1.01 TRENDS AND CONTEXTS, STRATEGIC APPROACH AND GROUP MANAGEMENT POLICIES

1.01.01 Trends and contexts

Hera makes ongoing efforts to interpret the signs coming from the contexts in which it operates, in an attempt to obtain an overall view of what lies ahead for the Group and its stakeholders. To anticipate future developments, the main drivers of change and their essential interrelations are identified below. In particular, the macro-trends of the Group's reference contexts are identified, so that its main management policies, which contribute to an industrial strategy consistent with its corporate purpose, can be defined accordingly.

Macroeconomy and finance

World and European economy: year-end results

The global economic slowdown continued in 2023, prolonging the trend seen during the previous year following the phase of growth recorded in 2021 in the wake of the pandemic. The January 2024 World Economic Outlook Report (WEO Report) published by the International Monetary Fund (IMF) indicates that growth in global gross domestic product (GDP) stood at 3.1% in 2023, down from +3.4% in 2022 and far from the +6.2% seen in 2021.
The foremost cause of this deceleration lies in the restrictive monetary policies adopted by the main central banks, including the Federal Reserve (Fed) and the European Central Bank (ECB), aimed at containing the inflationary pressure induced by the current complex geopolitical situation, above all the conflicts in Ukraine and, more recently, the Middle East, which has furthermore led to phases of slowdown in international trade and a more limited availability of raw materials. In this regard, note that the continuous interest rate hikes introduced by the Fed and the ECB over the last two years, which led the cost of money to settle at 5.5% and 4.5% respectively (compared to under 0.5% in early 2022), brought about a decrease in global inflation, which stood at 6.9% (annual average) in 2023, as against 8.7% in 2022.
The Eurozone, which is the area most strongly affected by the war in Ukraine due to its proximity to the conflict zone and its dependence on gas supplies from Russia, showed a significant slowdown in GDP growth (up by 0.5% in 2023, as against 3.4% in 2022). More specifically, the ECB's monetary tightening was confirmed in 2023, which helped to bring average European inflation down to 5.4%, as against 8.4% in 2022.

World and European economy: projected trends

The European Commission's most recent projections for the next two years point towards a modest economic recovery, due to the impact of geopolitical tensions and the tightening of financing conditions on domestic demand, as well as the household and business confidence index. In 2024, world GDP is expected to grow by 3.1%, with a slight upturn to 3.2% in 2025; estimated growth for the Eurozone is more contained, standing at 0.8% and 1.5% in 2024 and 2025 respectively.
The WEO Report does not foresee additional rises in interest rates, which should remain at their current restrictive levels until mid-2024 and then possibly decline gradually. World inflation is expected to keep declining and settle at 5.8% in 2024 and 4.4% in 2025; similarly, Eurozone inflation is expected to fall to 2.3% in 2024 and 2% in 2025.

National data: economic results and projections

At the national level as well, the Bank of Italy's analyses portray an economy affected by weak international trade and rigid credit conditions, but also partially bolstered by the implementation of the investments contained in the National Recovery and Resilience Plan (NRRP). In 2023, Italian GDP grew by +0.9%, while the average annual inflation decreased to 5.7%, compared to 8.1% in 2022, allowing for a gradual recovery in household purchasing power.

ISTAT's most recent estimates indicate that domestic demand was mainly driven by private consumption (+1.4% in 2023 compared to 2022), supported by the deceleration in inflation, a gradual (albeit partial) recovery in wages and a higher employment rate. Indeed, the employment rate in Italy stood at 61.8%

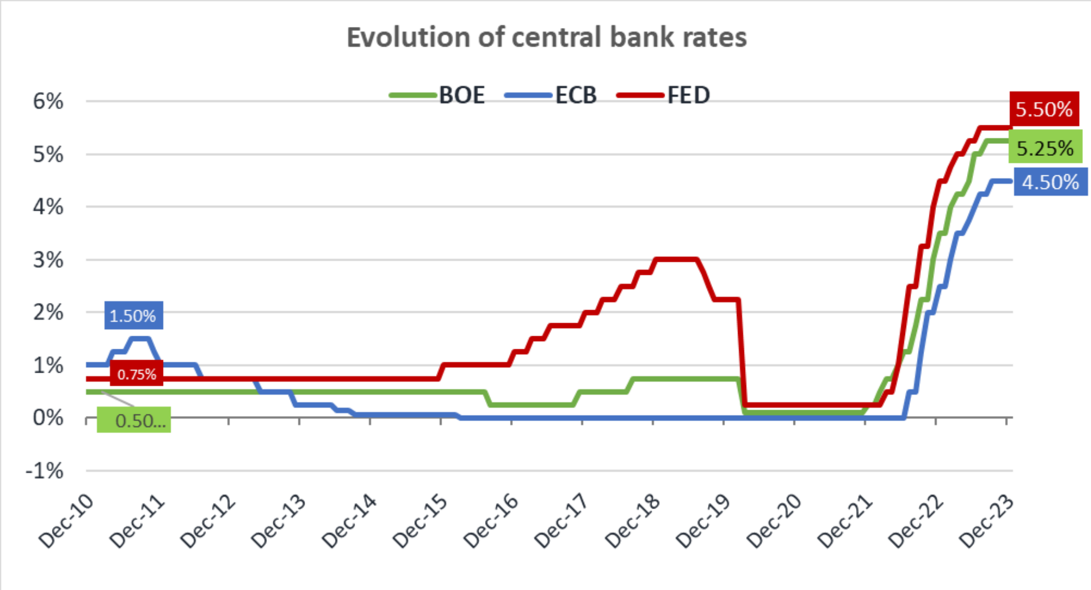
in November 2023 (+2.2% over the same period during the previous year), with the unemployment rate falling to 7.6%, the lowest level recorded in the last 20 years. These factors contributed to a significantly stronger Italian consumer confidence rate over the past year, following the sharp decline seen in the first three quarters of 2022.
The European Commission's latest forecasts point towards a growth rate for the Italian economy in 2024 similar to that of the previous year, and an estimated 1.2% increase for 2025. Expectations for Italian inflation indicate a gradual descent, from 1.9% in 2024 to 1.7% in the following two years, due to the effect of the ECB's restrictive monetary policies, the slowdown in import prices and the fall in the prices of energy goods.

Financial markets

In 2023, stock and bond markets recovered most of the losses accumulated in 2022. Despite the tension in the banking system that appeared in March, most markets rebounded strongly from their lows of the previous year, with some sectors (IT and communications services above all) leading this recovery. Fears of a recession subsided, leading to a normalisation of investor positioning and lower price volatility. The higher awareness shown by investors, gained after the extraordinary events seen in recent years, was a positive factor for markets, which were more prepared to manage risks in advance and not be taken by surprise. This year, the foremost factors influencing financial markets consisted of the main central banks' monetary policy outlook and its potential effects on economic growth and inflation. Much of the rise in prices in the latter part of the year, in fact, was generated by the growing belief shown by traders that central banks are now close to containing the inflationary trend that has influenced the world economy since 2021. The positive data concerning inflation, as outlined above, led to forecasts of a future reduction in interest rates in both macro-areas (Eurozone and the United States), which not only pushed up stock markets, but also sharply narrowed corporate spreads and bond yields.

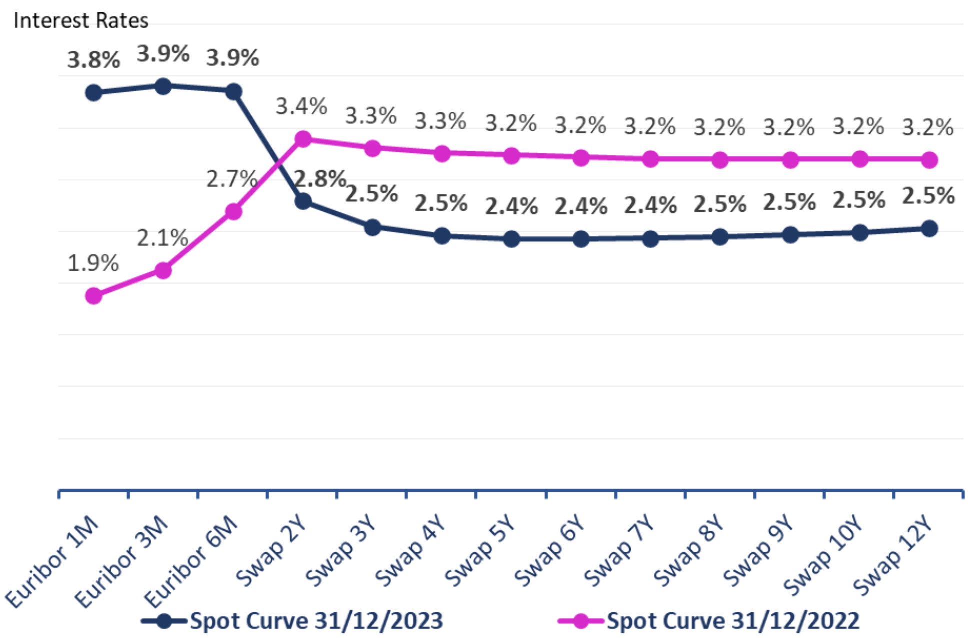
Monetary policy

In the Eurozone, the ECB confirmed its restrictive monetary policy, which started in July last year, introducing further interest rate increases until September, which brought the reference refinancing rate to 4.50%. However, this upward trend was interrupted in October 2023, when the ECB decided to stop the trend of rising interest rates. This decision was maintained over the following months, consistently with market analysts' expectations. A similar choice was made earlier by the Fed in June, after ten consecutive hikes, and by the British Central Bank in August. Even though overall expectations are for a rate cut in 2024, central banks still consider it premature to move in this direction until there is evidence that the decline in inflation has stabilised. Indeed, it has been stated that a 'data-dependent' approach will continue to be pursued, to determine the most appropriate degree of restrictive monetary policy. In particular, interest rate decisions will be based on an assessment of the inflation outlook in light of operating and financial data, trends in core inflation and the transmission strength of monetary policies themselves. As regards the other monetary policy measures implemented to stabilise the system, the ECB gradually reduced its volumes of security repurchases under the Asset Purchase Programme and the Pandemic Emergency Purchase Programme, and confirmed at its latest meetings its intention to permanently discontinue security reinvestments at the end of 2024. Given that 95% of the repurchases involve government bonds, it is assumed that the end of the programme will not impact corporate bond spreads.



Interest rates

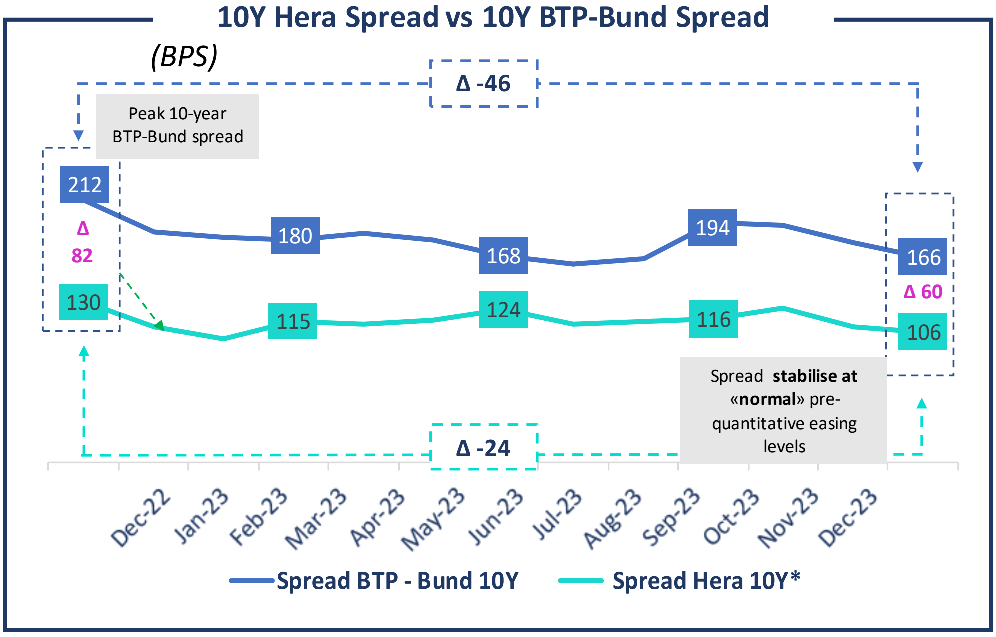
The interest rate curve for the Eurozone, at the end of the year, showed higher levels on the short-term section, peaking at 3.9%, and a linear trend on the medium- to long-term swap rates, remaining at roughly 2.5%. Compared to the previous year, this curve showed an unusual, inverted trend, with the short-term maturity section (one-six months) up by an average of about 164 basis points compared to December 2022, and the medium-long-term maturity section (two-twelve years) down by an average of about 75 basis points compared to the previous year.
In December, the one-year forward scenario showed an expectation for rates to fall by about 150 basis points on Euribor rates and about 30 basis points on swap rates, with levels increasing by maturity from 2.1% (two-four years) to 2.4% (nine-twelve years).



Hera spread

While the interruption of corporate bond purchases on the secondary market by the ECB did lead to a general increase in the spreads applied to companies, Hera's spread did not suffer this impact. On the contrary, it decreased year-on-year by 24 basis points, thanks both to the recovery seen in the utility sector and the Group's confirmed solidity and creditworthiness.
The Italian government bond spread decreased year-on-year by approximately 46 basis points, reaching roughly 160 basis points at the end of the year. Over the course of the year, it saw increases bringing it to around 190 basis points, but did not reach the previous year's peak of over 200 basis points, thanks to an improved default risk view and Moody's confirmation of the sovereign rating in October.

The differential between Hera's spread and the sovereign spread in December fell by 22 bps year-on-year, going from 82 bps to 60 bps, with the yield on ten-year Italian government bonds settling at roughly 3.7% and the yield on ten-year German bonds at approximately 2%.



*Spread Benchmark Bond 2034

Businesses and regulations

Business trends

At European level, 2023 saw a significant reduction in gas consumption, due to a range of factors, including above-average temperatures in the winter months, an increase in renewable electricity generation and higher consumer sensitivity to limiting consumption, following the tensions on the supply market related to the Russia-Ukraine conflict. Over the last year, Italy recorded a drop in gas consumption coming to -8%, stabilising at 63 billion cubic metres (preliminary estimate provided by the Energy Market Manager). Note in particular the 55.6% decrease in gas imports from Russia compared to the previous year as a result of the diversification of gas supplies aimed at freeing the EU from its dependence on Russian gas.

As regards electricity, the data released by the national transmission company (Terna) indicates a 2.8% drop in consumption for 2023, with national consumption coming to 306 TWh. At the same time, national renewable energy generation increased significantly (15.4% over the previous year), covering 36.8% of total energy consumption (compared to 31% in 2022), thanks to a positive contribution coming from all sources.

In the waste management sector, the latest data processed by the Institute for Environmental Protection and Research (Ispra, Municipal Waste Report 2023) indicate that nationwide production of municipal waste in Italy in 2022 amounted to 29.1 million tonnes, showing a 544 thousand ton decrease compared to 2021 (-1.8%), with 494 kg of waste produced per capita. Sorted waste collection improved, reaching 65.2%, up by 1.2 percentage points compared to 2021.

As far as the water business is concerned, the sector is facing numerous and increasing challenges concerning the quantity and quality of this resource, as well as infrastructural modernisation and efficiency. The negative effects produced by climate change, including the higher frequency and degree of drought, highlight the need for a strong commitment to investments in this sector.

Competitive context

In the energy sector, a further increase in competitive pressure was seen, resulting from the gradual elimination of the protected supply system. In 2022, the switching rate (change of supplier) for household customers increased by 2.2% compared to the previous year (ARERA, Annual Report 2023). As in

previous years, the Italian electricity and gas markets confirmed a widespread inclination to switching suppliers shown by household consumers, eager to seize opportunities to acquire more advantageous options in terms of tariffs and services.
In recent years, this competition has not only concerned the commodity component, but also involves value-added services (VAS), which operators must enhance in order to build portfolios of sales offers that reflect the needs expressed by customers, who are increasingly oriented towards sustainable and energy-saving solutions.

In the waste treatment and recovery sector, the main operators confirmed their interest in acquiring specialised companies equipped with plants and skills on the market. A similar trend concerned the growing attention shown by companies, including medium-sized ones, towards sustainability and improved environmental performance.

As regards regulated businesses, competition involves the procedures for awarding service concessions and their subsequent management.

Turning to legislative and regulatory factors, the most important aspects for the Group in 2023 include:

- various measures introduced by the government and the national regulatory authority concerning the criteria and modalities for eliminating the greater protection electricity service and the protected gas service;
- provisions for promoting the country's energy security (Energy-bis decree);
- measures taken to support residents affected by the flooding events in Emilia-Romagna and other regions;
- measures to support households and businesses in purchasing electricity and natural gas (so-called bills decree), and the new elements included in the 2024 Budget;
- the following measures adopted by the Regulatory Authority for Energy Networks and the Environment (ARERA):
  - the introduction of the general criteria and principles for the Regulation by expenditure and service targets (ROSS) for 2024-2031, concerning regulated infrastructure services in the electricity and gas sectors;
  - the text defining the regulation of electricity distribution and metering services for the sixth regulatory period (2024-2027), applying the criteria defined by the ROSS methodology to economic-tariff regulation and output-based regulation;
  - the rulings of the Regional Administrative Court of Milan and the State Council partially annulling Resolution 570/19/R/gas on gas distribution tariff regulations (2020-2025), referring in particular to the methodology used for recognising operating costs by cluster of companies;
  - the resolution updating upwards the capital return rates for energy infrastructure services (gas and electricity) for 2024;
  - the resolution defining the tariff method for the district heating service, applicable during the transitional period (1 January 2024 - 31 December 2024);
  - the integrated water service tariff method for the fourth regulatory period (MTI-4), which defines the rules for calculating the costs eligible for tariff recognition;
  - updated regulations for the technical quality of the integrated water service, for each of its individual services, and the application of the incentive mechanisms for the regulation of technical and contractual quality for the performance of water operators in 2020-2021;
  - a measure approving the standard outline of the service contract for the regulation of relations between commissioning bodies and municipal waste service operators;
  - the Authority's guidelines for defining a model tender scheme for awarding the integrated municipal waste management service;
  - the resolution introducing monitoring and transparency obligations concerning the efficiency of sorted waste collection and municipal waste treatment plants, as of 1 January 2024;
  - the measure setting out the rules for the two-yearly update (2024-2025) of the reference tariff revenues and tariffs for accessing facilities closing the minimum cycle, or the intermediate facilities at the origin of flows indicated as entering facilities closing the minimum cycle;
  - the rulings of the State Council concerning the repeal of the Emilia-Romagna regional resolutions and all subsequent acts attesting to the qualification of FORSU, WTE and landfill treatment plants as minimum facilities.

Elimination of the protected electricity service

During 2023, the government took several steps to define the modalities for eliminating the protected electricity service. The Ministry of the Environment and Energy Security (MASE), indeed, approved regulations for the criteria and modalities for the informed transfer of household customers into the free electricity market (Ministerial Decree No. 169 of 18 May 2023). This decree establishes that non-vulnerable household customers will be transferred to the gradual protection service through a system based on auctions, and set the maximum amount of regional areas that can be allocated to each operator at 30%, also requiring household customers, who at the end of the gradual protection service have not autonomously chosen a vendor on the free market, to be supplied by the exiting service vendor at the most convenient market offer.

Acting on the regulations defined by the aforementioned decree, ARERA, with Resolution 362/2023/R/eel, provided indications for the transition to the gradual protection service (STG) for non-vulnerable household customers who, at the time of the elimination of the protected service, have not yet chosen a vendor on the free market. The gradual protection service (STG) guarantees continuity of supply to customers and will have a limited duration, coming to three years (from 1 July 2024 to 31 March 2027). The price applied to STG end customers will be the same throughout the country, with an equalisation system for vendors. Contractual conditions similar to those of Placet offers will be applied. In January 2024, auctions were held with a single, closed envelope, in a simultaneous round system for all areas to select the operators to supply the STG to non-vulnerable customers.

Elimination of the protected gas service

The elimination of the protected gas service, which also took effect on 10 January 2024, was instead governed by the "Help-bis" decree (Legislative Decree No. 115 of 9 August 2022), which does not provide for allocating customers through tenders, but through a modulation of suitable sales projections by the vendors who served these customers under the protected system. ARERA implemented the content of the aforementioned decree with resolution No. 100/2023/R/com; more specifically, this resolution sets out both the procedures for eliminating the protected gas service and an identification of the criteria for vulnerable customers. Provisions were also introduced concerning the information obligations of vendors towards end customers regarding the elimination of the service and the rights of vulnerable customers. Finally, changes were made to the gas Code of Conduct and the Offers Portal, following the elimination of price protection.

Energy security and measures protecting vulnerable customers (LD Energy-bis)

Other measures concerning competitive procedures were introduced by the Energy-bis decree (Law No. 11/2024 converting Decree-Law No. 181/2023), which set out the modalities for assigning the electricity supply service to vulnerable customers. Operators will be identified through competitive procedures and the procurement of wholesale electricity will be entrusted to the Single Purchaser. In addition, the same decree, again with reference to the electricity sector, established that, as of 1 January 2025, all electricity customers will no longer be charged prices indexed to the Single national price (PUN), but will be charged zonal prices defined based on trends in the wholesale electricity market, whose implementation criteria have been requested from the MASE and ARERA. Finally, note that as part of the definition of the rules for reinforcing the security of natural gas supplies, this decree introduced a sort of penalty for operators who do not reach the amount of energy savings they committed to in the tender for awarding the natural gas distribution service.

Measures for the May 2023 flooding events

Measures were also taken by the government and the national regulator during 2023 to deal with the flooding events that occurred in the Emilia-Romagna region and other neighbouring areas.
Firstly, with resolution 216/2023/R/com and as of 1 May 2023, ARERA called for the suspension of the terms of payment of invoices issued or to be issued, and the non-application of the rules for suspension in case of arrears, with reference to electricity, gas and water supply as well as the integrated municipal waste cycle. Subsequently, the government, with the so-called Flood decree (Decree-Law No. 61 of 1 June 2023), identified the local area covered by the payment suspensions terms defined by ARERA, requiring the latter to regulate the timing and the length of the suspension of bill payments, in any case for a period not exceeding six months. ARERA then introduced further measures, which set at four months the period of validity for the suspension of bill payments and payment notices previously determined by the Regulator, clarifying that it was possible to extend this period up to a maximum of six months. Lastly, in late 2023, with resolution 565/2023/R/com, ARERA identified, in a more cohesive manner, the tariff concessions in favour of the residents most affected by the flooding events; these measures were subsequently confirmed by resolution 10/2024/R/com, which supplemented them by making certain changes, partially with a view to reducing the overall charges imposed on operators and managers.

Measures supporting the purchase of electricity and gas (Bills decree)

Lastly, among the more important regulatory interventions, note the law converting the so-called Bills decree (Law No. 56/2023 converting Decree-Law No. 34/2023), which enlarged the customer base that may benefit from the social bonus for electricity and gas and confirmed the reduction of general charges in the gas sector for the second quarter of 2023, as well as the tax credit for companies for purchasing electricity and natural gas. The Bills decree also extended, for 2023, the application of reduced VAT rates on the consumption of methane gas for civil and industrial use. Note, however, that the 2024 Budget (Law No. 213/2023) does not provide for the renewal of these tax breaks, and establishes that, as of 1 January 2024, the VAT rates would be brought back to their ordinary amounts.

Introduction of the new Regulation by expenditure and service targets (ROSS)

Moving on to an examination of the most relevant measures for the energy infrastructure sectors, note that, following a long consultation process that began in 2021, in early 2023 ARERA approved, with Resolution 163/2023/R/com, the Integrated Text of the Criteria and General Principles of the Regulation by expenditure and service targets (ROSS) for 2024-2031 (TIROSS 2024-2031). This text is currently made up of general indications (Part I) and general guidelines for the ROSS method in its basic content (Part II). The completed TIROSS will include a Part III, dedicated to the complete ROSS. The objective of the new regulation is to direct resources efficiently, eliminating the distortions created by the current regulatory instruments concerning the investment choices made by companies. The path towards the new method will begin with a simplified version, called basic ROSS, which will be applied as of 2024 to electricity distribution operators and as of 2026 to gas distribution companies. With regard to the criteria for determining the recognised cost following the basic ROSS approach, ARERA has established that the actual (total) expenditure of distributors will be compared annually with a reference expenditure defined by the Regulator (the so-called baseline). Furthermore, each distributor will be able to choose how to share any efficiencies/inefficiencies achieved with users, choosing between the two options of the incentive menu introduced by ARERA (low incentive potential and high incentive potential). ARERA has also defined the speed of tariff release by introducing a regulatory capitalisation rate that allows eligible expenditure to be divided into two portions: slow money, representing capital costs, and fast money, representing operating costs. Lastly, note that the tariff treatment of capital stock existing at the date of transition to the new methodology will be implemented with continuity in the criteria applied.

The criteria with which the basic ROSS is applied specifically to the electricity distribution service were approved with resolution 497/2023/R/com, with which ARERA established that the new basic ROSS method will be applied to all electricity distributors serving at least 25 thousand PoDs and will include all types of operator costs, with the sole exclusion of capital costs pertaining to 2G smart metering systems. The most important change introduced by the resolution concerns the quantification of the operating cost baseline, which will be differentiated for each company on the basis of the amount of its actual costs as resulting from the Separate Annual Accounts (CAS) of the test year, 2022. Furthermore, it established that the total efficiency recovery will be fully allocated to operations management, meaning that the expenditure eligible for tariff recognition will be the sum of the total actual expenditure and the efficiency incentives allocated to operations management. Lastly, note that ARERA will take into account the inflation update that is actually aligned with the scope of capital and operating costs included in the tariff year, and the regulatory capitalisation rate will be differentiated by company based on their historical trend.

New measures for technical and commercial quality of electricity

Once again regarding electricity regulations, note provision 617/2023/R/eel, which defines the regulation of the technical (TIQD) and commercial (TIQC) quality of the electricity distribution and metering service for 2024-2027. More specifically, with the TIQD ARERA has introduced a complementary rationale with respect to the ROSS tariff method, overcoming the approach to regulation, output-based until present, based on national service quality standards and introducing customised objectives, based on the historical performance of each distributor, with the intention of reflecting the regional contexts in which companies operate. With regard to the new integrated text for commercial quality (TIQC), instead, there is no change in the perimeter of the services subject to standards, but only a 15% increase in the value of the automatic compensation to be paid to users in cases of non-compliance with the maximum time limits for carrying out interventions.

Milan regional court ruling on tariff regulations for gas distribution

During 2023, the Milan Regional administrative court (TAR) published a number of rulings on the administrative appeals made by various operators against Resolution 570/2019/R/gas, related to the updates for the fifth regulatory tariff period (2020-25) for gas distribution. Among the grounds for the appeals upheld by the administrative judges, the main reason concerns the recognition of operating costs, on which the Milan TAR found that ARERA had failed to carry out a preliminary investigation during

the consultation phase, and that the tariff method established was illegitimate, since it did not reflect the differences in companies’ cost structure and could not account for the impact on these costs deriving from environmental shocks or from regional elements in prices for production factors. The content of the published sentences cannot be directly interpreted as regards its effects, for reasons including ARERA’s decision to appeal to the State Council (CdS). The ruling on the appeal made by the Group company Inrete Distribuzione Energia has not yet been published.
In execution of these rulings, ARERA has appealed to the State Council, which rejected the Authority’s appeal, confirming the inadequacy of the tariff method with respect to recognised operating costs. The State Council also generically limited itself to ordering that the rulings be enforced according to the motivational assumptions indicated, even though it is well known that the effects will necessarily be *erga omnes* (at least for the cluster of large operators).

2024 WACC for the gas and electricity distribution services

With reference to both the electricity and gas sectors, note that ARERA, with Resolution 556/2023/R/com, revised upwards the rates of return on invested capital for infrastructure services in the electricity and gas sectors for 2024. WACC for electricity distribution will increase from the current 5.2% to 6.0%, and WACC for gas distribution will increase from the current 5.6% to 6.5%. This increase is mainly due to the rise in the Stable Countries’ rates of return and the spread seen during 2023.

Transitory tariff method for the district heating service

As regards the regulation of the district heating service, note that ARERA, after a lengthy consultation process, in late 2023 and with resolution 638/2023/R/tlr approved the district heating tariff method for the transitional period from 1 January to 31 December 2024 (Mtl-T). This measure established for the transitional period (defined as the 2024 calendar year) a tariff regulation based on the avoided cost method, introducing, however, a number of significant additions to what is currently in use among operators. More specifically, ARERA required operators to respect a revenue cap, which in any case leaves them the possibility of defining the scope of application of the tariffs. The revenue cap is determined as the overall sum of the avoided costs per unit (euro/MWh) for the quantities of heat supplied (MWh) with reference going to the various networks, to each month of the year and to each category of user. With this measure, ARERA accepted the request to include the safeguarding clause, formulating it in such a way as to limit to 10% the contraction in revenue resulting from the new tariff methodology, for the systems managed as a whole. Each operator therefore has the option of applying, instead of the revenue cap as ordinarily calculated, an annual safeguard restriction set at 90% of the revenues calculated by applying the tariff conditions prior to the Authority’s regulation to the scale variables seen in 2024. In defining revenues, a cap must be applied to the production quotas not based on natural gas, set at €36/MWh; this provision essentially takes into account the fuel mixture of each district heating system, so as to ensure greater consistency between costs and revenues in networks characterised by a lower use of natural gas for the production of thermal energy.

Integrated water service: new tariff period and regulations for technical quality

As regards the regulation of the integrated water service, the measures introduced in 2023 having the greatest impact for the Group concern the tariff method for the fourth regulatory period (resolution 639/2023/R/idr), which confirmed the previously existing general structure, but extended the period from four to six years (maintaining the updating period at every two years). The resolution includes, among other elements, a valorisation of the most economically impactful indicators such as rates on invested capital and inflation. In particular, the rate defined to cover financial and tax expenses on invested capital was set at 6.13% for the two-year period 2024-25, a sharp rise from the 4.80% recognised up to 2023; this increase, similarly to what was seen in the energy sectors, was determined by the increase in the free-risk rate and the water risk premium recorded in 2023, in addition to an increase in the rate defined to cover the cost of debt, which rose from the current value of 2.4% to 3.0% (in real terms). Also note that the classes of assets subject to tariff recognition are now increased with categories associated with the new technical quality indicator as regards storage of the resource and management of rainwater (water resilience). For endogenous operating costs, the reuse of the efficiency mechanism for the previous period was confirmed, with an incremental effect and based on the retrocession of quotas (differentiated according to the behaviour and costs sustained by the various operators) of the margin recognised, for these costs, in 2020. Concerning the recognition of electricity costs, starting from the costs accrued in 2024 (and therefore applied to the 2026 adjustment), the previously hypothesised benchmark was introduced based on a “theoretical” mix of variable-price and fixed-price procurement costs (whose respective weights, for 2024, were set at 70% and 30%), valued based on the operators’ final cost data in both instances. This benchmark, increased by a 15% allowance, constitutes the new cap for the recognition of costs in the event of an actual cost that is higher than the benchmark, while if the actual cost is lower, the same actual cost will be recognised in addition to 50% of the efficiency achieved with respect to the amount of the benchmark itself (sharing).

In late 2023, regulations for the technical quality of the integrated water service were also updated by resolution 637/2023/R/idr. The innovations introduced include: the new macro-indicator M0 on the resilience of the water system, aimed at monitoring the effectiveness of the supply system in satisfying water demand, numerous clarifications related to the construction of the previously existing macro-indicators as well as changes in the calculation of some macro-indicators, and a cumulative two-yearly assessment of the targets achieved (the latter now also concerning contractual quality).

Waste service: new form for the service contract between tendering bodies and operators and outline for tender publications

With regard to regulations for the municipal waste management service, the measures finalised by ARERA in 2023 and having the greatest impact for the Group concern the publication of the standard outline of the service contract for the regulation of relations between the bodies responsible for tenders and operators in the municipal waste service (Resolution 385/2023/R/rif). Compared to the current form of the service contracts in force (which must be updated no later than 30 days after the adoption of the 2024-2025 tariff updates), higher certainty has been established in relations between the parties, particularly with regard to regulatory or contextual changes that will come into effect during the course of the concession.

With consultation document 514/2023/R/rif, the Authority also set out its guidelines for defining a model outline for tender publications for awarding the integrated municipal waste management service. The model aims to ensure greater uniformity in the acts governing public procedures for assigning this service. The organisational structure of this sector is indeed characterised by a strong lack of uniformity nationwide, starting from the large number and disparate nature of the subjects that manage it. The guidelines contained in the consultation text focus, in particular, on the elements of calls for tenders that are able to reflect the technical, economic and industrial peculiarities of the integrated waste management service, and the criteria for determining the basic amount of the tender, for admitting participants and formulating and evaluating the technical and economic offers.

Furthermore, in 2023 ARERA introduced important monitoring and transparency obligations for the efficiency of sorted waste collection and municipal waste treatment plants, set forth in resolution 387/2023/R/ref. These monitoring obligations, whose results must be communicated periodically to ARERA, are based on indicators broken down into the categories of efficiency and quality of sorted waste collection, efficiency of residue management, continuity of the treatment service and commercial quality of the entire chain.

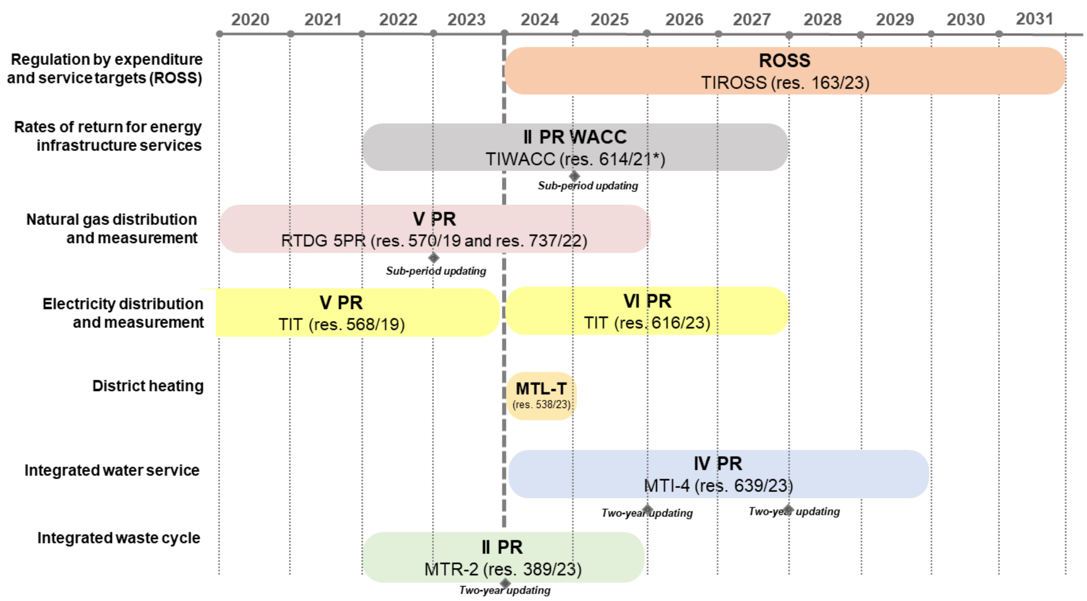
Updated tariff method for waste 2024-25 (MTR-2)

Concerning tariffs, resolution 389/2023/R/rif defines the rules and procedures for the two-year update (2024-2025) of the reference tariff revenues and access tariffs for “minimum facilities”, introducing a series of adjustments to the MTR-2 tariff method. One of the most significant is the re-establishment of ARERA's tariff powers in light of the ruling of the Italian Administrative Court of Justice (sentence 7196/23), which states that the tariff method seems likely to cause distortions in competition for the pre-treatment segment between integrated operators and “stand-alone” plants. ARERA, in order to comply with this ruling, adjusted the tariff method by requiring, among other things, a deduction of costs and revenues involved in the pre-treatment of plastic packaging for the years 2024-2025, and the recovery of costs and revenues for the years 2022-2023. This resolution also revised the inflationary indices for updating the items covering operating costs, setting them at 4.5% for 2023 and 8.8% for 2024. In order to effectively apply these inflationary statistics, ARERA extended the limit on growth and requested the local authority in question to determine the value, up to a maximum of 7%, of the coefficient covering the higher charges for 2022 and 2023, without prejudice to a maximum value of the limit on growth set at 9.6%. Finally, ARERA recognised the possibility of redefining the amounts that exceed the growth limit for the years following the 2022-2025 regulatory period.

Disputes over the definition of “minimum” treatment facilities

During 2023, the State Council issued a number of important rulings. One new sentence (10734/2023) confirmed the principles set out in a previous ruling (00486/2023), repealing Emilia-Romagna's regional resolutions and all subsequent acts attesting to the qualification of WTEs and landfills as minimum facilities. This sentence follows another one that had declared illegitimate the measures by which the Region provided for authoritative allocations of flows of the organic fraction of municipal solid waste (FORSU) in favour of minimum facilities, due to the presence of a competitive market that does not justify the identification of facilities intended for the end of the municipal waste cycle in this region. It also follows, in its principles, the more recent sentence 00486/2023, which confirmed a ruling by the Lombardy Regional Administrative Court (TAR) concerning the annulment of the resolution that had defined the waste tariff method (MTR-2) for the second regulatory period, 2022-2025, with regard to the part in which it regulates the criteria for defining minimum treatment facilities. The State Council confirmed what the TAR had ruled, arguing that ARERA and the Regions are not qualified to identify facilities as minimum. According to the division of jurisdictions provided for by the Constitution, the national government has jurisdiction over matters of environmental protection and ensuring competition. Therefore, the Regions and ARERA will have to act within the framework of rules to be defined by the national government. Sentence 10734/2023 unequivocally affirms that the previous sentence 00486/2023 (which resulted from an initiative of an operator of the Region of Puglia) must be extended to the decisions made by the Region of Emilia-Romagna, and clarifies that the application of the annulment extends to all acts subsequent to the regional act qualifying WTEs and landfills as minimum facilities.

A timeline showing the main regulatory periods and related measures introduced by ARERA, pertaining to the Group's sectors of activity, is provided below.



- *Resolution 614/21 set out the methodology for determining the rates of return on energy capital and established the WACCs for 2022 only; these rates were confirmed for 2023 as well by Resolution 654/22, while Resolution 556/23 updated the WACCs for 2024*

Lastly, the table below indicates the main tariff references for each regulated sector, based on the regulatory framework in force in 2023 and expected to remain until the end of the current regulatory periods.

	Natural gas distribution and measurement	Electricity distribution and measurement	Integrated water service	Integrated waste cycle
Regulatory period	2023-2025 Second sub-period of the fifth regulatory period (resolution 737/22)	2020-2023 Second sub-period of the fifth regulatory period (resolution 568/19) 2024-2029 Second sub-period of the sixth regulatory period (resolution 616/23)(1)	2022-2023 Second sub-period of MTI-3 (resolution 639/21) 2024-2029 Second sub-period of MTI-4 (resolution 639/23)	2022-2023 Second sub-period of MTR-2 (resolution 363/21) (2) 2024-2025 Second sub-period of MTR-2 (resolution 389/23)
Regulatory governance	Single level (ARERA)	Single level (ARERA)	Dual level (governmental authority, ARERA)	Dual level (regional authority, ARERA)
Recognised invested capital for regulatory purposes (RAB)	Previous cost revised (distribution) Weighted average between actual cost and standard cost (measurement) Parametric recognition (centralised capital)	Until 2023: Parametric recognition assets up to 2007 Previous cost revised for assets as of 2008 (distribution) As of 2022 Recognition based on a comparison between planned costs presented to ARERA (RARI motion) and actual expenditure (measurement) As of 2024: Introduction of the ROSS which, for the capital cost of distribution, confirms the revised previous cost method	Previous cost revised	Previous cost revised
Regulatory lag investment recognition	1 year	1 year	2 years	2 years
Return on investment (3) (real, pre-tax)	2022-2023 5.6% 2024 6.5%	2022-2023 5.2% 2024 6.0%	2022-2023 4.8% +1% for investments as of 2012, covering the regulatory lag 2024-2025 6.1% +1% for investments as of 2012, covering the regulatory lag	2022-2023 (4) 5.6% Collection (adjusted when tariffs are set for 2024-2025, until then 6.3%) 6.0% Treatment +1% for investments as of 2018, covering the regulatory lag 2024-2025 (4) 6.3% Collection 6.6% Treatment +1% for investments as of 2018, covering the regulatory lag
Recognised operating costs	Average actual costs by company grouping (size/density), based on 2011 (for revenues until 2019) and 2018 (for revenues as of 2020) (5) Sharing for efficiencies achieved against recognised costs Update with price-cap	Until 2023: Average actual segment cost values on a 2014 basis (for revenues until 2019) and (2018 for revenues from 2020) Sharing for efficiencies achieved against recognised costs Update with price-cap From 2024 Actual cost for operator + efficiency incentive for operating costs calculated based on a regulatory menu that calls for sharing, with customers, the delta between the average actual cost for the operator based on 2022 (for revenues until 2027), called baseline, and the actual cost paid by the operator during the year	Efficient costs: operator's actual 2011 values inflated Updatable costs: actual values with 2-year lag Additional charges for specific purposes (provisional nature)	Collection and treatment Actual operator costs with 2-year regulatory lag Additional costs for quality improvement and changes in the operator's scope (provisional) Additional charges for specific purposes (provisional nature)
Annual efficiency operating costs	Annual X-factor As of 2020: Distribution:	Until 2023: Annual X-factor Distribution: 1.3%	Efficiency mechanisms based on: sharing 2016 operator efficiencies	

	3.53% large companies 4.79% medium-sized companies Measurement: 0% Marketing: 1.57%	Measurement: 0.7% As of 2024: Distribution + Measurement: 0.5% if the high-potential menu is chosen 0% for the low-potential menu	Differentiated sharing level with respect to the distance between actual cost and efficient cost of the operator	
Incentive mechanisms		From 2024 Z-factor: recognition of extra costs linked to the energy transition Public contribution: recognition of 10% of the amount in three quotas	Sharing of electricity costs based on energy savings achieved Recognition of 75% of margins from activities aimed at environmental and energy sustainability	Collection Sharing on revenues from the sale of material and energy (range 0.3-0.6) and from Conai fees Treatment Sharing not explicitly recognised by the method, although it can be traced back to the general principles supporting the development of the circular economy
Annual limit on tariff increases			On an asymmetrical basis and depending on: - investment needs - cost-effectiveness of management - changes in scope of operations Mechanism to guarantee operating and financial balance	Collection On an asymmetrical basis and depending on the presence of: - changes in scope of operations - improved service quality Treatment Limit to growth less tight since the efficiency factor is not provided for, it depending on: - inflationary growth - environmental impact of plants Collection and treatment Mechanism to guarantee operating and financial balance

(1) Resolution 616/23 defines the tariff regulation of electricity distribution and metering services for the period 2024-2027 by implementing, for the determination of the recognized cost, the application criteria of the new ROSS regulation (Regulation for spending and service objectives), governed by resolution 497/23/R/com

(2) Resolution 363/2021/R/rif updated the previous regulatory period and introduced tariff regulation for treatment where these are "minimum" facilities, i.e. essential for ending the municipal waste cycle.

(3) For the energy and waste sectors, reference is made to the WACC methodology, while for the integrated water service the values refer to the coverage rate of financial and fiscal charges.

(4) For 2022-2025, the reference deliberation for WACC in the waste sector is resolution 68/2022/R/ref. For 2024-2025, the reference deliberation for WACC is resolution 7/2024/R/rif.

(5) In February 2020, Inrete Distribuzione Energia Spa, the Group's main distributor, along with other operators in the sector, challenged the deliberation before the Lombardy-Milan Regional Administrative Court (TAR) with regard to the significant reduction in the recognition of operating costs introduced by resolution 570/2019.

Climate and the environment

Climate change

Regulatory and economic interventions aimed at dealing with climate change, and the concrete opportunities that derive from addressing the risks associated with it, have become priorities for international and national institutions, as well as those operating in all economic sectors. The Group's main concerns in pursuing environmental sustainability coincide with the 17 goals on the 2030 Agenda for Sustainable Development (SDGs), as well as the indications contained in the Paris Agreement to limit global warming to below 2ºC, and the long-term climate strategy "A Clean Planet For All" (adopted by the European Union), intended to achieve carbon neutrality by 2050 and to limit the increase in temperature to below 1.5ºC. Further important elements moving in this direction include the change called for by the Green Deal, the European Commission's plan for a Europe that is more competitive in the fight against climate change and increasingly capable of transforming the economy and society by setting them on a path of sustainable development and, in the wake of this, the circular economy action

plan (CEAP). The actions taken by European and national institutions are coordinated and converge towards the goals of a fair, sustainable and inclusive transition.
Adopting the Green Deal and related initiatives, aimed at tackling climate change and environmental problems in order to achieve carbon neutrality and transition to a regenerative and circular growth model, moves towards an industrial strategy that implements the circular economy in all sectors.

Circular economy action plan

The Circular Economy Action Plan, presented by the Commission in 2020, has made it possible to outline a strategic framework for circular economic development in the European Union and, in so doing, is geared towards accelerating the transition and making the change foreseen by the Green Deal possible.The framework of initiatives incentivising reuse and recyclability of products, a reduction of overpackaging and rules for bioplastics has been rounded off by proposals for new obligations for the prevention, reduction and collection of textile and food waste. Furthermore, the promotion of the circular economy is also encouraged by new water management policies, in terms of both reuse of purified wastewater for irrigation in agriculture and minimum requirements for the use of reclaimed water.

Opportunities

National policies are developing in a European context where priorities are defined and available resources allocated accordingly. In this sense, the National recovery and resilience plan (NRRP), which makes use of the European funds made available by the NextGenerationEU package supplemented by a complementary national fund, guides Italy in the implementation phase of the European Green Deal and, since there is an overall consensus concerning the need to introduce progressively more challenging climate targets, reinforced instruments have been made available to member states with the aim of:

- accelerating the process of ecological and digital transition;
- accelerating the transition to a regenerative and circular growth model;
- providing a tool to help investors in the transition to a low-carbon economy.

In order to face the energy crisis that began last year, in May 2022 the European Commission introduced a series of measures that can be initiated in the short term (REPowerEU), including a common gas purchasing platform, the promotion of market instruments aimed at making the cost of electricity more independent from short-term market dynamics, a diversification of supply, and a reduction of gas demand through energy efficiency and electrification of consumption. These were complemented in 2023 by proposals for regulations aimed at ensuring a secure and sustainable supply of critical raw materials and reducing the EU's dependence on imports, strengthening European supply chains including recycling, and enhancing Europe's industrial capacity in the production of net-zero technologies.
The drive to decarbonise the European economy has instead been addressed through long-term initiatives, in particular the Fit for 55 package, which foresees a series of measures (some of which have already reached the end of the approval process with a positive outcome) aimed at reducing climate-changing emissions by 55% by 2030, focusing on an increase in renewable energies in the production mix. In terms of energy efficiency, the current 2030 targets, revised upwards to meet the ambitious emission reduction target, will be pursued by giving a leading role to public buildings in the process of making Europe's real estate stock more efficient. In terms of renewable energies, whose increased production is decisive in replacing fossil fuels and reducing carbon intensity, the electrification of consumption will require considerable investments along the entire supply chain. As far as local energy planning is concerned, the recovery of waste heat from industrial processes is expected to offer significant potential for local areas. The development of renewable gases, including hydrogen, by constructing electrolysers powered by renewable energy sources, will also be a priority.

In early 2018, the European Commission published the Sustainable Finance Action Plan, which aimed to reach three objectives: redirecting capital flows towards sustainable investments in order to achieve sustainable and inclusive growth; managing financial risks arising from climate change, resource depletion, environmental degradation and social issues; and promoting transparency and a long-term vision in economic and financial activities.
The first concrete action took the form of the EU's own definition of a Taxonomy for sustainable investments, aimed at directing investors' funds towards sustainable initiatives. In order to be aligned with this Taxonomy, economic activities must comply with three principles identified by the Regulation:

- contribute positively to at least one of the six environmental objectives set out, including mitigation of climate change, adaptation to climate change, sustainable use and protection of water and marine resources, transition to a circular economy, prevention and reduction of pollution, and protection of biodiversity and ecosystem health;
- not produce negative impacts on the environment;

- respect minimum social guarantees.

Moreover, as of 1 January 2022, companies subject to the directive on non-financial reporting must indicate the amount of their activities that are eligible for the European Taxonomy.

As regards the Italian context, the six strategic missions of the NRRP that are built around the six pillars of intervention set out in the European Regulation for Recovery and Resilience and are accompanied by specific sectoral reforms have been flanked by a new chapter dedicated to the goals of REPowerEU, whose resources will be used to provide support to the production system in bringing about the ecological transition. As regards Mission 2, Green revolution and ecological transition, the largest in terms of allocating resources that concern the Hera Group, the project implementation phase is beginning.
For the water cycle and waste sector, the NRRP aims to modernise networks and plants and reduce the infrastructure gap between the north and south of the country, assigning a central role to the national Plan for the water sector (as regards providing public funding), and to the national Programme for waste management.
In the energy sector, the NRRP focuses on developing renewable energy sources, modernising electricity grids (to increase their digitalisation and resilience against climatic events) and energy-saving solutions. Other key actions include the integrated development of the hydrogen supply chain, promoting production- and consumption-side projects at the same time and the principle of energy efficiency as the first zero-emission fuel.

Strategy for decarbonisation

All countries that signed the Paris agreement made a commitment to a strategy for reducing climate-changing emissions reaching 2050. The strategy will move towards improving knowledge of climate impacts, intensifying climate risk planning and assessment, accelerating adaptation actions and developing resilience to climate change globally. People are becoming increasingly sensitive to environmental and social inclusion issues and are thus driving the increase in demand for green & digital interventions, consistently with EU recommendations on economic recovery and resilience. In order to get various stakeholders and civil society involved in the adoption of sustainable behaviour, the European Commission has created the European Climate Pact. This initiative offers individuals and organisations opportunities to learn about climate change and find solutions, also providing space for individuals to interact and promoting a European climate movement. Organisations can identify their own ambassadors with a focus on gender equality and, in order to support the beginning of concrete actions, the Pact's platform makes it possible to share experiences, funding opportunities and know-how.

Opportunities In the utility sector

The inevitability of climate change, which has led the European Commission to anticipate its emission reduction targets to 2030, with the hope of achieving full decarbonisation by 2050, is also forcing local authorities to revise their priorities and courses of action. Moreover, the pandemic made it urgent to implement actions to make cities and local programmes more resilient and has increasingly oriented regional policies towards circular economy initiatives, sustainable mobility, carbon neutrality and digitisation. This scenario is increasingly ambitious and offers new opportunities to the utility sector. All types of customers (household, industrial and public administrations) will be called upon to introduce technological improvements that can reduce their energy needs.
Promoting and selling products and services for energy efficiency and supporting the energy efficiency of buildings are some of the initiatives being promoted.
Stakeholders, both financial and non-financial, given that they are increasingly interested in sustainability issues, are therefore also moving towards green financing, which can raise liquidity on the capital market at rates that are potentially lower than the alternatives.
Following a rationale based on value sharing between companies and communities, oriented towards finding solutions benefitting both, ensuring the engagement of the community and individuals is becoming increasingly important. The main megatrends are those built on the UN 2030 Agenda, theoretical references and successful experiences of shared value approaches and new business opportunities.
The new lines of development will continue to include the full exploitation of data (seen as a real corporate asset) and a greater focus on cybersecurity, to protect the company and its data. The speed of change makes it essential to define training plans that enable the corporate population to better manage change (first and foremost digital change). This includes training that may be fragmentary but is still able to provide the necessary continuity (self-development).

Technology and human capital

Technological evolution

Digital technological evolution involves a continuous acceleration of some major ICT trends and, in addition to moving beyond the paradigms found in economic and social contexts with increasing speed, it alters entire market segments and social relationship patterns. The rise of artificial intelligence (including the generative branch), robotic process automation, data collection and management (internet of things, data governance and data analytics), as well as cloud-based platforms all favour an increase in the amount of data produced and the speed of its availability, generating further opportunities for companies. Utilities are actors capable of promoting a wider use of innovation thanks to their contribution to digitisation and technological development, giving attention to IT security as well. The internet of things and digital interaction between people (exemplified by the automation of more standardised customer relations through chatbots) favour a continuous and growing flow of data, which allows not only rapid analyses of different situations (real time analytics), but also a more precise definition of the decisions and actions to be taken, often with the support of artificial intelligence, which is becoming more qualitatively efficient every day. In this direction, the EU Commission, adopting the communication "Digital compass for 2030: the European model for the digital decade" has confirmed the path for an ethical digital development in Europe, with clear targets to 2030 benefitting citizens and businesses.

Furthermore, note the increasing regulatory focus on artificial intelligence, as exemplified by the European Union's AI Act, which aims to immediately adopt regulations for AI providers and users, in order to exploit the great potential of this technology through solutions with risk profiles thoroughly foreseen by the regulatory framework.
The benefits of digitally-aware development have been defined in Italy by the "Strategy for Technological Innovation and Digitisation", one of whose main challenges is to accelerate the transition to a digital society, prepared to achieve the above-mentioned European targets. This strategy intends to innovate while safeguarding economic, environmental and social sustainability and guaranteeing equal opportunities for participation. Embracing this strategy, in 2023 more than 50% of employees in large Italian companies adopted forms of remote working, working from home at least one day a week. Italy also ranks third in terms of readiness for 5G. Investments in telecommunications, networks, software, automation and other technological infrastructures, which are essential for reaching European targets, must be accompanied by the spread of a culture and training that will enable new technologies, which in turn are oriented towards a sustainable and circular economy, as well as hinging on digitisation and artificial intelligence. The NRRP intends to direct 22% of the available funds towards a major digital acceleration in the country, as a lever to give a decisive boost to the country's competitiveness. Thanks to their relationship with public administrations and SMEs, utilities play an important role in supporting the digital transformation, in particular through digital services for optimising the yield of production processes, but also through sensors installed for data collection and analysis, without forgetting connected machinery for automatic task performance and predictive maintenance. Examples of this can be found in various applications in the respective businesses, such as data-driven energy management solutions, thanks to connected and smart-sensor-equipped systems and devices inside public buildings, or sensors and smart devices distributed throughout the local area, coordinated and integrated by digital platforms that process the generated big data for resource planning and service optimisation.

The widespread presence of digital technology affects all aspects of business operations, extending the changes to the point of translating into additional and new value-added services. The increase in infrastructural requirements, which continues to drive the demand for investment in connectivity and remote collaboration tools, for utilities focuses on the need for connectivity and security applied to remote working and also multi-channel interaction with the customer, without forgetting the management and sensitisation of infrastructures across the area served. The digitisation process is also fuelled by incremental investments in artificial intelligence and hyper-automation, internet of things and internet of behaviours (IoB), distributed cloud and 5G. Operation technology (OT) or remote management, which had developed over the past few years as a niche area limited to plant effectiveness and with little attention to cybersecurity aspects, requires companies to increase investments in order to reduce system fragility. In this context, it is essential to continue to deploy all available technological skills and resources to increase the level of protection and attention to cybersecurity risks, in order to counter threats and minimise possible consequences. Customers in all sectors, who are increasingly inclined to interact through digital channels, expect real-time responses and uninterrupted service availability, and therefore the advantage goes to the most proactive suppliers in terms of attention to behaviour and optimisation of consumption, but also, increasingly, additional services such as smart houses and e-mobility.

Cloud platforms have made high-performance connectivity available and enabled significant infrastructural economies of scale for an exponential development of technology, optimising the use of time. The availability of processing power also drives the spread of artificial intelligence and robotic process automation applications with integrated artificial intelligence (IRPA), which are useful for making the most appropriate decisions on the actions to be taken. The identification and formalisation of operational processes that combine human and automated activities, balancing them according to the value added to the process, is therefore one of the issues to which all organisations will have to pay particular attention, not only in terms of organisational design, but also from the point of view of training and operational monitoring.

Community and human resources

Valorising the human component is also fundamental for achieving balance between technology and people, focusing the organisation of resources on value-added activities, according to a model of intelligent integration, which is not limited to mere cost-efficiency and a rationale of pure replacement, but fits into the broader horizon of the just transition desired by the European Union. The reference context presents new challenges and the current trends are strongly interconnected, requiring an integrated approach to human resource management strategy, that takes into account both macro-transitions and the major emerging changes.

This context, also referred to as a "poly-crisis", focuses on environmental issues as well as the search for sense, community and inclusion. A structural ageing of the workforce is under way, with rises in unemployment and the NEET (not in education, employment or training) population, as well as an increasing focus on the gender gap and the protection of mental health and individual well-being. This constantly changing socio-cultural ecosystem requires an optimal management of generations (age management), diversity and multiculturalism, in pursuit of greater perceived equity.

These transitions (ecological, energetic and environmental) are having an increasing impact in terms of investments and opportunities, with a consequent increase in effort and skills required in Stem (Science, Technology, Engineering and Mathematics) disciplines. The role of companies in implementing the necessary change management and reskilling programs remains a priority, especially in view of the disruptive impact expected from generative artificial intelligence, from which great benefits and/or some risks are expected, especially in administrative and creative areas.

Purpose provides both a path that guides companies in facing challenging goals and a bond that unites the organisation and orients it towards a project that goes beyond customer satisfaction and shareholder remuneration. Today, more than ever, it is crucial to seek the greatest alignment between an organisation's purpose and an individual's purpose. To be competitive, purpose must be given meaning and must be acted on, in order to set people's engagement in motion and transform it into virtuous behaviour.

To remain competitive, companies must be able to respond quickly to changes in the market environment, anticipating emerging trends and adapting organisational models with a focus on the human capital of the entire ecosystem in question. This change concerns all dimensions of talent attraction and engagement, and involves adopting new and practices that enable business agility. Regulatory and procedural agility also plays a highly significant role in this area, understood as the ability to adopt flexible and rapid solutions with tools that are designed for prescriptive purposes.