group’s senior and middle managers currently depends on its growth. We have therefore decided to submit it to an external firm for verification, as of this year.

Underlying everything, our new code of ethics

Our values and principles already lead us, and will increasingly do so in the future, to fulfil our mission. They are contained in our code of ethics, which is revised every three years. We have taken the World Economic Forum’s Davos Manifesto, in its most recent version, as the source of inspiration for the fourth update of our code, completed in December 2019 as the result of initiatives supported by a large and well engaged number of Group employees. The main new feature consists in including an approach based on shared value among our operational principles. We are convinced that the companies of the future will use the strength of business to contribute to regenerating the ecosystem and the environment, while at the same time implementing measures that enable them to construct a system that shows resilience with respect to the emerging context. Our analysis of the external context, carried out in 2019, confirmed our selection of 11 SDGs, 6 of which are given priority, which represent the portion of the UN Agenda to which we contribute with our activities. The three categories into which they fall, defined as follows, were thus also corroborated: (i) smart use of energy, (ii) efficient use of resources and (iii) innovation and contribution to development. These three areas explain the “sense” of our business activity and provide the backbone for the three main chapters of our sustainability report.
Hera Group - Sustainability report

Introduction

Our ambitions concerning a smart use of energy can be subdivided into three areas: (i) reducing our own energy consumption, (ii) reducing our customers’ energy consumption and (iii) promoting renewable energies and decarbonisation. Thanks to Iso 50001 certification and an intense plan for energy improvement, we have succeeded in reducing our consumption by 5.1% compared to 2013. The additional energy efficiency initiatives we have already identified and planned will allow us to reach an overall savings coming to 5.9%, thus exceeding the target of 5% set for 2020.

Our residential and business customers can rely on a range of offers and solutions in energy efficiency, to which the “Consumption log” was added in 2019. This report, free of charge, was planned in a collaboration with the Milan Polytechnic, to raise awareness about energy savings among our customers, based on the principles of behavioural economics. In late 2019, 20% of our customers benefitted from Hera Comm’s energy efficiency services.

Decarbonisation has become a signature part of our commercial offer: in 2019, we launched Hera Zero Footprint which, in addition to calling for 100% renewable electricity, guarantees that the emission of greenhouse gasses coming from natural gas consumption will be compensated by the acquisition of carbon credits. Internally, we are committed to reducing our impact on the climate by acquiring renewable electricity for all the Group’s main companies, producing 6.5 million m3 of biomethane from organic waste in our biorefinery and reducing our carbon intensity in energy production by 22%.

Hera for a smart use of energy

Hera for an efficient use of resources

2019 saw a further increase in sorted waste, which reached 64.6% (2018 Italian average: 58.1%) and, at the same time, an additional reduction in the use of landfills for municipal waste, which settled at 3.4% (2018 Italian average: 24%). Hera is thus almost 20 years ahead of the EU’s circular economy goal and ranks at the same level as the most advanced European countries. The tenth edition of the report entitled “Tracking Waste”, published in 2019, shows a rate of packaging recycling coming to 72%, already meeting the EU goal set for 2030.

Once again in the area of circular economy, an increase was seen in the recovery of both materials and energy in Herambiente’s selection plants, coming to 83% in 2019 (as against 77% in 2018), and the recycled plastic sold by Aliplast, which in 2019 reached almost 73 thousand tons (+14% over 2018).

Lastly, important initiatives intended to improve the “circularity” of our operating activities were introduced in 2019: the “water management” project was launched, which led to a 5.5% reduction in our water consumption over the year; the “Consumption log” mentioned above was distributed to a selection of roughly 80 thousand residential customers in water services, aimed at improving their consumption behaviour; and the “circular procurement” project was launched, whose goal is to introduce the principles of a circular economy into purchasing processes.

Hera for innovation and a sustainable development of the local area

Significant results were achieved by the Group in 2019 regarding Csv issues linked to the economic and occupational development of local areas, innovation and digitalisation, and air and soil protection.

The value coming from local service providers reached 69% of the total in 2019, amounting to 695 million euro (+10% over the previous year), while induced employment is estimated at approximately 8,400 workers; this data confirms the Group’s leading role in local development.
Investments in innovation came to roughly 78 million euro and were dedicated to projects in four areas: smart city, circular economy, utility 4.0 and customer experience. In 2019, continued efforts were made towards developing digital means for customer relations: downloads of the MyHera app, dedicated to residential customers, more than doubled compared to 2018, reaching 230 thousand.

Air protection was confirmed by positive results coming from the emissions of the Group’s waste-to-energy plants, which in 2019 as well showed a very modest amount of emissions into the atmosphere, 86% lower on average than the legal limits. Furthermore, in soil protection the projects completed by HERAtech in 2019 reused 77% of the total soil involved.

The future of our reporting: adopting the TCFD’s recommendations

We have always been oriented towards enhancing our sustainability reporting, to the advantage of all our stakeholders, fully convinced that one of the merits of transparency is that it improves our performances. The report we are presenting to you this year adopts in advance the new GRI Standards concerning water consumption and health and safety on the workplace, gives an account of the environmental benefits coming from investments financed with the Green Bond issued in 2019, and includes new information such as a description of the actions undertaken to prevent and manage risks in the areas of IT and corruption.

We are however aware that the priority goes to climate change, as regards the future of our reporting as well. This is why we have launched a workgroup whose purpose is to adopt the recommendations provided by the Financial Stability Board’s Task Force on Climate-Related Financial Disclosure, to which we have decided to give our support. This report already contains a few improvements in this area, such as the increased amount of reporting concerning direct and indirect greenhouse gas emissions. We are currently working towards quantifying significant targets in reducing these emissions, in line with a business model and a proposition of value for our stakeholders that are already oriented, as proven by this report, towards energy efficiency, circular economy and decarbonisation. We are convinced that in order to face the climate crisis, which concerns the long term and is much more structural than other crises, it is necessary to make use of means including disclosure on climate risk prevention and management, as well as diligence in the transition towards an economy with low CO₂ emissions.

We will thus be pleased to keep you up to date with our upcoming report entitled “Value to energy”, and with our next sustainability report.

Tomaso Tommasi di Vignano
Executive Chairman

Stefano Venier
CEO
### Smart use of energy

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy consumption reduction compared to 2013</td>
<td>5.1%</td>
</tr>
<tr>
<td>Energy consumption reduction including projects already in the works</td>
<td>5.9%</td>
</tr>
<tr>
<td>Energy efficiency services contracts</td>
<td>19.9%</td>
</tr>
<tr>
<td>Renewable electricity for activities managed by the Hera Group’s main companies</td>
<td>100%</td>
</tr>
<tr>
<td>Renewable energy produced</td>
<td>584 GWh</td>
</tr>
<tr>
<td>Renewable energy produced equivalent to the consumption of 177 families</td>
<td></td>
</tr>
<tr>
<td>Contracts with “green” offers (electricity from renewable sources, and gas with compensation for CO₂ emissions)</td>
<td>11.6%</td>
</tr>
<tr>
<td>Carbon intensity in energy production compared to 2013</td>
<td>-22%</td>
</tr>
<tr>
<td>Biomethane produced in the Sant’Agata Bolognese plant</td>
<td>6.5 million m³</td>
</tr>
<tr>
<td>Tons of greenhouse gas avoided</td>
<td>2.3 million</td>
</tr>
</tbody>
</table>
## Objectives and results

### Future targets

<table>
<thead>
<tr>
<th>Promoting energy efficiency</th>
<th>Advancing renewable energy</th>
<th>Reducing greenhouse gas emissions</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Objective</strong></td>
<td><strong>2022</strong></td>
<td><strong>2019</strong></td>
</tr>
<tr>
<td><strong>Energy efficiency</strong></td>
<td>- 6% reduction by 2022 of 2013 energy consumption. (5% reduction within 2020.)</td>
<td>- 5.1% reduction in consumption in 2019 (compared to 2013) thanks to the projects implemented.</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>- 19% customers by 2022 with gas, electricity and district heating offers including energy efficiency services.</td>
<td>- 19.9% of customers have adhered to energy efficiency offers. Offers promoted in 2019: Hera ContaWatt, Hera Thermo, Hera Ecomove, Hera Led and the new Consumption Log.</td>
</tr>
<tr>
<td><strong>Light bulbs</strong></td>
<td>- 23% light bulbs with LED lamps by 2022. 1300 Tep energy savings expected for 2019 from public lighting projects.</td>
<td>- 27% light bulbs with LED lamps in 2019. 720 Tep saved thanks to projects carried out in 2019.</td>
</tr>
<tr>
<td><strong>Biomethane</strong></td>
<td>- 7 million m³ of biomethane produced and injected into the gas network thanks to the Sant’Agata Bolognese (BO) plant. Launch the authorisation phase for constructing the Lugo (RA) biomethane plant.</td>
<td>- 6.5 million m³ of biomethane produced and injected into the gas network thanks to the Sant’Agata Bolognese (BO) plant. Authorisation expected within 2020 for constructing the Lugo (RA) biomethane plant.</td>
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<td><strong>Emissions</strong></td>
<td>- 23% reduction by 2022 (compared to 2015) of the carbon footprint for energy production (kg CO₂e/MWh).</td>
<td>- 20% reduction in 2019 (compared to 2015) of the carbon footprint for energy production (kg CO₂e/MWh). 22% reduction in 2019 (compared to 2013).</td>
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**Applicable local area of improvement measures**
- Emilia-Romagna
- Triveneto
- Marche Multiservizi

**Other objectives, results and future targets**
[bs.gruppohera.it](http://bs.gruppohera.it)
**Shared value**

**Efficient use of resources**

- **Sustainable Development Goals**
  - **6 CLIMATE ACTION**
  - **12 RESPONSIBLE CONSUMPTION & PRODUCTION**
  - **14 LIFE BELOW WATER**

- **Urban waste collected and disposed of in landfills**
  - **3.4% Hera**
  - **24% Italian average**

- **97.3%**
  - of urban areas brought into line with purification regulations (>2 thousand PE, % of population equivalent)

- **3%**
  - of total waste water reusable thanks to interventions on purifiers

- **64.6%**
  - sorted waste in an area with 3.2 million inhabitants

- **4**
  - cities among the top 10 for sorted waste per capita served by the Hera Group (>100 thousand inhabitants)

- **668**
  - thousand euro in non-expired medication and 9,700 meals recovered with FarmacoAmico and CiboAmico

- **92%**
  - of waste recovered the amount of sorted waste recuperated, going towards a circular economy

- **72.8**
  - thousands of tonnes of recycled plastic sold by Aliplast (+22% compared to 2017)

- **72%**
  - level of packaging recycled EU 2030 goal reached
Objectives and results

Future targets

what we said we would do... | what we did... | what we will do...

Transition towards a circular economy

- **73.2%** sorted waste in 2022, thanks to initiatives including an extension of unit pricing in Emilia-Romagna.
- **64.6%** sorted waste in 2019 (as compared to 62.5% in 2018).
- **74.9%** of sorted waste in 2023, thanks to initiatives including an extension of unit pricing in Emilia-Romagna.

- **60%** of urban waste recycled and 76% of packaging recycled in 2022.
- **53%** of urban waste recycled in 2018 (48% in 2017) and 72% of packaging recycled (70% in 2017).
- **62%** of urban waste recycled and >70% of packaging recycled in 2023.

**Develop**, for large industrial companies, a single offer with circular solutions for waste, energy, water and telecommunications.

**The Hera Business Solution offer developed**: the Hera Group’s integrated and sustainable solution dedicated to companies.

**Define Group guidelines for circular purchasing** and increase the value of purchases, in line with the circularity criteria identified.

Sustainable management of water

- **100%** urban agglomerations >2,000 PE upgraded within 2021. Furthermore:
  - 252 agglomerations upgraded out of 254 managed with between 200 and 2,000 PE in the Emilia-Romagna and Triveneto regions within 2022.
- **100%** The process of upgrading the sewerage and purification sector is currently ongoing:
  - 97.3% of urban agglomerations >2,000 PE upgraded by the end of 2019;
  - 171 agglomerations upgraded out of 249 managed with between 200 and 2,000 PE in the Emilia-Romagna and Triveneto regions at the end of 2019.
- **100%** urban agglomerations >2,000 PE upgraded within 2021. Furthermore:
  - 247 agglomerations upgraded out of 249 managed with between 200 and 2,000 PE in the Emilia-Romagna and Triveneto regions within 2021.

- **10%** reduction in internal water consumption by 2022, compared to 2017 consumption.
- **5.5%** reduction in internal consumption in 2019 compared to 2017 consumption.
- **15%** 15% reduction in internal water consumption by 2023 compared to 2017 consumption. Extend the water Consumption Log (26% of resident household customers by 2021).

**Applicable local area of improvement measures**

- Emilia-Romagna
- Triveneto
- Marche Multiservizi

**Other objectives, results and future targets** at bs.gruppohera.it
Shared value

Innovation and contribution to development

8,392
workers
the induced employment generated by the Hera Group in 2019

875
people facing hardship
included thanks to supplies from social cooperatives, totalling 66.4 million euro

78
million euro investments
in innovation and digitalisation and projects involving smart cities, circular economy, data analytics and utility 4.0

119
thousand students
involved in environmental education activities

-86%
legal limits
on emissions from waste-to-energy plants. -99% PM$_{10}$ limits in the Imola plant

77%
of soil reused
in projects implemented in 2019
**Objectives and results**

### Objectives

- **Broader use of innovation and digitalisation**
  - 41% of customers with e-billing and 27% of customers making use of online services by 2022. Promote customer digitalisation through projects including an extension of the Digi e lode campaign.

- **Developing employment and new skills**
  - 20 tenders, among the most significant, include the social clause to guarantee employment.

- **Air and soil protection**
  - 75% of soil reused between 2019 and 2022 in infrastructure planning (3/4 of total soil involved in new projects).

### Results

- 30.1% of customers receive their bill by email (23.7% in 2018) and 27% of customers making use of online services by 2022. Promote customer digitalisation through projects including an extension of the Digi e lode campaign extended to the Marche and Abruzzo regions.

- **Innovation for a circular economy and energy transition:** continued experimental production of bioplastic and construction of a power-to-gas plant prototype.

### Future targets

- **Broader use of innovation and digitalisation**
  - 45% of customers with e-billing and 34% of customers making use of online services by 2023. Promote digitalisation among customers through means including Digi e lode. Further reduce the use of paper in contract documentation.

- **Developing employment and new skills**
  - Continue to use the social clause to guarantee employment for contracts for emergency services on networks and services linked to customer management.

- **Air and soil protection**
  - 450 thousand square metres of soil reused between 2020 and 2023 in planning, constructing and upgrading infrastructures (73% of total soil involved in new projects).

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**Applicable local area of improvement measures**

- Emilia-Romagna
- Triveneto
- Marche Multiservizi

**Other objectives, results and future targets**

at [bs.gruppohera.it](http://bs.gruppohera.it)
Governance and value creation

The bases and the organisational levers

- 200 hours listening to stakeholders in the 8 HeraLAB meetings held in 2019
- 500 million euro second green bond issued to finance sustainable investments
- 1,436 million euro added value distributed to local stakeholders
- 695 million euro value of services from local suppliers
- 2,131 million euro economic value distributed to local areas (+11% compared to 2017)
- +319% total return on stock compared to original listing in 2003
- Iso 37001 Hera Spa certified by the management anti-corruption system
## Objectives and results

### Future targets

<table>
<thead>
<tr>
<th>Economic value for stakeholders</th>
<th>Dialogue with our stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>what we said we would do...</strong></td>
<td><strong>what we did...</strong></td>
</tr>
<tr>
<td><strong>1,684 million euro.</strong></td>
<td><strong>+13%</strong></td>
</tr>
<tr>
<td>Added value for stakeholders by 2022 (+19% over 2018).</td>
<td>compared to 2018, added value for stakeholders, which in 2019 came to 1,735 million euro.</td>
</tr>
<tr>
<td><strong>2.4 billion euro.</strong></td>
<td><strong>533.5 million euro.</strong></td>
</tr>
</tbody>
</table>

### Dialogue with our stakeholders

<table>
<thead>
<tr>
<th>HeralAB activities in two new areas in 2019 for dialogue with local communities. Create within 2020 the 12 local initiatives co-planned in 2018 with the Ferrara and Ravenna LABs.</th>
<th>initiatives introduced by Hera and stakeholders in the Ferrara and Ravenna LABs, four to be introduced within 2020.</th>
<th>new HeralABs launched in two areas in 2020 for dialogue with local communities. Create within 2020 four local initiatives co-planned in 2018 with the Ferrara and Ravenna LABs and co-plan further initiatives with the Bologna and Rimini LABs, launched in 2019.</th>
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<tbody>
<tr>
<td><strong>65/100</strong></td>
<td><strong>68/100</strong></td>
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<table>
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<th>customer satisfaction rate in the survey carried out in 2019.</th>
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**Applicable local area of improvement measures**

- Emilia-Romagna
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**Other objectives, results and future targets**

at [bs.gruppohera.it](http://bs.gruppohera.it)
Customer service quality, costs and safety

47% of bills attributable to Hera
26% raw materials and 27% taxes and system charges

-27% lower than the Italian average cost for non-household urban waste

97.0% calls to the emergency gas service with arrivals within 60 minutes. Higher than the service requirement (90%)

99.5% compliance with the quality standards set by the Authority for four services

9.4 minutes average waiting time at help desk and chance to book an appointment with an operator

27 seconds average waiting time at the Group’s call centre to answer calls from residential customers

407 thousand analyses carried out on Group drinking water, of which 63% on the distribution network
## Objectives and results

### Future targets

<table>
<thead>
<tr>
<th>Service and drinking water quality</th>
<th>Safety and service continuity</th>
<th>Customer relations</th>
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<td><strong>what we said we would do</strong></td>
<td><strong>what we did</strong></td>
<td><strong>what we will do</strong></td>
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<td>Electronic gas metres installed by the end of 2023</td>
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<td>Guarantee quality of the call centre and average waiting time at help desks in line with 2018.</td>
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<tr>
<td>78%</td>
<td>43%</td>
<td>9.4</td>
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<td>82%</td>
<td>43%</td>
<td>10</td>
</tr>
<tr>
<td>Further improve respect for commercial quality standards</td>
<td>99.5%</td>
<td>minutes waiting time at help desk. 30 seconds waiting time at the call centre (target 2020).</td>
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<td>in the gas, electricity, water and district heating services. Further reduce reimbursements paid to customers in the event these standards are not respected.</td>
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</tbody>
</table>

### Applicable local area of improvement measures

- Emilia-Romagna
- Triveneto
- Marche Multiservizi

Other objectives, results and future targets at [bs.gruppohera.it](http://bs.gruppohera.it)
People

The bases and the organisational levers

96.6% employees with permanent contracts

32.8% women in positions of responsibility
41% in career advancement (excluding blue-collar workers)

26% Group employees involved in the company’s smart working project (excluding blue-collar workers)

4.5 million euro used by employees with Hextra, the company’s welfare program with 98.8% of employees adhering

34% variable retribution of middle and senior management is linked to sustainability goals, 20% to creating shared value

Hera Top Employers tenth year of certification among the best working environments. Hera stood out for its welfare, working conditions, development and training
Objectives and results

## Future targets

<table>
<thead>
<tr>
<th>What we said we would do…</th>
<th>What we did…</th>
<th>What we will do…</th>
</tr>
</thead>
</table>

### Workers

- **Continue to promote the third edition of HeraSolidale in 2019 and to support reaching the goals of the 5 partner non-profit organisations through donations.**
  - 370 thousand euro donated over the two years of the project that was concluded in 2019, by employees, customers and businesses to the five non-profit organisations, partners of HeraSolidale.

- **Launch the fourth edition of HeraSolidale in 2020 to help reach the goals of seven non-profit organisations/partners through donations by employees and customers.**

- **Involve all employees in the fourth update of the Hera Group’s Code of ethics.**
  - Fourth edition of the Code of ethics approved in December 2019, created thanks to employee involvement.

- **Continue activities in raising awareness of and valorising diversity and inclusion with events and training initiatives.**

### Managing skills and training

- **24.4 hours per capital of training in 2019 within HerAcademy.**
  - 28.6 hours of training per capita provided in 2019.
  - 24.7 hours of training per capita in 2020.

### Welfare, diversity e inclusion

- **Continue to promote Hextra, valourising the related opportunities in terms of knowledge and availability of the services offered, to give employees more support in choosing how to use the amount received.**
  - The service offers of Hextra increased, new choices for employee usage and participation.

- **Continue developing Hextra, valourising the related opportunities in terms of knowledge and availability of the services offered; integrate services in education and support for families; further reinforce offers in health and well-being.**

### Health and safety

- **-3%** reduction in accident frequency in 2019 (18.2) compared to the 2014-2018 average. Raise awareness of health and safety through initiatives.

- **-4%** reduction in accident frequency in 2020 (16.3) compared to the 2015-2019 average. Launch a new training program in 2020 to promote awareness of health and safety across the company.

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**Applicable local area of improvement measures**

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**Other objectives, results and future targets**

at [bs.gruppohera.it](http://bs.gruppohera.it)
Suppliers

84.3% value of public tenders with the most economically advantageous bid method

67.7% of total tenders with the most economically advantageous bid method (of which 5.7% with circular economy criteria)

34/100 average score assigned to sustainability in tender awards

21 suppliers invited on average to participate in negotiated tendering procedures: open and transparent competition

“Circular” purchasing plan launched to select suppliers based on the principles of a circular economy

Workplace condition monitoring 20 audits of suppliers, of which 8 in their offices and 12 in Hera work sites
<table>
<thead>
<tr>
<th>Suppliers</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitor supply companies’ social responsibility towards their employees: 90 additional evaluation questionnaires and 20 supplier audits (offices and work sites) in 2019</td>
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<th>Qualification, selection and evaluation of suppliers</th>
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### Objectives and results

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#### Suppliers

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#### Qualification, selection and evaluation of suppliers

- Continue to assign a significant score to aspects of environmental and social sustainability in tenders using the criterion of the economically most advantageous bid
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#### Contract management

- Continue to valorise quality, safety, environmental and social responsibility management systems in choosing suppliers
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#### Applicable local area of improvement measures

- Emilia-Romagna
- Triveneto
- Marche Multiservizi

#### Other objectives, results and future targets

at bs.gruppohera.it
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