

TCFD REPORT



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TCFD REPORT

Executive Summary

Through the following report, Nexi Group is committed to reporting its contribution to the fight against climate change. The document is structured in four areas, following the guidelines defined by the *Task Force on Climate-related Financial Disclosures (TCFD)*, concerning the approach to climate change in terms of governance, strategy, risk and opportunity analysis, metrics used and objectives.

The Group has a Control, Risk and Sustainability Committee that supports the Board of Directors in assessing the risks and opportunities arising from climate change, alongside an ESG strategy that identifies decarbonization as one of the main pillars. Nexi Group received the approval to update its GHG emission reduction targets by the Science-Based Targets Initiative.

With the targets approved by the SBTi, Nexi commits to reducing absolute Scope 1 and 2 GHG emissions by 42% by 2030, starting from the 2021 baseline. Nexi further commits that 78% of its suppliers by spend covering purchased goods and services will have science-based targets by 2027. Nexi finally commits that 70% of its suppliers by emissions covering capital goods, will have science-based targets by 2027. Long term targets of the Group commit to reduce absolute Scope 1, 2, and 3 GHG emissions 90% by 2040 from a 2021 base year.

Governance

Nexi Group identifies “**Climate change**” as one of its material topics and defines this as the “*progressive reduction and offsetting of greenhouse gas emissions that contribute to climate change to achieve Net Zero commitment based on scientific data and international guidelines. Promotion of the use of energy from Renewable sources.*”

In response to the first area of TCFD recommendations, the governance of climate change is in the hands of the Board of Directors of the Group. The **Board** represents the highest governing body for **managing climate-related issues** and for **overseeing** the definition of the **Group’s response to climate change**.

The Board is the body responsible for **developing strategies and policies, setting sustainability goals and commitments**, overseeing the **implementation of the Sustainability Policy**, and **evaluating the results** and the adequacy of sustainability guidelines. The Board defines the path of progressive integration of the strategic objectives of Top Management and Executive Directors with sustainability aspects. Furthermore, the Board approves and supervises involvement in external initiatives and formalizes reporting obligations and action plans.

In line with the intention to **increase expertise on climate issues**, the Board of Directors initiated a series of reflections to increase expertise on ESG issues, including climate issues, to **support** and **undertake further initiatives in the medium to long-term**. In this regard, during the Board of Directors' self-assessment session on ESG issues, for the question ‘Does the Board of Directors dedicate adequate time to monitoring the implementation of the Group’s ESG strategy’, **79% of the Board members agreed or strongly agreed** and the others were neutral¹.

The **Control, Risk and Sustainability Committee supports the Board in promoting activities** related to climate impacts on the Group, including the process of climate change risks and opportunities. The Committee is established within the Board of Directors of Nexi Spa and has **advisory, proposal, and preparatory functions** to assist the Board in climate-related activities. Climate-related issues are on its agenda as part of the periodic updates of the Corporate and Social Responsibility function to the Committee itself. The Committee **examines and evaluates the issues related to the conduct of business and the dynamics of interaction with stakeholders**, but also monitors the **Group’s positioning on sustainability issues**, aiming for constant alignment with current and emerging regulations and market best practices.

In addition, among the **highest management level position(s) or committee(s) with responsibility for climate issues**:

- the **Chief Risks Officer (CRO)** is responsible for risk management activities and oversees the implementation of the ERM Framework, including the ESG assessment. The CRO reports quarterly to the Risk Control and Sustainability Committee and directly to the CEO;
- the **Chief Information Officer (CIO)** is responsible for ensuring business continuity, including initiatives taken against acute physical risks and improving the energy efficiency of the Group’s data centres, and reports directly to the CEO;
- the **director of the Global Real Estate and Facility Management** reports regularly to the Chief Administrative Officer and oversees all activities related to creation of a green and more energy efficient work environment, identifying and implementing energy efficiency improvement initiatives in all office buildings and production facilities;

¹ It should be noted that 11 out of 13 Board members responded.

- the **director of the Group Procurement function** reports to the CFO and is responsible for managing procurement actions, including climate-related aspects. He is also responsible for qualifying suppliers in terms of environmental issues;
- the **director of the Group Corporate & External Affairs and ESG function** oversees the implementation of the Group's decarbonization targets and periodically reports to the Board of Directors and internal board committees.

Nexi Group **increased the weight of ESG objectives in the remuneration package** as part of the path of progressive integration of sustainability objectives in the strategic objectives of Top Management and Executive Directors, as well as in the variable incentive systems. In the 2023 MBO plan, the weight of ESG targets for the Group's Chief Executive Officer and General Manager increased and the ESG targets have been extended to all Group MBO beneficiaries. Furthermore, an **objective related to Nexi's ESG strategy** called the ESG Scorecard was introduced from the 2023-2025 allocation cycle in line with the commitment made when presenting the **new LTI plan**, approved in May 2022. The **scorecard** is defined as a **set of objectives, weighing 10%**, related to the ESG strategy of the Nexi Group, with particular reference to digitalization, gender balance, people engagement and respect for the environment. The inclusion of ESG topics in the LTI plan has been confirmed for the 2024-2026 allocation cycle.

Strategy

The Group believes that decarbonization is one of the key pillars of the ESG Strategy. Therefore, it identifies best practices and initiatives for climate neutrality to overcome the challenges in reducing its impacts on the environment.

During 2023 the Group launched the **ESG Community** to deepen the knowledge and raise awareness of the projects and targets of the ESG Strategy. Through the Community, webinars were organised and the Community itself was involved in coordinating the first **Environmental Week** across Nexi Group where colleagues from 17 locations in 12 countries were involved.

The Group identified the following targets:

- **Net Zero emissions by 2040**, ten years earlier than required by the Paris agreements;
- **100% electricity supply generated by renewable sources by 2030.**

Initiatives identified and implemented to align with emission reduction targets include:

- updating and extending the decarbonization targets and obtaining SBTi approval for such extension;
- absolute Scope 1 and Scope 2 reduction by 42% by 2023 through: the electric fleet, use of renewable energy, phasing out combustion heating, innovations, and efficiency gains in office buildings.

Moreover, the Group is committed to **decarbonizing its supply chain** by mobilizing its suppliers to adopt CO₂ reduction targets. By 2027, Scope 3 objective will involve:

- the procurement of goods and services, with 78% of suppliers involved, based on expenditure;
- the procurement of capital goods, with 70% of suppliers involved, based on their GHG emissions.

Regarding these initiatives, it is worth noting that the **CO₂ emission reduction targets were extended to the entire Group** and **recently approved by the Science Based Target initiative (SBTi).**

Climate-related risks and opportunities

Identification and monitoring of climate-related risks and opportunities

In line with the recommendations of the Corporate Governance Code for Listed Companies (Corporate Governance Code), Enterprise Risk Management (ERM) focuses on the management of relevant risks in relation to value creation through the integration of risk management culture and practices into strategy setting and performance management processes.

Each event identified is evaluated for impact, likelihood, and maturity of the management system according to four-level risk scales. In light of the risk assessment, which is suitable for prioritizing identified events based on residual risk exposure, risks considered to have substantial impact are those that could have an economic impact of more than 5% of corporate EBITDA.

The **Enterprise Risk Assessment process also integrates the identification and monitoring of climate-related risks**. No major risks related to climate change have been identified for the period 2023-2025 with substantial impacts on the Nexi Group. However, given their strategic and reputational importance, these types of risks are monitored and assessed periodically in order to understand their potential implications and define a path for mitigation and adaptation.

There are **several aspects with respect to which climate change-related risks and/or opportunities which could arise**, and many actions taken to mitigate and/or incentivize these effects:

- (a) current regulations: the Group implements constant monitoring designed to minimize the risk of incurring penalties, financial losses, or reputational damage;
- (b) emerging regulations: the Group implements continuous adjustment actions to avoid sudden changes in the operating environment;
- (c) technology: risks and opportunities related to the technological climate and development have been monitored, particularly in terms of technologies used and prevention of obsolescence;
- (d) legal: actions are carried out to mitigate the risk of incurring judicial or administrative sanctions, significant financial losses, or reputational damage due to violations of applicable regulations or self-regulation;
- (e) market: risks and opportunities related to customer and stakeholder expectations, such as cost increases related to greener supplies, are analysed;
- (f) reputation: the risk of suffering reputational damage is analysed, and, to this end, the Group monitors its reputation through the Reputational Institute's RepTrack® index, which also considers environmental aspects;
- (g) acute physical risks: physical risks can impact assets (data centres, offices, and credit card establishments), suppliers and/or customers, affecting business continuity and/or revenues. To mitigate this risk, Business Continuity and Disaster Recovery plans are in place to ensure the continuity of the Group's strategic assets;
- (h) chronic Physical Risks: structural increases in temperature could result in increased energy costs required to cool data centres and facilities used for credit card personalization.

In 2022, Nexi Group conducted an analysis of climate-related risks and opportunities over a long-term horizon (10-30 years), integrated into the broader Enterprise Risk Management process, through a dedicated scenario analysis for both physical and transitional risks to quantify the Group's relative exposure. The assessment was conducted in line with the recommendations defined by the Task Force for Climate-related Financial Disclosures (TCFD) and the European Commission's non-binding guidelines on climate-related disclosure reporting, to be progressively aligned with the expectations of the Financial Stability Board and the Bank of Italy.

The Group appears to be potentially exposed to risks related to:

- emerging regulations and the introduction of a Carbon Tax;
- the increase in the severity and frequency of floods;
- the generalized rise in average temperatures and related energy needs for cooling data centres.

Whereas, the opportunities identified were the following:

- the consolidation of data centres into buildings with a higher level of energy efficiency;
- the use of hybrid and electric vehicles for the corporate fleet;
- the installation of a thermoregulation system for cooling the Milan Sempione office.

As a result of the analysis, the identified risks did not exceed the materiality threshold that would have determined their inclusion in the ERM.

For further details please refer to *"The analysis of climate scenarios"*.

Over 2021 and 2022, the Group performed a climate risk analysis which still applies also to 2023 as:

- the exposure to such risks by the Group and its suppliers/customers was not assessed as material;
- there were no material changes in the legal entities such as to require a new analysis.

During 2023 the Group continued to mitigate the exposure to climate risks through:

- the **renewal of insurance coverage** with capacious limits to cope with natural events for all the Group companies;
- in-depth **study of business interruption risks** arising from extreme weather events on specific Group locations;
- implementation of a **path to align disaster recovery procedures** for the Group's data centres.

The analysis of climate scenarios

The Group has implemented several climate scenario analyses to identify potential climate-related risks and opportunities, considering both 1.5°C and 4°C temperature increases over a time horizon of 2030 and 2050, including:

1. the **risk analysis on Nexi Group facilities**, with a focus on physical climate risks and transition risks and opportunities;
2. **risk analysis on customers and suppliers**, with a focus on physical climate risks and transition risks.

Risk analysis on Nexi Group's facilities - focus on physical weather risks

The organization may be exposed to extreme weather events that could directly and indirectly impact the continuity of business operations. The perimeter selected for the analysis consists of the data centres and credit card production facilities considered strategic for the Group (those being divested were excluded) located in EU 27. Denmark, Italy and Finland are the countries where the largest number of facilities in the perimeter are located, of which facilities located in Italy contribute 55% of the Total Asset Value analysed.

Among the most significant physical risks, potential impacts from flash floods, extreme wind, and earthquakes were considered through the following factors:

- the probability of an event occurring considering the high spatial resolution geographic assessment;
- the impacts related to earthquake events based on the location of structures and the evolution of climate change phenomena;
- estimated losses.

To analyse the extreme **risk of wind and flood on facilities** in terms of direct damage to buildings, machinery, and assets and indirect damage to business, the key economic variables considered are the Cost in terms of Revenue per day of Facility shutdown to estimate the losses resulting from business interruption, and the Estimated Value of Facility and, in particular, the analysis considers:

- the probability of the event based on the geographical assessment conducted through the most up-to-date analysis methodologies (e.g., integrating satellite data, 3D physical models, etc.) to capture the local scale of the phenomena. This assessment highlights structures that are not located in areas exposed to coastal and fluvial flood risk such as landfall risk and are therefore not considered. As for pluvial flooding, which has a greater impact on farm structures, the following factors were considered: soil type, land slope, and rainfall intensity;
- scenario-based impact: risk maps are available both on the time horizon and in the future perspective, based on projecting the frequency and intensity of the phenomena as a function of RCP climate scenarios. The two physical scenarios chosen are RCP 2.6 (mitigation scenario) and RCP 4.5 (stabilization scenario);
- vulnerability assessment is done by estimating vulnerability curves based on business type, architectural features, hazards, sectors, and asset type to estimate direct damage to property, assets, and machinery and indirect damage related to business interruption. The curves also consider the business sector for which the facility is used and the Ateco code. For facilities with ongoing operations as of the second floor, losses from flood risk to machinery and goods are estimated to be zero. Therefore, flood risk is a significant factor in quantifying the loss for all facilities with ground floor activities and business interruption loss;
- expected losses are quantified for three decades and for two chosen scenarios.

To analyse **seismic risk on structures**, the analysis was done following the same extreme risk methodology used for wind and flood risks, without considering scenarios. The countries most exposed to seismic risk are Croatia, Slovenia, and Italy even though the structures within the analysis boundary are mainly located in areas not exposed to seismic risk.

From the overall analysis, no locations were found to be highly exposed to extreme wind and earthquakes, while the main natural event to which Nexi Group facilities could be exposed in terms of estimated losses is flooding. However, it should be noted that the Group has insurance policies in place to mitigate any losses from this type of event. In addition, to manage potential risks of business continuity and unavailability of locations, also due to natural disasters, a Business Continuity Management System (BCMS) has been implemented with the aim of increasing the resilience of processes and services provided, paying particular attention to the satisfaction of its customers.

Risk analysis on Nexi Group's facilities - Focus on risks and opportunities related to transitional risks

The Group has identified **transition risks** as the emergence of new regulations and emission reporting requirements may cause an increase in indirect (operational) costs and the opportunity to use more efficient modes of transportation in order to reduce indirect (operational) costs.

Regarding the identified risk, the Group is not affected by carbon pricing mechanisms, but has conducted an analysis with a medium- and long-term perspective regarding the increase in future costs of GHG emissions by considering two alternative scenarios: New Development Scenario (1.5°C temperature increase) and Stated Policies Scenarios- STEPS (4°C temperature increase) in the medium (2030) and long (2050) term.

The Group estimated the financial impact based on 2019 emission levels as a baseline and global emission reduction targets (i.e., SBTi -42%) in 2030.

The response to this risk is based on an emission reduction strategy, defined in line with science-based targets. To achieve the targets, the Group is pursuing several emission reduction initiatives. First, the cost of responding to the risk considers investments currently underway with reference to the renewal of the corporate fleet (e.g., investment in charging stations) with hybrid cars and building efficiency initiatives (e.g., renovation of thermo-cooling systems). Second, the Group estimated the opportunity from using more efficient means of transportation and reducing operating costs by switching to hybrid or electric vehicles. This initiative would reduce Scope 1 emissions and align with the defined scientific target.

Nexi Group plans to gradually replace its fleet with hybrid or electric vehicles by 2024. The impact was estimated considering the emissions, consumption levels, leasing costs, maintenance, other ancillary costs, and incentives of the hybrid corporate fleet compared to the conventional fleet.

Risk analysis on customers and suppliers

In addition to the analysis of facilities, the Group's suppliers and customers may also be exposed to physical and transition risks that could directly and indirectly impact the continuity of operations and expected revenues. More specifically, the Nexi Group assessed how a representative perimeter of suppliers and customers are positioned with respect to nine climate change events associated with chronic physical risk (temperature change, heat stress, change in wind patterns, change in precipitation patterns and types, thawing permafrost, sea level rise, water stress, soil and coastal erosion, and land degradation), eight climate change events associated with acute physical risk (heat waves, fires, windstorms, droughts, heavy rainfall, floods, landslides, and subsidence), and earthquake risk.

In addition, considering two Transition Scenarios (Ordinary Scenario and Hot House world scenario), Nexi assessed how the revenues, investments, and EBITDA of each supplier and customer in the selected perimeter would be impacted by the requirements and regulatory changes that a transition to the Net Zero 2050 goal entails. On the one hand, the customer portfolio taken into analysis consists of about 20,000 customers, merchants and corporate issuing customers belonging to the Group, selected based on transacted volumes and/or revenues. On the other hand, as far as suppliers are concerned, the scope of analysis is composed of about 2,000 suppliers of the Nexi Group, prioritized based on total spending towards each supplier.

Risk analysis on customers and suppliers - Focus on physical risk

The methodology used to estimate the physical risk exposure of the customers and suppliers under analysis is as follows:

- a list of locations with their coordinates was prepared for each company, and a joint assessment of geographic hazard and expected impact was made for each location based on its sector. A summary risk score is assigned for each individual company by aggregating the assessments for each local unit, with criteria that may consider the importance of each (e.g., number of employees);
- hazard maps have been defined for each business location and local unit, highlighting the degree to which the area is exposed to a specific natural or climatic hazard. Specifically, the maps used to construct the physical hazard scores detect exposure to 18 physical and natural hazards, distinguishing between:
 - chronic risk events: which refer to climatic phenomena that generate progressive changes that can cause indirect damage (e.g., increased labor costs, production, cooling...);
 - acute risk events: pertaining to extreme phenomena that can cause direct damage to assets (e.g., loss of goods in inventory, damage to machinery...);
 - earthquake risk: not related to weather-climate phenomena, this risk is similar to the acute risk indicator in that it concerns extreme phenomena that can cause material damage to assets.

A summary measure of future physical risk (2040) is provided for each counterparty with details of its determinants (flood, landslide, wind, drought) considering all corporate locations (headquarters and local units). The summary scores are intended to summarize the overall hazard and guide the organization's choices in terms of monitoring, risk mitigation, and credit policy.

The result of the analysis is that 6% of customers in scope, with a transaction volume of 2% of the total in scope, have a very high exposure to physical risks, determined mainly by acute risk (mainly cold spells, frost, and floods). In contrast, no significant risk is associated with chronic risk. While most suppliers are not affected by climate change events related to physical risks.

Risk analysis on customers and suppliers - Focus on physical risk

The physical risk perimeter was also adopted for analysis of transition risk. Transition risk represents the possible financial impact suffered by the company due to the transition to an environmentally sustainable economy (e.g., low carbon).

The methodology used to estimate the transition risk exposure of customers and suppliers in scope of analysis is as follows:

- the scenarios used as inputs are the "hot house world" scenarios, which assume the continuation of only the policies already implemented, and the "net zero 2050" scenario, which represents the most favorable scenario by which climate policies limit global warming to 1.5°C, reaching net CO₂ emissions globally in 2050;
- the macro determinants represent three main variables related to the transition: policies and regulation, technology, and market demand. The effects on these macrofactors, depending on the scenarios considered, are summarized through macroeconomic variables made available by the NGFS (Network for greening the financial system), similar to what the European Banking Authority did for transition risk assessment and estimation;
- the model estimates the impact on revenues, investments, and costs by integrating a top-down approach, based on sectoral assessments, and a bottom-up approach, which is based on estimating models on individual counterparties' balance sheets;
- for each counterparty, a summary measure of Future Transition Risk (2050) is provided, detailing the relevant determinants (Revenues, EBITDA, and Investments). The output is summarized in scores from 1 to 5 indicating the impact of a 30-year horizon due to the transition to a low-carbon economy.

The results show that 0.2% of customers and 3% of perimeter suppliers have very high exposure to transition risks. The exposure is mainly determined by the efforts in terms of investment expenditure expected to be incurred to keep up with the transition regulations.

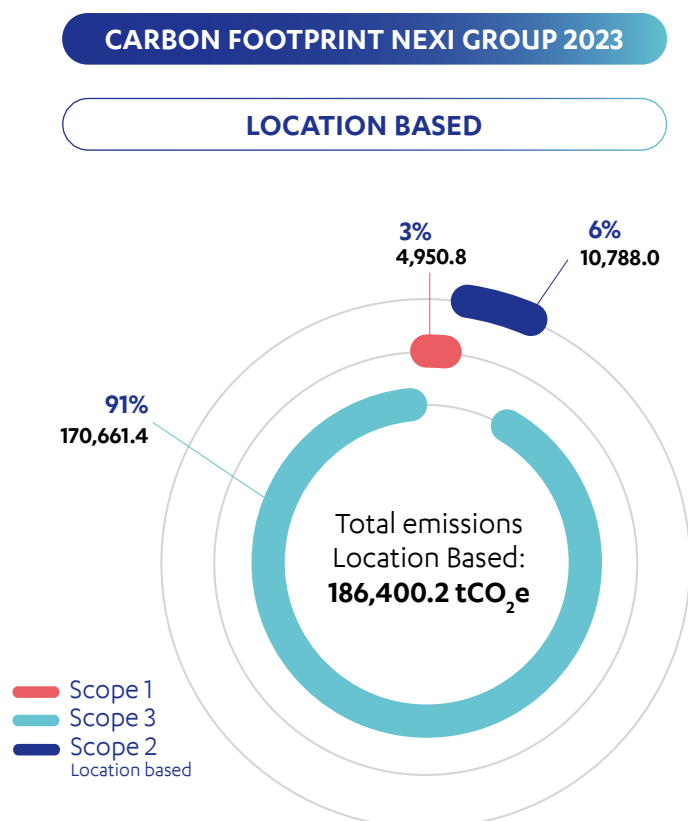
Metrics and targets

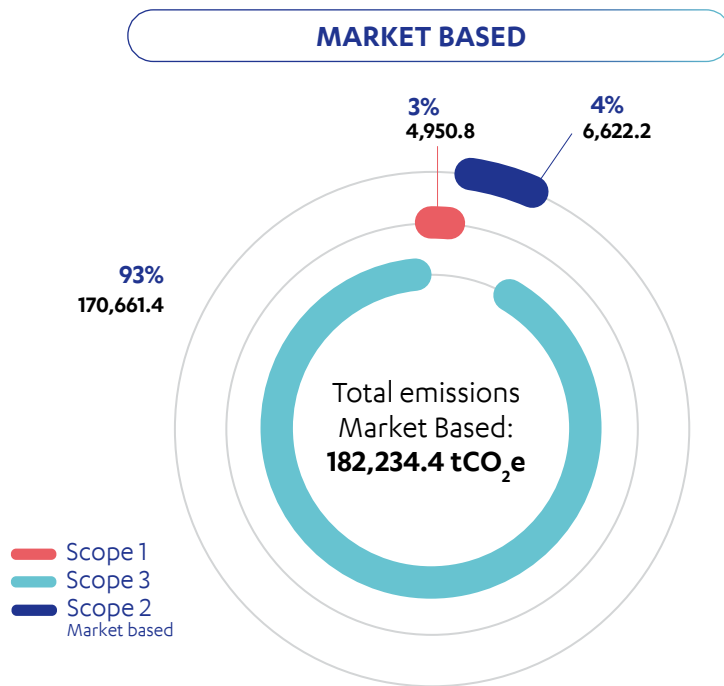
Carbon footprint

In 2023, Nexi Group has continued to promote works within the Climate Strategy Framework by quantifying the impacts in terms of emissions in a more accurate and complete manner. In fact, Nexi Group has calculated the direct and indirect GHG emissions for 2023 considering the Group's complete perimeter. There have been some updates to improve the completeness of the inventory while maintaining the methodological approach from 2021 and 2022:

- in line with 2022, the results for 2023 include the Capital Goods category in Scope 3, corresponding to emissions generated by the purchase of terminals (POS and ATMs);
- increased granularity of activity data in favor of a better level of detail for individual legal entities of the Group, in fact, the analysis was carried out on a six-monthly basis;
- use of increasingly accurate and specific emission factors, based on the latest available data bases, while preserving data comparability.

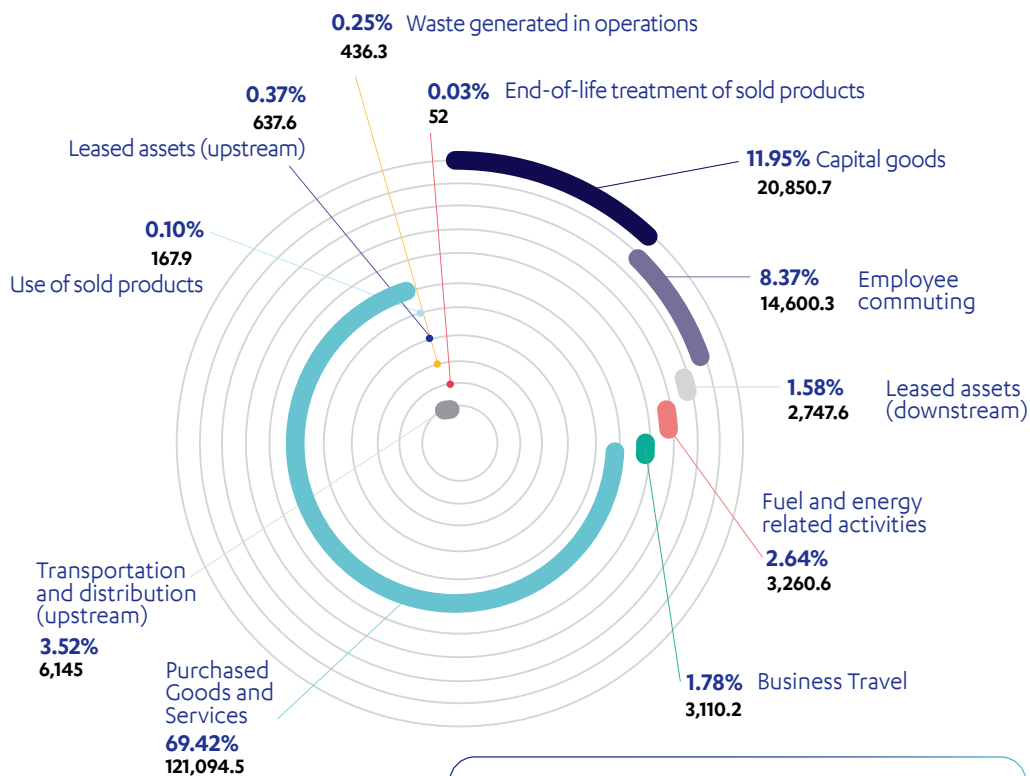
During 2023, Nexi Group has also calculated its direct and indirect GHG emissions for the full year considering the complete Group perimeter.





CARBON FOOTPRINT NEXI GROUP 2023

SCOPE 3 CATEGORIES



Definition and approval of Group wide near-and-long term decarbonization targets and of a net zero emissions objective by 2040.

Decarbonization targets

Nexi commits to reduce absolute Scope 1 and 2 GHG emissions by 42% by 2030, starting from the 2021 baseline and to increase its annual electricity supply generated by renewable sources from 51.7% in 2021 to 100% by 2030.

Furthermore, the Group is also committed to decarbonizing its supply chain by mobilizing its suppliers to adopt CO₂ reduction targets. In fact, by 2027, Scope 3 objective will involve two relevant areas of the supply chain:

- the procurement of goods and services, with 78% of suppliers involved, based on expenditure; and
- the procurement of capital goods, with 70% of suppliers involved, based on their GHG emissions, starting from the 2021 baseline.

Finally, in the long term, the Group is committed to achieve Net Zero by 2040, reducing absolute Scope 1, 2 and 3 GHG emissions by 90% and using carbon credits to offset the residual emissions.

Among the transformative actions already in place, Italy's data centre optimization project aims to reduce electricity consumption by 21.9% in 2024, compared to 2021, equivalent to about 3.7 million kwh/per year.

Supplier engagement

Nexi Group recognizes in its Sustainability Policy the importance of enhancing environmental and social sustainability of its business chain through specific procedures and engagement activities with its suppliers, collaborators, and business partners. As previously mentioned, the Group works with its value chain on climate change risks and opportunities. As far as the relationship with suppliers is concerned, the Group's commitment is to collect up-to-date information on their behaviour and awareness of the issue.

In 2023 a Group Procurement Policy was issued to identify the essential and indicative elements to which all Group companies must refer, including ESG issues. Currently, procurement processes are not yet centralized, but all Group companies carry out a monitoring process. Particularly, former Nets legal entities conducted a thorough review of the existing third-party management procedures related to ESG aspects through a robust sustainability scoring framework. This model facilitates the creation of a comprehensive database of third-party entities calculating the sustainability score and rating on the basis of multifaceted parameters, including risk levels, critical severity indicators, sustainability exposure, and relevant criteria pertinent to their geographical operations.

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