1.01 - TRENDS AND CONTEXTS, STRATEGIC APPROACH AND GROUP MANAGEMENT POLICIES

1.01.01 - Trends and contexts

The Hera Group (hereinafter also Hera or the Group) 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.

MACRO-ECONOMIC TRENDS

The January 2025 scenario published by the International Monetary Fund (IMF) in its World Economic Outlook (WEO) report shows a +3.2% increase in global Gross domestic product (GDP) for 2024 (slightly down from +3.3% in 2023). World growth therefore appears stable albeit weak, affected by various elements of risk and uncertainty, such as the escalation of geopolitical tensions, weaker trade, debt crises and the growth of great powers such as China being lower than expected, in particular due to fragility in the real estate sector and a slowdown in industrial production.

After peaking at 9.4% in the third quarter of 2022, global inflation gradually dropped due to the restrictive monetary policies adopted by the major central banks, reaching 5.8% at the end of 2024. Although the downward trend of inflation may favour further interest rate cuts, the IMF emphasises that central banks will have to remain alert and prepared to adjust their monetary policies according to evolving global economic conditions, which could change very quickly and reverse current trends.

The euro area, penalised by lacklustre consumption and investment in addition to declining exports, showed the most modest growth among advanced economies, with GDP increasing by +0.8% in 2024 (which is still an improvement on the +0.4% seen in 2023). Starting in the second half of 2024, inflation in the euro area, in line with the global trend, fell steadily until it settling close to the reference target defined by the European Central Bank (ECB) of 2% in October (down from 3% in the same month of 2023).

According to IMF estimates, growth in the world economy will remain modest over the next two years due to risks related to heightened international tensions that could increase market volatility and make the economic context less stable, including the tightened US trade policy recently announced by the new administration. World GDP is expected to increase by +3.3% in both 2025 and 2026, in line with the growth recorded in the last two years but still below the historical average (+3.7%) seen in the decade preceding the pandemic. In the euro area, instead, growth is expected to remain more subdued, with GDP expanding by +1.1% in 2025 and +1.4% in 2026, affected by a slow recovery in exports and household spending.

Over the next two years, it is expected that global inflation will continue to fall, reaching 4.2% in 2025 and 3.5% in 2026, while European inflation will stabilise around the 2% target, with markets anticipating further interest rate cuts by the ECB.

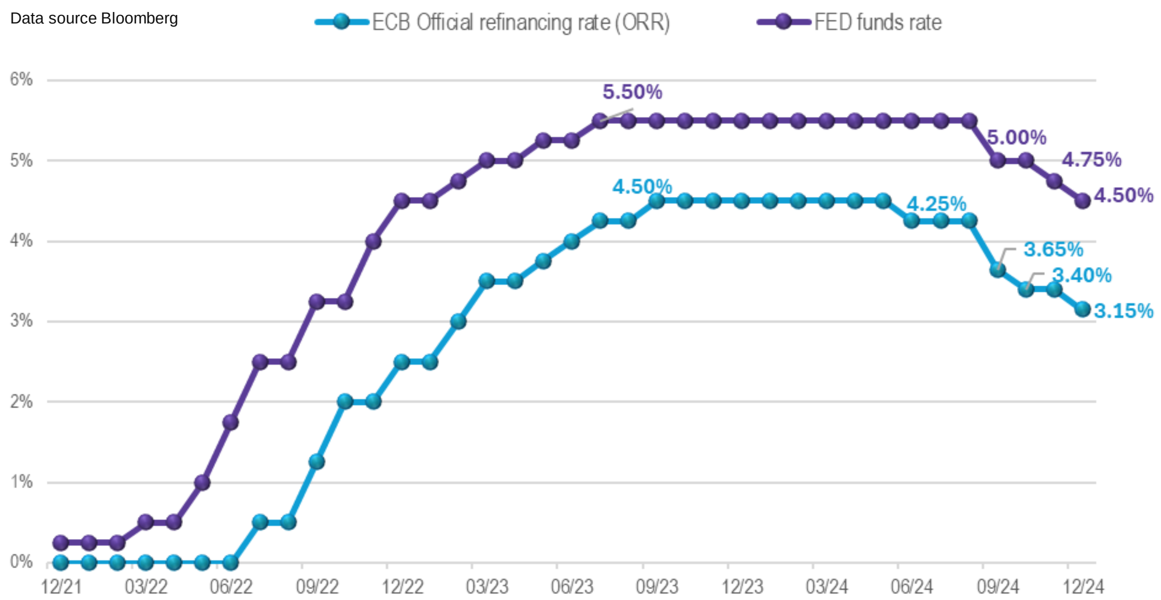
At the national level, the most recent Bank of Italy projections estimate a +0.5% increase in economic activity in 2024, affected like the rest of the euro area by persistent weakness in manufacturing and a slowdown in the tertiary sector. Over the next two years, forecasts indicate a modest increase in Italian GDP, estimating +0.8% in 2025 and +1.1% in 2026. These limited growth prospects are mainly due to the slowdown in investments caused by the downsizing of incentives for residential construction and to the slow recovery of both foreign and domestic demand (caused by a reduction in household and business confidence).

According to the preliminary estimates released by the Bank of Italy, average inflation in Italy in 2024 will be slightly above 1%, mainly due to lower energy and intermediate goods prices. For 2025-2026, forecasts indicate an increase in inflation to 1.5 %, mainly due to rises in wages, which could put upward pressure on consumer prices.

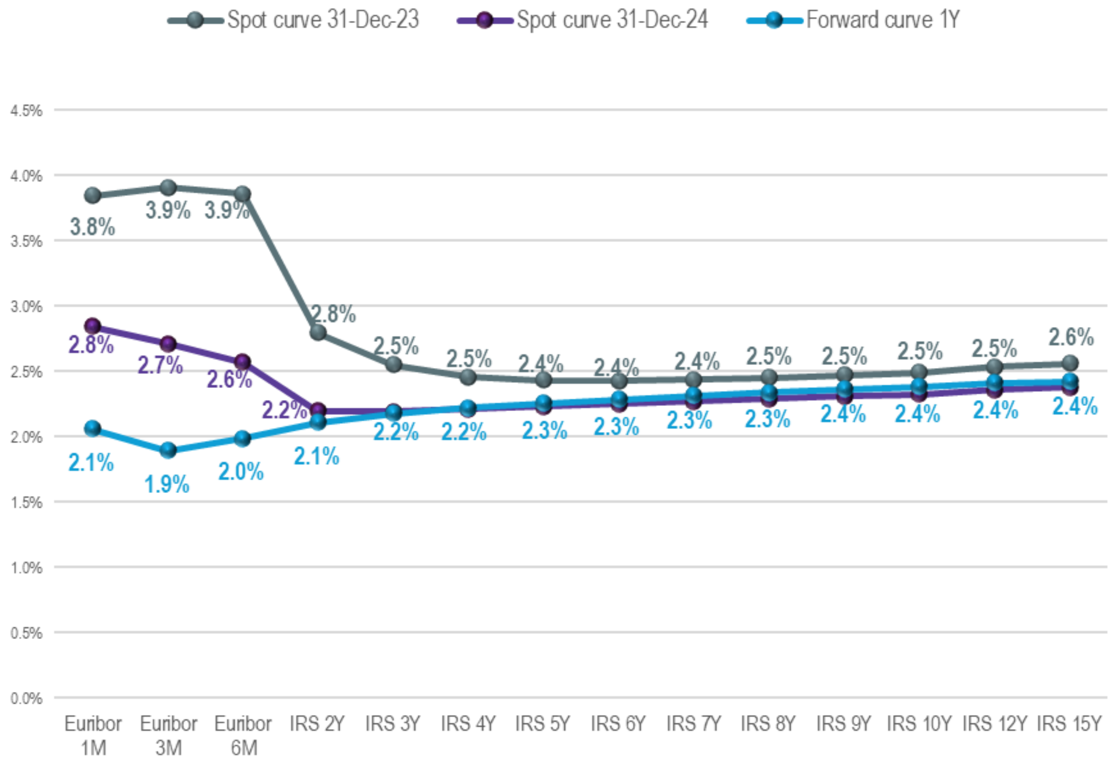
FINANCIAL TRENDS

Global financial markets showed a complex balance at the end of 2024, following significant events that led to major swings in the main indices and assets. Despite moments of turbulence and geopolitical tensions, it was a particularly positive year in the technology sector, supported by the growing demand for artificial intelligence solutions, and innovations in blockchain for cryptocurrencies. Stock exchanges continued the strong upward trend that had already begun in 2023, albeit with significant geographical differences: while the US stock exchange achieved a +25% increase, the euro area settled at +10% (with the Italian stock exchange at +18%) and the emerging markets, in aggregate, stood at just under +14%. Government bond indices also recorded positive results, albeit with fluctuating trends, benefiting from narrower spreads and a favourable context of economic growth. On the foreign exchange market, there was a significant weakening of the euro against the dollar (-6.7%) and against sterling (-4.8%), and a significant appreciation against the yen (+4.5%) and the Swiss franc (+ 1%). Inflation, mentioned above, influenced the price of gold, which performed very well as a result of increased demand from central banks, to diversify their reserves.

The monetary policy decisions made by the Federal Reserve (Fed) and the European Central Bank (ECB), which, albeit with different prospective assessments, had a significant influence on financial market trends. Indeed, while the ECB considered it feasible to reach the 2% inflation target, the Fed was much more cautious about future rate cuts, given the resilience shown by the US economy to the high cost of money. After about a year of rate hikes, aimed at countering rising inflation, and a standstill in the first part of the year, central banks gradually changed direction, ushering in a period of rate cuts in the second half of 2024 for the transmission of their monetary policy, while maintaining a cautious and data-dependent approach. The ECB, for the first time in its history, anticipated the Fed, and on 12 June started to cut the cost of money by 25 basis points, then cut rates three more times over the following months, meaning that by the end of the year the level of the official refinancing rate was brought down from its peak of 4.5% to 3.15% and the deposit rate from 4% to 2.75%. The Fed, on the other hand, started to cut rates by 50 basis points in September, followed by two more cuts in November and December, bringing the reference rate to 4.5%.



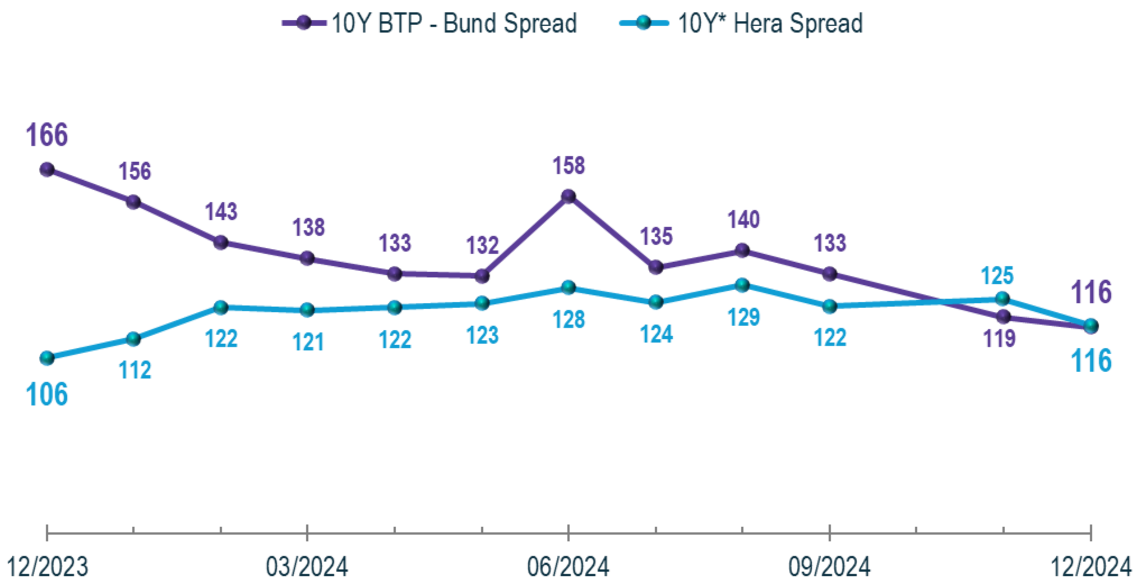
The rate cut introduced by the ECB had an immediate effect on short-term Euribor rates, which, at the end of the year, closed down by approximately 120 basis points on average compared to the end of the previous year. In the area of medium-long term euro-swap rates (IRS), 2024 was characterised by high volatility, due to the uncertainties fuelled both by geopolitical tensions and a context in which the monetary policy orientation of the central banks was unclear during the first part of the year, in addition to concerns about growth prospects, which were also put at risk by a possible return to more protectionist policies in some advanced economies. During the year, IRS rates fluctuated in a range going from a minimum of 2% to a value of over 3%, closing at the end of the year at an average level of 2.3%, down, albeit moderately, about 20 basis points on average compared to the end of December 2023. As regards future estimates on possible interest rates, the market consensus sees the return, in a year's time, of an interest rate curve that is no longer inverted, and therefore with short-term rates lower than medium/long-term rates. In particular, Euribor rates (1-6 months) are expected to settle at around 2% on average with Euro-swap rates (2-15 years) staying substantially flat, approximately 2.3% on average and thus in line with the average closing values of 2024.



Data source: Bloomberg

The ten-year spread between the Italian BTP and the German Bund narrowed year-on-year by 50 basis points (bps) to 116 bps, due to Italy's improved growth prospects, also considering the ECB's easing of monetary policy. At 31 December 2024, the yield on the ten-year Bund fell to 2.36%, while the yield on the Italian ten-year bond settled at 3.52%. On the secondary market, prices were affected by the volatility of yield rates over the medium to long term, which, albeit with a limited impact, led to an increase in Hera Bond spreads at times, only to return to levels essentially in line with market prices. In particular, the spread of the Hera Bond maturing in 2034 (10-year benchmark) recorded, at 31 December 2024, a level of 116 bps, up 10 bps compared to the December 2023 closing, but still in line with the levels expected by investors and with the sovereign spread, with respect to which the differential of 60 basis points recorded at the 2023 closing disappeared.

Data source: Bloomberg



*Spread Hera bond maturity 2024

The European gas market remains fragile, with high price volatility mainly due to insufficient growth in liquefied natural gas (LNG) supply and geopolitical tensions. Wholesale gas prices rose to around €50/MWh at the end of 2024, double the lows recorded in February 2024, and with confirmation of the end of Russian gas transiting through Ukraine as of 1 January 2025. Over the past year, our country recorded a 2.5% decrease in gas consumption, stabilising at 61.7 billion cubic metres, bringing it to the lowest level in the last 15 years as a result of milder temperatures and the restraining effect of prices. The drop in consumption appears to have mainly affected LNG supplies (-10.1%) and pipeline imports (-0.9%), particularly due to the lower contribution of gas from North Africa.

In 2024, the European electricity market saw a significant increase in production from renewable energy sources, which generated roughly 50% of electricity in the EU in the first six months of the year, thus contributing to greater stability in energy prices. Within Italy, the data processed by Terna showed a 2.2% increase in consumption for 2024 compared to 2023, with national consumption coming to 312.3 TWh. In line with European trends, a significant increase in national production of renewable energy emerged (+13.4% over the previous year), capable of covering 41.2% of total energy consumption (as against 37.1% in 2023), thanks to the positive contribution coming from all sources, particularly hydroelectric and photovoltaic.

As regards the waste management and water businesses, while the data referring to 2024 is not yet available, the most recent figures published by the main national institutes are provided below.

For the waste management sector, the latest calculations made by the Institute for environmental protection and research (ISPRA, 2024 Municipal Waste Report) report a national production of municipal waste in Italy in 2023 of 29.3 million tonnes, up 211 thousand tonnes compared to 2022 (+0.7%), with an average per capita amount of 496 kg of waste produced. This increase is partly linked to growth in national GDP (+0.7%) and the increase in household consumption, always a strong influence on waste production. The data for sorted waste collection improved to 66.6%, up 1.4 percentage points compared to 2022. The regional breakdown shows a still significant gap between the north (73.4%) and the south (58.9%), which is however progressively narrowing.

The Blue Book 2024, a comprehensive report containing national data on the integrated water sector published by the Utilitatis Foundation, shows that the management of this service in Italy is still highly fragmented, especially in the south. Despite the fact that 83% of the population (48 million inhabitants) is served by a single party, the remaining 17% resides in municipalities where management is divided among several operators or takes place "in economy", with the municipal administration directly managing at least one of the three services: the aqueduct, sewerage or purification. This report notes that overcoming fragmentation is crucial to increasing investment in the water sector and improving the management of this resource and the quality of the service.
In 2022, the water injected into distribution networks amounted to approximately 8 billion cubic metres (ISTAT data), stable compared to previous years. However, leaks in the networks continue to be a significant issue, with approximately 42.4% of the water injected (or 3.4 billion cubic metres) being wasted due to infrastructural inefficiency. These challenges are compounded by the effect of climate change, which is intensifying the frequency of extreme events such as droughts and floods. Increasingly hot summers and erratic rainfall are reducing the availability of water resources in several regions, with ensuing impacts on supplies for civil, agricultural and industrial use.

In the energy sector, an increasing degree of competition was seen, fuelled by the gradual elimination of safeguarded services. As of 1 January 2024, the safeguarded service for non-vulnerable gas customers was definitively phased out and all consumers in this category were transferred to the free market, while 1 July 2024 saw the end of the safeguarded service for non-vulnerable electricity customers. Customers who did not choose an offer in the free market were automatically transferred to the gradual protection service, managed by suppliers selected through competitive auctions. This move represents a further step towards the full liberalisation of the market, encouraging competition between suppliers and offering consumers the opportunity to access more advantageous solutions.
In 2023 the switch rate (change of supplier) for household customers increased in the electricity sector by 1 p.p. compared to the previous year, and by about 1.5 p.p. in the gas sector (ARERA, Regulatory authority for energy networks and the environment, annual report 2024). This increase confirms the inclination of Italian consumers to change supplier, searching for better conditions, both in terms of tariffs and services. In recent years, in fact, competition has no longer been limited to the commodity itself, but has also extended to value-added services (VAS). Operators in particular are increasingly orienting their offers towards sustainable, energy-saving and consumer-friendly solutions.

In the waste treatment and recovery sector, the orientation of the main operators towards market acquisitions of specialised companies equipped with plants and skills was confirmed. There was also a trend of growing attention paid by companies, including medium-sized operators, towards sustainability and improved environmental performance, also considering European targets for recycling and disposing of waste in landfills. Companies operating in this sector face challenges involving efficient material management, cost reduction and technological innovation. European and national legislation on waste and recycling is stimulating the creation of increasingly advanced plants, with the aim of optimising recovery processes and reducing environmental impacts: in particular, EU regulatory developments are promoting the proximity principle of waste management, placing new limits on waste exports.

Moreover, competition between companies also extends to the ability to offer integrated solutions, capable of optimising the entire life cycle of materials, from collection to final recovery.

REGULATED BUSINESSES

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

Turning to legislative factors, the most important interventions concerning the Group, issued in 2024, include:

- provisions to promote the country's energy security (Law no. 11/2024, converting Decree law Energy-bis) which, in addition to defining the procedures for assigning the electricity supply service to vulnerable customers, provided for, as of 1 January 2025, the application of zonal prices to all electricity customers, defined on the basis of trends in the wholesale electricity market, thus eliminating the prices indexed to the Single national price (PUN), albeit with temporary measures for a gradual introduction;
- urgent provisions on critical raw materials having strategic interest (Law no. 115/2024, converting Decree law Critical raw materials), which implements the provisions of Regulation (EU) 2024/1252 and establishes a framework to ensure a secure and sustainable supply of critical raw materials. To this end, actions are defined to strengthen the supply chains of critical raw materials and boost the development of strategic projects thanks, among other things, to simplified authorisation procedures;
- provisions for the implementation of obligations deriving from acts of the European Union and from infringement and pre-infringement proceedings pending against the Italian state (Law no. 166/2024, converting Decree law Save Infringement), which introduces measures to encourage the recovery of critical raw materials from waste from electrical and electronic equipment (WEEE), as well as measures on extended producer responsibility in the e-commerce sector;
- urgent provisions for the country's environmental protection (Law no. 191/2024 converting Decree law Environment), which provides for the inclusion of landscape and public green care and maintenance activities among circular economy practices, as well as the postponement of the terms of application of certain exemptions expected for the disposal of waste in landfills;
- annual Market and competition law 2023 (Law no. 193/2024, Annual competition law 2024), which contains provisions for vulnerable domestic customers to access the gradual protection service. It gives vulnerable household electricity customers the possibility to request, within 30 June 2025, access to the gradual protection service. ARERA is responsible for establishing the procedures for implementing this article, including those for certifying the presence of the requirements that define vulnerability;
- state budget for the year 2025 (Law no. 207/2024, entitled Budget law 2025) which, as regards electricity distribution, provides that within 180 days from the date of entry into force of the law, the terms and procedures for concessionaires of the service to present extraordinary multi-year investment plans for the purpose of reshaping the duration of existing concessions up to a maximum of twenty years, and, as regards waste, subjects waste disposal services to the ordinary VAT rate of 22% (instead of reduced to 10%) if they are carried out by landfilling or by incineration without efficient energy recovery; as regards the energy efficiency of buildings, the law reduces the rates of tax deductions and implements the EU obligation concerning the elimination of incentives for boilers powered by natural gas;
- Legislative decree 147/2024, which implements the reform of the Directive governing greenhouse gas emission allowance trading (Emission Trading System, ETS), which is extended to buildings, road transport and other industrial sectors as of 2027 (so-called ETS II);
- Legislative decree 190/2024 (so-called Renewable energy sources consolidation act), which defines the administrative procedures for the construction, operation, modification, upgrading and renovation of plants producing energy from renewable sources, as well as for related works and infrastructures;
- Ministerial decree MASE 268/2024, Energy release, which regulates a mechanism for creating new electricity generation capacity from renewable sources by energy-intensive end customers, through a procedure for the anticipation of electricity available to the GSE and its subsequent restitution;
- Ministerial decree MASE 236/2024, Eligible Areas, which identifies the regional distribution of renewable power related to the objectives of the Integrated national plan for energy and the climate (PNIEC) and establishes uniform principles and criteria for identifying the relevant eligible areas for installation.

As regards new regulations, the measures having the most significance for the Group, adopted in 2024 by the Regulatory authority for energy, networks and the environment (ARERA) are as follows:

- integration of tariff concessions in favour of residents affected by the 2023 flooding events (Resolution 10/2024/R/com) and introduction of amendments aimed at reducing the overall charges imposed on operators and managers;
- revision of the structure and content of the Bill 2.0 for energy end customers, in order to increase the transparency and readability of bills (Resolution 315/2024/R/com);
- introduction of rules for making end customer electricity and natural gas metering data available to authorised third parties and consequent updating of the private area of the Consumption portal (Resolution 509/2024/R/com);

- provisions for increasing the efficiency of the Code of business conduct for the benefit of electricity and natural gas end customers (Resolution 395/2024/R/com);
- approval of the procedures for assigning and providing the gradual protection service for small businesses for the period from 1 July 2024 to 31 March 2027 (Resolution 119/2024/R/eel);
- introduction of a mechanism for adjusting the operating costs of the corporately separate greater protection operators for the year 2024 (Resolution 538/2024/R/eel);
- regulation of competition procedures for the assignment of the safeguarded electricity service for the two-year period 2025-2026 (Resolution 388/2024/R/eel);
- update of the WACCs for energy infrastructure services valid for the next three-year period 2025-2027, which set WACC for gas distribution at 5.9% and WACC for electricity distribution at 5.6%, down from the rates applied in 2024 (Resolution 514/2024/R/com);
- approval of the documents to be used as guidelines in preparing the Electricity distribution development plan as of the 2025 edition (Resolution 521/2024/R/eel);
- completion of the incentive regulation related to the benefits of development interventions on electricity distribution networks for larger companies having the obligation to prepare Development plans (Resolution 472/2024/R/eel);
- introduction of the initial rules for the reform of the electricity settlement regulations as of 2026 and updating of the Integrated settlement text (TIS) for 2025, for implementing a fifteen-minute settlement pursuant to the provisions of Article 53 of Regulation (EU) 2017/2195 and the TIDE (Resolution 325/2024/R/eel);
- recalculation upwards of the rate of change of the gross fixed investment deflator for gas distribution tariffs for 2024 (set at 5.3%) in order to recognise, on an extraordinary basis, the effects of revisions to ISTAT data (Resolution 173/2024/R/gas);
- recalculation of the reference tariffs for the natural gas metering service for tariff years 2015 to 2023, in order to recognise the amount of residual depreciation for smart meters installed from 2012 to 2018 (manufactured up to 2016) and decommissioned before the end of their useful life (Resolution 376/2024/R/gas);
- recalculation of the operating costs recognised to gas distributors for the years 2020-2022 in order to take into account the correction of the calculation error found by the administrative judge in the appeals against Resolution no. 570/2019/R/gas (Resolution no. 134/2024/R/gas); the effects of the State Council's rulings on the disputes against Resolution no. 570 will extend beyond this measure, since the final Resolution, expected in early 2025, should revise the entire methodological framework following the annulments by the State Council;
- approval of the Integrated text with provisions on gas distribution tenders, which unifies the measures relating to VIR-RAB variance assessment procedures and the analyses of tender documentation, in order to simplify and speed up the procedures for both currently ongoing and future proceedings (Resolution 296/2024/R/gas);
- extension to 2025 of the transitional district heating tariff method already in force in 2024, accompanied by the introduction of an incentive component for systems with a low environmental impact (Resolution 597/2024/R/tlr);
- initiation of the procedure for quantitative evaluations of the incentive mechanisms (rewards and penalties) for the contractual and technical quality of the integrated water service for the two-year period 2022-2023 (Resolutions 37 and 39/2024/R/idr);
- definition of the factors underlying the calculation of the M0b indicator (Water resilience at the superordinate level) which, along with the previously defined M0a indicator (Water resilience at the water service management level), completes the path of determining the overall macro-indicator M0 Water resilience which is part of the incentive mechanism for the technical quality of this service (Resolution 595/2024/R/idr);
- revision of the theoretical purchase mix for the purposes of determining the maximum amount of electricity expenditure recognised by the water service tariff method: the theoretical mix for the purposes of the 2027 adjustment (to guide purchases for 2025) defines an incidence of 90% for variable prices and 10% for fixed prices (Resolution 570/2024/R/idr);
- abrogation of the national waste treatment tariff method defined by ARERA for the two-year period 2022-2023 (in which the systems prior to national regulation are applied, ex-post) and postponement of the starting date for the tariff method up to 2024 (Resolution 7/2024/R/rif);
- introduction, as of 1 January 2026, of a standard outline for calls for tenders for assigning the integrated municipal waste management service, which provides for the uniformization of certain elements nationwide, including the scope of the activities covered by the concession, the duration of the service, the value of the assignment, the conditions of participation and the assignment criteria (Resolution 596/2024/R/rif);
- extension to the municipal waste sector of the contact centre and complaints services provided by the Consumer energy and waste help desk, as well as the introduction of the possibility for users, in the event that a complaint to the operator is not sufficient to resolve the problem, to choose between sending a follow-up complaint to the help desk or activating the Conciliation service. The services are scheduled to be in force as of 1 April 2025 for the contact centre service and as of 1 October 2025 for the conciliation service (Resolution 574/2024/E/ref).

Focusing on the Group's most significant activities, more specific details are provided below concerning the new tariff method for the energy infrastructure sectors, the electricity grid development plans and the tariff method for the waste sector.

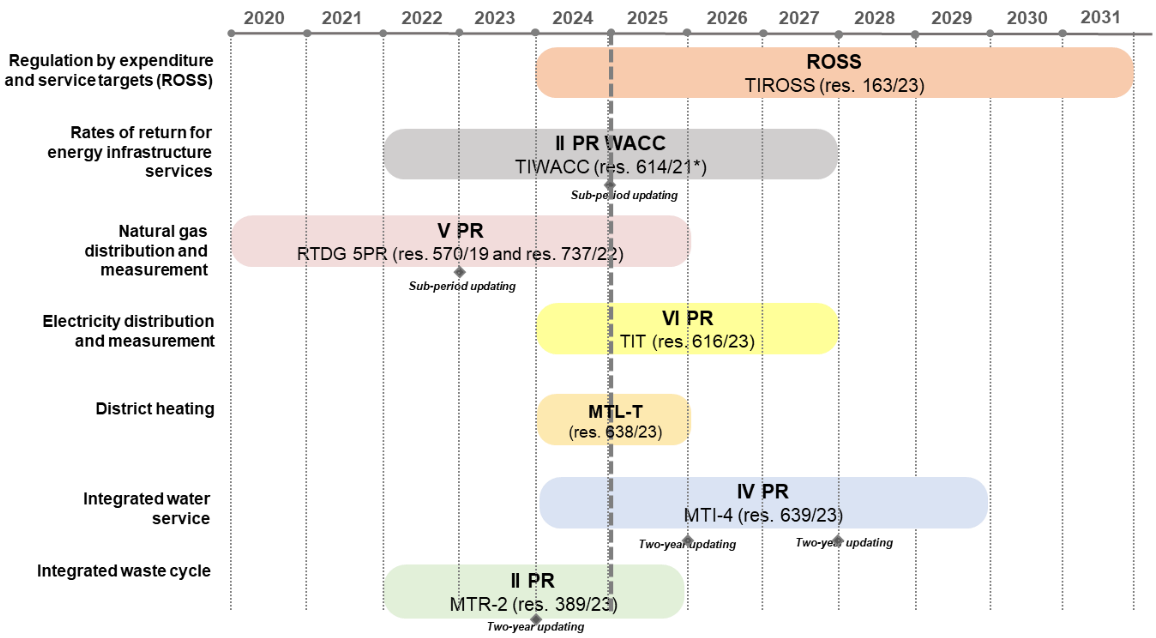
As regards the energy infrastructure sectors, note that ARERA, for the first time (albeit provisionally), approved reference tariffs involving a ROSS-base tariff methodology (Resolution 206/2024/R/eel). According to this new methodology, which comes into force as of 2024 (Resolutions 163/2023/R/com as amended and 497/2023/R/eel), recognised costs depend on the actual (total) expenditure of distributors, which is compared annually with a reference expenditure defined by the regulatory authority (the so-called baseline). The total costs covered by the new methodology includes all types of costs incurred by operators as of the year 2024, with the sole exclusion of capital costs relating to 2G smart metering systems, for which the Authority had already defined an ad hoc recognition. It may be helpful to point out that continuity in criteria is applied for the tariff treatment of the capital stock existing at the date of transition to the new methodology. The most important change concerns the quantification of the operating cost baseline, which is differentiated for each company on the basis of the level of its actual costs in the year 2022. Furthermore, it was established that the total efficiency recovery is fully allocated to operations, and therefore, the expenditure eligible for tariff recognition is the sum of the total actual expenditure and the efficiency incentives allocated to operations. Each distributor was also given the opportunity to choose the degree to which any efficiencies/inefficiencies achieved are shared with users (ARERA introduced two options in the incentive menu: low incentive potential and high incentive potential). The timeline for the recognition of tariffs for eligible expenditure was also regulated by introducing a "regulatory capitalisation rate" differentiated by company on the basis of the historical trend, that divides expenditure into two portions: "slow money", representing capital costs, and "fast money", representing operating costs. Lastly, note that ARERA, for monetary revaluations in the new ROSS methodology, will take into account the inflationary update actually aligned to the total capital and operating costs falling under the tariff year.

ARERA has introduced new provisions for companies with more than 100 thousand end customers, as preparation for Electricity grid development plans starting from 2025, with the aim of promoting a selective approach to development initiatives, following a rationale of prioritising those with greater added value for end customers.
In particular, resolution no. 521/2024 approved the guidelines for drafting Development plans, which specifically defined the main sections of each Plan, its contents and the accompanying documents, including information on the temporal and economic progress of each development initiative, with the aim of ensuring transparency towards end users.

With Resolution no. 472/2024, the Authority also completed the regulation of the (optional) incentive mechanism aimed at rewarding development initiatives capable of generating significant benefits for end users. These incentives will go, for example, towards strengthening the resilience of the grid, increasing the integration of renewable sources and, in general, ensuring greater security, reliability and sustainability for network users.

As regards tariff regulations for the waste sector, note that Resolution no. 7/2024/R/rif, in addition to repealing the treatment tariff method for the two-year period 2022-2023 (postponing its effective date to 2024), provided for the application of the systems used prior to the national regulation for the years 2022-2023, in order to comply with the rulings of the State Council concerning the annulment of the criteria for identifying minimum treatment plants. With this measure, ARERA essentially confirmed the institution of "minimum" cycle closure plants, even while making them come into effect as of the two-year period 2024-2025. Therefore, the methodological reference framework for access tariffs to plants that will be subject to tariff regulation remains unchanged, even while waiting for the subject to be reorganised by the state legislature, which has been recognised as having exclusive competence in the field of environmental protection and competition.

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; as of 2025, the second sub-period of WACC will begin, defined by Resolution 513/24*

Lastly, the table below indicates the main tariff references for each regulated sector, based on the regulatory framework in force in 2024 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)	2024-2027 Sixth regulatory period (resolution 616/23) (1)	2024-2029 Second sub-period of MTI-4 (resolution 639/23)	2024-2025 Second sub-period of MTR-2 (resolution 389/23) (2)
Regulatory governance	Single level (ARERA)	Single level (ARERA)	Dual level (governmental authority, ARERA)	Dual level (regional authority, ARERA)
Recognised investment capital for regulatory purposes (RAB)	Previous cost revised (distribution) Weighted average between actual cost and standard cost (measurement) Parametric recognition (centralised capital)	As of 2024: Introduction of the ROSS which, for the capital cost of distribution, confirms the revised previous cost method As of 2022 Recognition based on a comparison between planned costs presented to ARERA (RARI motion) and actual expenditure (measurement)	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)	2024 6.5% 2025 5.9%	2024 6.0% 2025 5.6%	2024-2025 6.1% +1% for investments as of 2012, 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 cost values 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 Upgrade with price-cap	As of 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)	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)
Annual efficiency operating costs	Annual X-factor As of 2020: Distribution: 3.39% large companies 4.62% medium-sized companies Measurement: 0% Marketing: 1.57%.	As of 2024: Distribution + Measurement: 0.5% if the high-potential menu is chosen 0% for the low-potential menu	Efficiency mechanism based on: sharing 2016 operator efficiencies Differentiated sharing level with respect to the distance between actual cost and efficient cost of the operator	

Incentive mechanisms		As of 2024 Z-factor: recognition of extra costs linked to the energy transition Public contribution: recognition of 10% of the value 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 for electricity distribution and metering services for 2024-2027, implementing, for the determination of the recognised cost, the application criteria of the new ROSS (Regulation by expenditure and service targets) regulation, defined by resolution 497/23/R/com.

(2) Resolution 389/23 follows up on 363/2021/R/rif, which updated the previous regulatory period and introduced tariff regulation for treatment in the case of "minimum" facilities, i.e. essential for closing 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 2022-2023, the reference deliberation for WACC in the waste sector is resolution 68/2022/R/rif; 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

Within this complex context of deep economic and technological transformation, climate change in its increasingly frequent manifestations also represents an unavoidable challenge for all organisations. Regulatory and economic measures for managing climate change and grasping the opportunities arising from dealing with the risks associated with it are priorities for international and national institutions, as well as economic operators in every sector. The Group's priorities in the pursuit of environmental sustainability are represented by the goals of the 2030 Agenda for Sustainable Development (SDGs), and also by the indications of the Paris Agreement to keep global warming below 2º C, as well as the long-term climate strategy "A clean planet for all" (adopted by the European Union) to achieve carbon neutrality by 2050 and to maintain the temperature increase below 1.5º C. Further significant indications moving in this direction include the changes 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 initiatives introduced by European and national institutions are coordinated and converge towards the goals of a fair, sustainable and inclusive transition.

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 measures contained in the NextGenerationEU package, supplemented by a complementary national fund, guides Italy in the implementation phase of the European Green Deal, 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.

The drive to decarbonise the European economy has been addressed through long-term initiatives, in particular the Fit for 55 package, which foresees a series of measures aimed at reducing climate-changing emissions by 55% by 2030, focusing on an increase in renewable energies in the production mix. Energy efficiency targets will be pursued by giving a leading role to public construction in the process of making Europe's real estate stock more efficient. In terms of renewable energies, whose increased production is decisive in gradually replacing fossil fuels and reducing carbon intensity, the electrification of consumption will require considerable investments along the entire supply chain and, 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.

As regards the Italian context, 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 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 interventions 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.

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, orienting regional policies towards circular economy initiatives, sustainable mobility, carbon neutrality and digitisation. This scenario offers new opportunities to the utility sector, since 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 incentivised.

The new lines of development are closely linked to 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), which includes training that may be fragmentary but is still able to provide the necessary continuity (self-development).

TECHNOLOGICAL EVOLUTION

Digital technological evolution involves a continuous acceleration of some major trends in Information and communication technology (ICT) 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), cybersecurity and, lastly, cloud-based platforms all favour an increase in the amount of data produced and the speed of its availability, generating new opportunities for companies. 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" has confirmed the path for an ethical digital development in Europe.

In this context, attentive monitoring goes to the evolving regulatory focus on artificial intelligence, as exemplified by the European Union's AI Act, with the aim of immediately adopting regulations for AI providers and users, in order to exploit the great potential of this technology through solutions having risk profiles amply falling within this 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 European targets. This strategy intends to innovate while safeguarding economic, environmental and social sustainability and guaranteeing equal opportunities for participation. The NRRP also intends to direct funds towards a major digital acceleration in the country, as a lever to give a decisive boost to the nation's competitiveness. Thanks to their relationship with public administrations and SMEs, utilities play an important role in supporting the digital transformation, mainly through the supply of digital services to optimise 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.

HUMAN RESOURCES

Analysing the current context leads to new challenges and interconnected trends that require an integrated approach to human resource strategy, capable of valuing people and adequately supporting business.
One initial element of this context involves the concept of purpose. The search for an alignment between the sense taken on by a company and an individual is the key to setting people's engagement in motion and transforming it into virtuous behaviour, above and beyond customer satisfaction and shareholder remuneration. Values such as consistency and transparency, combined with trust, empowerment and emotional intelligence become central to offering people a valuable corporate experience.
The social and cultural dimension is equally important and points to a "permacrisis" context, i.e. a widespread and stagnating crisis on several fronts, destined to last for a long time. This involves the phenomenon of longevity, with people staying longer in the workplace, rising unemployment rates and the population referred to as NEET (Not in Education, Employment or Training), as well as a growing focus on the gender gap and individual mental health and well-being. The evolving socio-cultural ecosystem requires an optimal management of generations, diversity and multiculturalism for greater perceived equity.

Alongside this dimension are the energy, environmental and technological transitions, which require a rethinking of skills development and increased investments, especially in Stem disciplines. Companies need to implement change management and reskilling paths, especially to appropriately manage the impact of the development of Artificial intelligence.

In a context of such rapid innovation, a rising average age of the working population and marked by a growing need for professional retraining, training thus becomes a strategic asset to bridge the gap between industrial needs and the education system.
To remain competitive, companies must therefore be able to respond very quickly to changes in the market, anticipating emerging trends and adapting organisational models with a greater focus on human capital, paying close attention to activities such as talent attraction and engagement, and involves adopting practices that orient business agility by adopting flexible and rapid solutions.