

1.02 - RISK FACTORS: ACTORS, METHODOLOGY AND AREAS OF MANAGEMENT

1.02.01 - Risk governance

The organizational structure adopted by the Hera Group is designed to uphold management effectiveness and profitability across the entire value chain while at the same time monitoring and managing any risk exposure arising from its businesses.

Hera's corporate governance system enables strategies to be handled uniformly and consistently. The Risks committee is the main policy-making, monitoring and reporting organ for risk management strategies. Additionally, under article seven of the Self-Governance Code, the Controls and risks committee oversees the internal auditing system, the efficiency of corporate operations, the reliability of financial reporting and compliance with laws and regulations, as well as the protection of company assets. In order to maximise the consistency of the management strategy, these bodies meet periodically. During 2024, the Risks committee met five times and the Controls and risks committee met nine times.

The Group has adopted a three-tier risk defence strategy, appropriately distinguishing between:

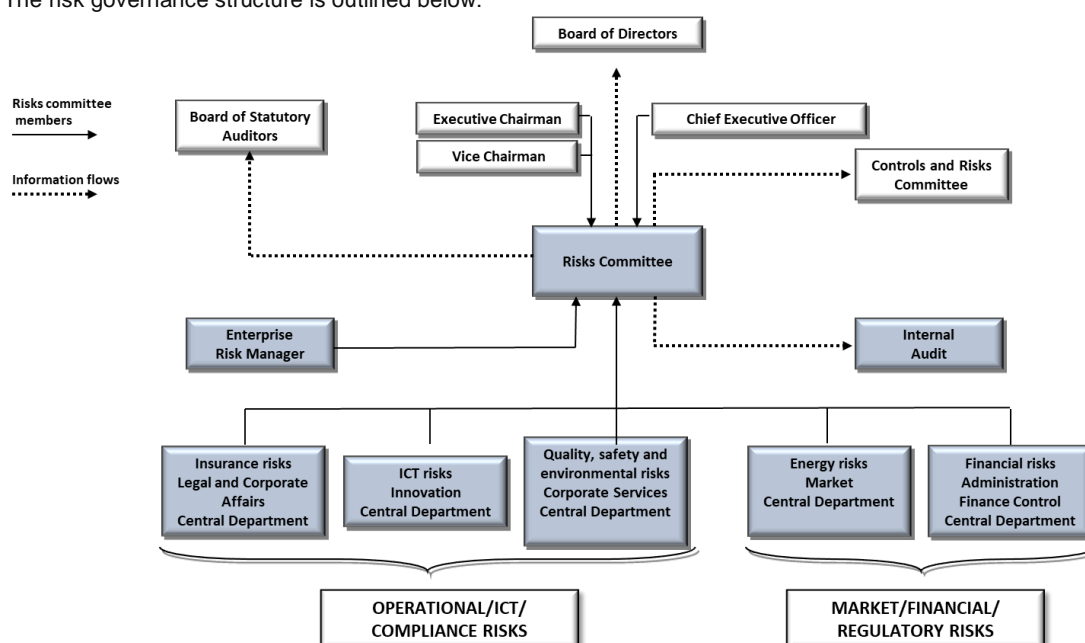
- the role of risk management, entrusted to the risk owners in charge of the various organizational sections;
- the role of risk guidance and control, entrusted to the Risks committee, which relies on risk specialists who carry out second-level controls, i.e. who are responsible for defining, applying and updating risk analysis methodologies and carrying out control activities for the areas under their responsibility (review challenge and control);
- the role of assessing the effectiveness of risk management processes and the internal control and risk management system, entrusted to the Internal auditing department.

The Risks committee sets the general risk management guidelines, maps and monitors corporate risks, ensures that risk policies are set forth and outlines the information protocols targeted to the Controls and risks committee, the Internal auditing management and the Statutory auditors.

The Board of Directors approves the risk policies and measurement parameters, and guides and assesses the adequacy of the internal control and risk management system. The Controls and risks committee supports the Board of Directors in defining internal control and risk management guidelines.

The Executive Chairman and the CEO supervise, each within their area of responsibility, the internal control and risk management functions. The Vice Chairman oversees coordination between the Risks committee and the Controls and risks committee, maintaining an independent status.

The risk governance structure is outlined below:



1.02.02 - Management methodology

Hera has adopted the Enterprise risk management (ERM) process, to provide the Board of Directors with useful elements for assessing the nature of corporate risks and defining the Group's risk profile, particularly in the medium to long term. The definition of the risk profile is made explicit by the Board of Directors itself through the approval of the Group risk management policy and the risk limits established therein.

The risk management framework is formulated through three key elements:

- the **risk model**, which identifies the types of existing and emerging risks to which the Group is potentially exposed, and is subject to periodic review;
- the **Group's risk propensity**, which defines acceptable risk levels consistently with risk management strategy, through the identification of:
 - key risk factors;
 - risk metrics;
 - the limitations associated with each key risk;
 - monitoring, escalation and updating processes to ensure that corrective actions are identified and implemented;
- **risk management activities**, which ensure effective monitoring and management of the risk universe to which the Group is potentially exposed. The activities are broken down into:
 - ongoing risk management, including by means of sectoral management entrusted to dedicated risk specialists/risk owners;
 - enterprise risk management, aimed at analysing the evolution of the Group's overall risk profile, to support informed risk-taking and the identification of strategic objectives.

On 26 February 2025, the tenth Enterprise risk management report on the 2025-2028 Business plan was presented to the Board of Directors. Over the course of 2024, the ERM analysis introduced further improvements and methodological refinements, aimed at integrating ESG risks into the Group's risk model, for a better intelligibility.

At the same time, the ERM analysis did not reveal any critical risks in terms of reputational or operating-financial impact. In the area of significant risks, compared to the previous year, no new risks were identified, while the scenario of potential impacts from rating downgrades is no longer included, thanks to a financial structure consistent with the Plan's growth prospects.

In the same area, the risk of a reputational impact deriving from possible proceedings undertaken by supervisory/regulatory/investigation bodies was confirmed, generated by the degrees of discretion on the start of verification/investigation procedures, in the presence of non-univocal interpretative guidelines (despite the Group's conduct always complying with the law), as was an operating-financial risk, deriving from high-intensity seismic events relating to networks.

The risk arising from the possibility of fires at waste treatment and recovery plants, while confirmed, has a negligible impact in terms of consequences on the Group's results and none whatsoever for the environment and business continuity. However, due to the growing social awareness on the issue, such events can lead to significant reputational consequences due to perceived risk.

As part of a process based on ongoing development and refinement of its control and risk management system, the Group's larger companies have adopted a tax control framework model, in order to detect, measure, manage and control tax risk, understood as the risk of incurring violations of tax regulations or contrasting with the principles and purposes of the law.

In particular, the Group has adopted a tax strategy that outlines the principles for managing tax variables and strategic lines aimed at ensuring compliance with regulations, as well as processes and procedures to mitigate tax risk, providing for a decision-making escalation correlated to the magnitude of the risk.

The Board of Directors annually reviews the report on the progress of tax risk management and is the corporate body in charge of making final decisions should cases arise that present the highest risk profile due to uncertainty in legislative interpretation.

1.02.03 - Risk areas: identifying and managing risk factors

The existing and emerging risks which Hera faces belong to different types: risks deriving from the evolution of the operating and financial, business (regulatory and competitive), environmental, technological and human capital contexts, including a constantly increasing attention towards climate change and sustainable development. Paragraph 1.01, "Contexts and trends, strategic approach and Group management policies", provides a detailed analysis of the factors constituting some of the fundamental prerequisites for identifying these risks.

In order to mitigate exposure to these risks, introduce optimisation measures (including technological and efficiency improvements) within current structures and develop strategic planning that offers coherent responses, Hera carries out the specific analysis, measurement, monitoring and management activities described below.

RISK TREATMENT AND MANAGEMENT

AREA	TYPE	IDENTIFICATION
OPERATIONS AND FINANCE 	Debt market	Fluctuation in interest rates, exchange rates, credit spreads and liquidity crises.
	Commodity Prices	Fluctuation in commodity prices.
	Counterparties	Counterparties unable to meet the obligations undertaken, both in respecting the economic conditions and in the execution of contractual clauses.
BUSINESS AND REGULATIONS 	Competitive and Macroeconomic	<p>Business activities involving increasing competition on the free market, carried out mainly in Italy, with an economic context of limited growth:</p> <ul style="list-style-type: none"> • changes in energy consumption; • reduced production of volumes of waste treated at Hera's plants, compromising the achievement of pre-set targets.
	Regulatory and Legislative	<ul style="list-style-type: none"> • Interventions by the regulatory Authorities of the sectors in which Hera operates; • Regulatory interventions with a possible impact on both network / municipal waste collection and free-market businesses.
	Strategic	<ul style="list-style-type: none"> • Failure to achieve the strategic targets set in the long-term planning process; • Loss of the necessary licenses, authorisations and permits for the regular performance of the company's activities.
CLIMATE AND THE ENVIRONMENT, TECHNOLOGY AND HUMAN CAPITAL 	Environmental-catastrophe and caused by Climate change	<ul style="list-style-type: none"> • Failure to comply with environmental standards and related legal limits, with worsening of environmental conditions and exposure to possible sanctions; • Climate change impacting both economically and in terms of service quality, arising from physical and transitional scenarios.
	Operational security and ict	<ul style="list-style-type: none"> • Negative externalities that compromise business continuity and may increase the financial requirements for the restoration of the Group's regular operations; • Reduced operational security of distribution networks (fluids and electricity), reduced logical security of information, reduced security of communication networks and information systems, and reduced reliability of remote control systems.
	Safety and personal development	<ul style="list-style-type: none"> • Reduced occupational health and safety and limited social protection for workers; • Skills mismatch; • Reduced attractiveness of the workplace environment.

MANAGEMENT

- Diversified and optimised structure of financing sources and balanced maturity profile;
 - Careful monitoring of the Group's financial indicators and use of derivative financial instruments.
-
- Effective management of procurement and hedging activities, with a strong focus on skills and a single interface for constant market monitoring.
-
- Structured process of origination and selection of counterparties through credit checks;
 - Constant monitoring of positions towards counterparties;
 - Possible external transfer of risk through credit assignment.
-
- Continuous innovation in and timely presentation of the commercial offer;
 - High degree of flexibility in supply sources for energy commodities, along with timely management of hedging activities;
 - Diversified plant equipment with high-performance environmental technologies, and strategy focused on the circular economy, specifically in the industrial waste cycle: entry in the process of recovering and recycling polymeric materials and in producing biogas.
-
- Communication with national and local authorities through an organizational structure designated for this purpose;
 - Timely alignment of commercial offers with guidelines specified by the Regulator;
 - Enhancement of technical capacity and management efficiency to meet customer expectations (in terms of service range and quality).
-
- Structured approach to strategic risk analysis, aimed at evaluating the robustness of the Business plan in handling multiple adverse risk scenarios following an enterprise-wide rationale;
 - Constant monitoring of authorization processes and the requirements for maintaining them.
-
- Adequate environmental control system, both as regards the governance of environmental certification processes and related audits, and as regards the operational management of controls and assessments;
 - Reporting on company performance and commitment in the area of climate change;
 - Activating projects to promote the production and consumption of energy from renewable sources and reduce energy consumption;
 - Support for customers in reducing their own greenhouse gas emissions;
 - Incentivizing recovery strategies.
-
- Continuous improvement of the crisis management model;
 - Centralized and constantly operating network monitoring systems, with real-time detection of potential critical factors;
 - Continuous technological assessment and improvement of the Security by Design process;
 - Governance and organisational structures intended for this purpose and training;
 - Attentive monitoring of key Cyber Security indicators.
-
- Precise identification of hazards and assessment of emerging needs;
 - Continuous and targeted initiatives to raise awareness about improving protection and prevention processes in terms of safety, and technical-regulatory training accompanied by training to develop risk perception awareness;
 - Constant monitoring and identification of evolving needs in terms of skills, and qualitative adjustment of existing skills and those to be acquired;
 - Establishment of a welfare system based on attention to people.

Operating and financial area

Identifying commodity price risk

The Group operates in an integrated manner in the supply and sale of electricity and gas at different stages of the value chain. Hera is therefore exposed to risks arising from the volatility of energy markets, which can be mitigated by an integrated assessment of these markets and associated management strategies. Energy market risks are centralised in the Market Central Department, which is responsible for the purchase and sale of electricity and gas.

Managing commodity price risk

In order to standardise the approach to risk taken by the various corporate structures involved and with the aim of optimising the use of the market for hedging operations, the Group has adopted specific policies aimed at setting guidelines and operating procedures for the energy risk control and management process. Hera has structured these processes to achieve an effective management of procurement and hedging, with a clear focus on the skills involved. The Group's approach provides for a single interface for the management of risk deriving from the energy market, the company Hera Trading.

A unified risk management approach, in compliance with the assigned policies, provides advantages in terms of achieving higher levels of coverage, cost optimization by resorting less to the market, and greater flexibility in structuring procurement and supplying customers.

Identifying risks associated with the debt market

The operating and financial area, in addition to being characterised by fluctuating energy and commodity prices, may show different scenarios as a result of changes in interest rates, exchange rates, the credit spread and as an effect of possible liquidity crises.

These fluctuations may have an impact on Group results, future growth and strategic investments (e.g. due to high refinancing costs).

The Group might not be able to meet its payment obligations due to an inability to raise new funds, or it may only be able to do so on unfavourable economic terms, due to an inability to liquidate assets on the market, or due to a changed risk perception.

Among the factors determining this perceived risk, the creditworthiness assigned to Hera by rating agencies plays a key role, as it influences the possibility of accessing sources of funding and the related economic conditions.

The Group's debt structure is not subject to financial covenants on debt balances.

Mandatory early repayment is provided for only in the event of a significant change of control over the Group, in the event that a concession having significant weight for the Group is revoked (concession event), or assets are divested (sale of assets event), resulting in downgrading the Group to a sub-investment grade, or termination of the publication of the rating by at least one rating agency.

Managing risks associated with the debt market

Hera's financial management is centralised in the Administration, Finance and Control Central Department, which aims to maintain an adequate balance between the maturities of assets and liabilities, matching investments to consistent sources of financing in terms of duration and repayment methods while taking into account the need to refinance the current debt structure.

In order to meet its medium- and long-term commitments, Hera's strategy involves diversified financing sources and a balanced maturity profile, constantly monitoring rating indicators and the availability of long-term credit lines.

This strategy is considered effective in minimising liquidity risk even in the event of particularly critical scenarios. Approximately 87% of the Group's financial debt is medium-long term (of which 44% over five years) and 74% of this is represented by bonds with repayment at maturity. See note 19 to the consolidated financial statements, "Financial liabilities", for further details in terms of worst-case scenarios.

Moreover, the Group's activities and strategies are particularly focused on ensuring that an adequate rating level is maintained, as appears in its BBB+ rating with a stable outlook confirmed by S&P, or the Baa2 rating with a stable outlook confirmed by Moody's.

Financial risk control and management processes are based on a careful monitoring of the Group's financial indicators, as well as a permanent presence on the benchmark markets, to minimise the impact of interest rate and spread volatility so as to ensure efficient debt servicing. The Group also uses derivative financial instruments, where necessary, to reduce its exposure to interest and exchange rate fluctuations.

At 31 December 2024, the Group's exposure to the risk of interest rate fluctuations was 3.3%, while the remaining 96.7% of debt is at a fixed rate.

A 1% increase in the benchmark interest rate for the portion of variable-rate debt outstanding as of 31 December 2024, compared to what was assumed in the projected interest rate scenario for the Business plan to 2028, would lead to an average increase in financial expenses coming to approximately 0.8 million euro per year.

Identifying risks from counterparties

Hera operates with counterparties that might fail to fulfil their obligations, unable to comply with either economic terms or any contract provisions (delivery of goods or services). Additionally, credit risk affects the Group across the board, above all in the areas where commercial activities are carried out: the sale of energy commodities and services, waste treatment activities and telecommunication services.

Managing risks from counterparties

Hera has provided itself with a structured origination process, formalised in specific credit risk management procedures; this process allows the Group to adequately select its counterparties through credit checks and requests for guarantees, where applicable.

In addition, its positions in relation to counterparties are regularly monitored while articulated, proactive actions are planned in their management, including external risk relocation through credit transfer, where appropriate.

Expected losses are constantly estimated and monitored; the Group employs measures of default probability, exposure at default and loss-given default developed on the basis of its own historical series, customer payment behaviour and current credit processes. In order to test the soundness of the models, both internal and external information is used that may serve as a benchmark for the evolution of the macroeconomic environment.

In 2024, the estimated 24-month unpaid ratio related to invoices issued in 2023 of the Group's main sales companies came to 0.72%.

Regulatory and business area

Identifying competition and economic risks

Within the final reference market, which is mainly limited to Italy, the economic and geopolitical context, volatility in the prices of energy and other raw materials, as well as the difficulties connected to global logistics chains, all contribute to putting pressure on sales margins which, added to the increased competition on the free market, may impact the Group's profitability.

The difficulty in forecasting volumes to cover the needs of the sales portfolio, continuously changing partially due to the effect of more contained consumption and higher efficiency in the sector, may furthermore require Hera to purchase or sell additional energy on potentially unfavourable terms.

A potential reduction in waste production, related to the economic context and European and national regulatory frameworks and from new trends in customer behaviour, together with a possible unavailability of treatment and recovery infrastructures, may have a negative impact on the Group's ability to pursue its objectives. The risks of the waste management business related to the management of its set of plants are concentrated in Herambiente Spa.

Managing competition and economic risks

The Group has maintained elevated flexibility in energy commodity procurement sources while at the same time developing hedging activities to minimize exposure to operating risks from electricity generation, thus ensuring alignment with the market and maximising natural hedging.

In waste management and treatment activities, the Group's diversified plant equipment features advanced technologies that are high-performance in terms of environmental impact, which to date have enabled the Group to achieve the strategic objectives assigned. The implementation of a circularity strategy – for example, through the polymeric material recycling process carried out by Aliplast Spa – and the development of recycling lines for other types of plastics, furthermore, make it possible to seize the opportunities offered by the evolution of European regulations.

The Group's portfolio includes free-market businesses, which have gained increasing importance, contributing significantly to its operating performance but also exposing it to growing competition. The Group responds to the challenge of competition by continuously innovating its sales offers and introducing new products in a timely manner, increasing its presence and customer base on the free market and aiming to ensure the fulfilment of expectations in terms of service range and quality.

Risk analyses deriving from changes in the economic context (GDP and inflation) and energy market conditions (gas and electricity prices) make it possible to quantify the sensitivity of the Group's Ebitda to changes in primary operating and financial indicators.

In particular, a 1% reduction in GDP compared with the scenario referred to in the Business plan would lead to an average annual drop in Ebitda coming to approximately 3.7 million euro.

A 1% reduction in the inflation rate compared with the scenario referred to in the Business plan would lead to an average annual drop in Ebitda coming to approximately 8 million euro (regulated market). A 1€/MWh increase in the price of gas and an ensuing rise coming to 2€/MWh in the price of electricity on the wholesale market compared to the scenario referred to in the Business plan would lead to an average annual drop in Ebitda coming to roughly 1 million euro, an impact that is expected to decrease in view of ARERA's regulatory intervention on the district heating business.

Identifying regulatory risks

Hera carries out part of its activities in a regulated market, and its operations are therefore influenced by the regulatory measures taken by the sector authorities and the government (in particular concerning tariffs and market structure), the concessions granted through tenders by local authorities (for regulated activities relating to waste collection services, gas distribution, the integrated water service and public lighting) and national authorities (for electricity distribution), as well as the impacts expected from changes in the market structure and its liberalisation, and from the evolution of supply and demand in the energy and waste management sectors.

Periodic updates of the legislative and regulatory framework, both at national and European levels, may therefore significantly impact the sectors in which Hera operates, influencing its profitability as a consequence.

Regulatory risks impact network businesses (water cycle, gas and electricity distribution and district heating) and the municipal waste collection business and the related waste treatment, and result in the introduction or modification of economic, organizational and IT requirements to be met by Hera, and on potential market structure changes caused by them.

Tenders for gas distribution, the integrated water service, waste collection and street sweeping scheduled for the time covered by the Plan determine the risk of losing some of the areas currently managed, especially in contexts with a significant presence of competition, only partially offset by compensation for the portion of invested capital not yet amortized.

Managing regulatory risks

The Group's organisational structure liaises with national and local authorities and carries out extensive consultation with institutional stakeholders, actively taking part in working groups established by authorities and adopting a transparent, co-operative, proactive approach towards possible situations of regulatory instability.

The Group operates by making the most of its technical skills and management efficiency. Indeed, Hera's focus on service quality, cost efficiency and innovative solutions is a competitive strength in tenders for gas distribution, the integrated water service and waste collection and street sweeping services.

Identifying strategic risks

Strategic risks, associated with long-term planning, financial sustainability, involvement in strategic initiatives and appropriate investment decisions, affect the soundness of results for the various supply chains and business units. Moreover, the Group's ability to achieve its strategic objectives may be compromised if the necessary licences, authorisations and permits to carry out its regular activities are not maintained or obtained.

Achieving the planned results is therefore conditioned by the different endogenous and exogenous risks that are simulated, measured and controlled as appropriate.

Managing strategic risks

Hera has developed a well-planned strategic risk analysis model designed to gauge the soundness of its Business plan against a variety of adverse risk scenarios, which supports an integrated risk projection from an enterprise-wide viewpoint. Thanks to this model, it is possible to carry out scenario analyses, stress testing and what-if analyses of plan forecasts, through an effective analysis of risk factors and related variables, and enables an adequate assessment of the risk level of the various business sectors.

Hera constantly monitors the authorisation processes and proactively participates in the working tables for obtaining permits, licences and authorisations, to avoid the possibility of jeopardising the regular performance of its activities.

Climatic-environmental, technological and human capital areas

Seismic, atmospheric and other climatic events may impact the Group's performance. Hera intends to continue valorising its resources and ensure that they are preserved and developed, so as to continue to enjoy their benefits in the future.

The physical and transitional risks linked to climate change, as well as accidents in plant equipment, may generate potential environmental damage, and therefore the operating and strategic implementation of best practices in risk management and the opportunities deriving from climate change are a fundamental objective for the Group.

Risks arising from cybercrime, which Hera also assesses in terms of their impact on service continuity, are also given increasing attention.

Since accidents may pose a risk to people's rights and freedoms, i.e. if they cause physical, material or immaterial damage, the Group's policies regarding the parameters and acceptability thresholds are published on its web portal.

The risk management approach is organised according to the specific areas in which environmental, technological and human capital risks occur.

Identifying environmental-catastrophe risks

Hera, while aware of the need to preserve natural resources, uses them to provide essential services to its customers. The Group's activities, in turn, make use of environmental, water and carbon resources, and therefore adopting mitigation and adaptation measures to reduce environmental-catastrophe risks is increasingly crucial.

In keeping with the ambitious goal to reduce current levels of greenhouse gas emissions compared to their current level, as set out by international organisations, the physical and transitional climate change risk scenarios relevant to the Group's activities have been identified. For further details, see the next section, "Identifying climate change risks". As regards the environmental standards with which Hera must comply in carrying out its businesses, the Group's activities are subject to various types of legislation and regulation, including those relating to CO₂ emissions, emissions of other substances produced by combustion, water discharge and the handling of hazardous and solid waste. Non-compliance with CO₂ limits contributes to climate change, while non-compliance with legal limits on other environmental aspects leads to worsened environmental conditions and exposes the Group to fines.

Scarcity of water resources, or possible contamination of water reserves, may affect the regular water supply and cause service interruptions or significant environmental, economic and social damage, worsening the water stress by which these natural resources are affected by their very nature, in order to meet water demand.

In addition, note the risks stemming from the impact on the Group of weather variability in relation to the electricity and gas demand deriving from the various scenarios.

Managing environmental-catastrophe risks

Investments aimed at preventing and reducing the frequency of harmful events, along with measures to curb their severity, play a key role.

The Group's commitment to reducing carbon dioxide production involves reporting on its own performance and commitments in the area of climate change, alongside projects to promote energy production from renewable sources, reduce energy consumption, and provide customers with opportunities to cut their own greenhouse gas emissions. The Group is committed to contributing to mitigating environmental risks by complying with the energy efficiency objectives set by national legislation and the United Nations, continuing to improve its production facilities and encouraging virtuous and responsible forms of consumption on the part of its customers. The Group only uses electricity from renewable sources to operate its production sites. In relation to the consequences of extreme events, which are expected to occur with increasing frequency as a possible consequence of climate change, Hera has taken steps to adopt important measures.

Hera has adopted an environmental control system that is effective both in terms of the governance of environmental certification processes and related audits, and in terms of the operational management of controls and surveys. The Group is able to face environmental hazards by constantly monitoring potential pollution factors and ensuring transparency in surveys, as well as through substantial investments in technological plants that ensure consistently better air and water quality than required by legal limits. Moreover, in line with its circular economy strategy, Hera has already invested (and continues to do so in the medium-to-long term) in sorting, recovery and composting plants, increasing the amount of waste treated while at the same time reducing the use of landfills, thus anticipating the requirements of European and national regulations.

The reduction of the Group's water footprint is pursued through the water management system, which aims to promote a sustainable management of this resource both inside the Group (by preventing network leaks, reducing diffuse consumption, recovering rainwater for irrigating green areas and washing vehicles) and externally (by monitoring domestic consumption and offering advice and solutions to optimise it, providing support with technological solutions for water-demanding customers, and providing support for the construction of treatment plants to reuse/recover water). The implementation of water safety plans in the integrated water service also ensures an approach to water quality management based on risk assessment and management, and thus on prevention and control.

For an in-depth discussion of all initiatives implemented by the Group to manage environmental risks, see section 1.07.01 of the Sustainability reporting.

Regarding weather-variable risks, the Group relies on advanced energy demand-forecasting tools that ensure an optimal use of the available sources. It also relies on adequate flexibility in the supply sources of energy commodities, ensuring their availability at market rates. A 1°C increase in the average winter temperature, compared with the scenario set out in the Business plan, would lead to an average annual drop in Ebitda of approximately 15 million euro.

Identifying climate change risks

The physical and transitional risks from climate change scenarios pertinent to the Group's activities have been classified according to their potential consequences on business, and submitted to further impact and mitigation assessments in relation to their criticality (some examples include extreme weather phenomena such as floods and droughts as well as health and economic risks).

Climate scenario analysis is a methodology to test the resilience of business plans under different assumed future developments. Hera selected the two most relevant scenarios, of which the IEA ETP 2DS transition scenario by the

International Energy Agency, chosen as an ambitious climate scenario, foresees a future evolution characterised by strong decarbonisation processes in order to keep the temperature increase below 2°C: this scenario has been used in identifying transition risks. The IPCC RCP 8.5 physical scenario, chosen as a pessimistic scenario, instead foresees a business-as-usual trend and consequent sharp temperature rise (approximately 4°C): this scenario has been used in identifying physical risks.

Based on these scenarios, eight physical risks and eight transition risks were identified, associated with related business impacts. For further methodological details, see the section "Climate risk analysis based on the TCFD Recommendations" in paragraph 1.07 of this report.

In order to assess potential impacts on the Group's assets deriving from extreme phenomena related to climate change, a flood risk analysis was completed in 2022, with a medium/long-term time projection.

Risk assessment activities are also continuing with the appropriate level of detail, especially with regard to transition risks and their modelling. Based on the current analyses, there are no risks that could lead to the need for impairment losses on the Group's assets.

For assessments of the potential effects in terms of impairment tests, specifically in relation to gas consumption, see note 25 of the consolidated financial statements in paragraph 2.02, "Explanatory notes".

Managing climate change risks

Hera has launched a series of initiatives to mitigate the effects of climate change, and at the same time reduce its own carbon footprint. One or more management modalities have been associated with each risk: 21 management modalities have been identified for physical risks and 13 for transitional risks; some of the ensuing actions have already been integrated into the investments made, and included in the Business plan. For further details, see paragraph 1.07 and in particular the analysis of climate risks based on TCFD recommendations. The investments and the mitigation and adaptation actions planned to date, defined on the basis of the energy transition towards carbon neutrality and the environmental transition towards a circular economy, as well as technological evolution, are in line with European strategies and the goals set out in the UN 2030 Agenda, have become part of the Group's modus operandi and are often carried out ahead of the estimated timeframe thanks to the Group's positive results.

Identifying operational and ICT security risks

Despite careful planning and insurance protection, negative externalities generated by exceptional events may jeopardise business continuity and increase the financial requirements for restoring normal operations. Providing public utilities therefore requires both preventive activities and actions to counter interruptions, delays or poor service levels. Technological risks include the operational security of distribution networks (fluids and electricity), the logical security of information, the security of communication networks and information systems, and the reliability of remote-control systems. The main threats to on-premise systems (hosted in company data centres) or in the cloud include identity theft, phishing aimed at taking control of a personal computer and then attacking central systems, and attacks on exposed services such as public websites.

The security of the information used, produced and processed by the company depends on the way it is managed and the human and technological resources involved. The loss of confidentiality, integrity and availability of corporate information, whether business-critical information or personal information (i.e. any data relating to natural persons, as more fully defined by the European regulation GDPR and the privacy code of Legislative Decree 196/03) may result in serious financial losses with consequent damage to market image. A business impact analysis has been carried out on all ICT systems used by the Group, and a security risk analysis is carried out annually to identify and assess risk, using a methodology based on a framework that considers three areas of security: availability, integrity and confidentiality.

Managing operational and ICT security risks

The main service for managing operational risks is centralised network monitoring (remote control of fluids and the electricity grid), which ensures continuous real-time monitoring and supervision and, in some areas, remote management. In operational terms, centralised monitoring makes possible to promptly report potential critical factors to the technical structures in charge of emergency response and, where possible, to intervene directly to resolve the potential critical situation. These systems have been used in a variety of situations, allowing the service to be restored within an appropriate timeframe and ensuring adequate resilience of the services offered.

As regards cybersecurity, the Group's Security operation centre (SOC) is active, i.e. the centralised service for real-time monitoring of events affecting information systems, IT infrastructures and industrial areas (OT). In operational terms, this service works through the use of hardware probes and software agents, and sees a continuous increase in alerts coming both from external factors (continuous increase in attacks and their level of sophistication), and from the increase in the perimeter analysed due to the increase in computer and industrial systems belonging to the Group. This service is constantly being developed in terms of the new correlation and regulation rules put in place, to counter false positives and not lose effectiveness in detecting anomalous events in the early stages of possible chains of compromise. In addition to the SOC service, as every year, vulnerability assessment activities continued, to

continuously assess the level of penetrability of exposed systems and network security, through an analysis of the Group's perimeter exposed on the Internet. As regards the human factor risk, awareness-raising campaigns intended for all Group employees continued, in addition to periodic ethical phishing simulations and technical exercises intended for IT specialists. During 2024, actions aimed at ensuring the confidentiality, integrity and availability of Hera systems continued to be implemented. For example, in the context of industrial plants, ongoing development went to the converging cyber security monitoring model between the IT (information technology) and OT (operation technology) areas. In order to detect any vulnerabilities on systems or applications that could be exploited by an attacker, vulnerability assessment activities also continued for the industrial plant area.

Identifying people's safety and development risks

People and their behaviour increasingly influence the effectiveness of corporate strategies. Protecting people thus remains a key element, in terms of both workplace health and safety and social protection. The Group therefore continually focuses on the emerging needs and requirements of all employees.

Hera's structured process for identifying hazards and the related risk assessment in the area of health and safety concentrates on an analysis of roles, work activities, processes, workplaces, equipment, vehicles, plants and substances used. As regards the specific nature of its business and its local presence, the Group has integrated Enterprise risk management into its risk assessments.

The risk mitigation measures adopted and the effectiveness of their implementation are periodically monitored and reviewed. To this end, a specific control checklist has been developed for the periodic monitoring of personnel conduct by the heads of the various organisational units.

With the aim of identifying, measuring and monitoring the risks that threaten the Group's assets and the continuity with which it provides essential services, a risk assessment model has been implemented for the physical security of these assets. This model aims to prevent and mitigate threats and impacts caused by events (malicious, culpable or accidental) such as fire, theft and acts of sabotage/vandalism and terrorism.

Managing people's safety and development risks

In order to ensure worker health and safety and mitigate on-the-job injury risk, the Group is constantly committed to measures promoting better monitoring as well as to the enhancement of safety protection and prevention practices aimed at reducing the frequency and severity of accidents.

The prevention and protection measures put in place by the Group aim to minimize the probability of an adverse event occurring, and lower the severity of the consequences following the event.

For further methodological details, see the section dedicated to "Workers in the value chain" in paragraph 1.07.03 Social information.