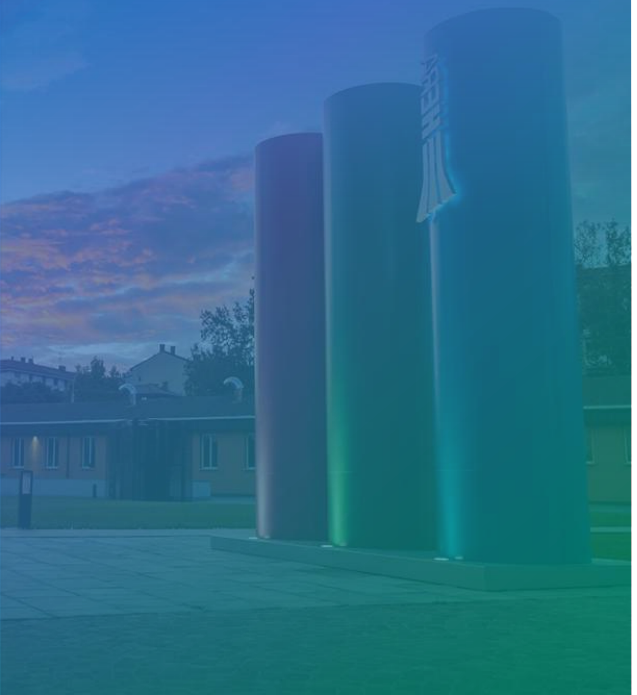


Risk Management in Hera Group

Solid infrastructures for a long-term sustainable strategy

Photo by Silvia Camporesi: construction phase of the biomethane plant of Sant'Agata Bolognese

Risk Governance



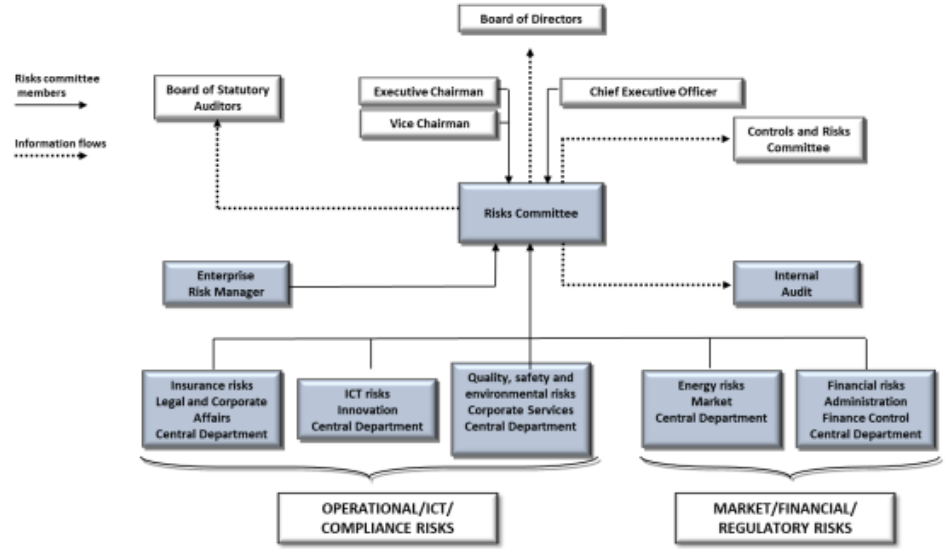
The Hera Group's organizational structure is designed to uphold management effectiveness and profitability across the entire value chain while at the same time managing any risk exposure arising from its businesses. Hera's corporate governance system enables strategies to be handled uniformly and consistently. 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 2025, the Risks Committee met five times and the Controls and Risks Committee met eight 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, 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 here below:

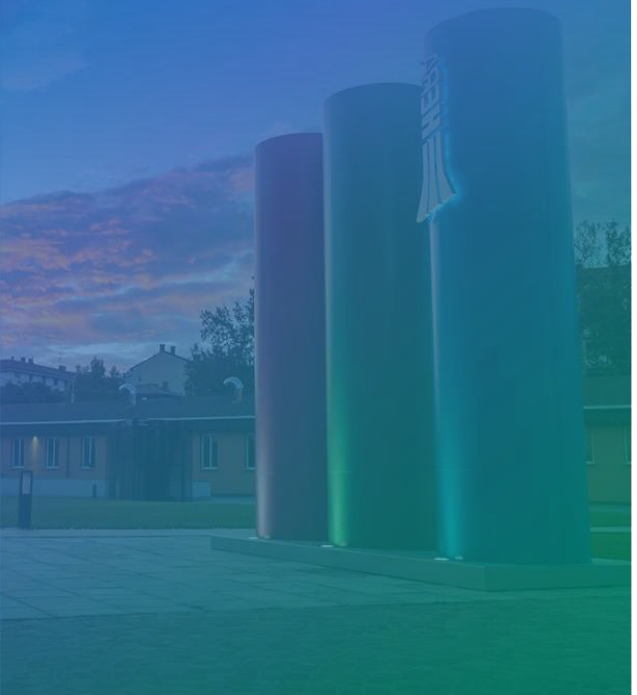


Identified Risks	Likelihood	Magnitude	Risk Appetite	Mitigating actions
The risk of a reputational impact deriving from possible proceedings undertaken by supervisory / regulatory / investigation bodies was confirmed, generated by the degrees of discretion on the start of verification/investigation procedures, in the presence of non-univocal interpretative guidelines (despite the Group's conduct always complying with the law)	Unlikely Likely More than likely Highly likely	Low Medium High Critical	Prudent, coherent with the approach set out by the Board of Directors	• 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).
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.	Unlikely Likely More than likely Highly likely	Low Medium High Critical	Prudent, coherent with the approach set out by the Board of Directors	• H&S training of workers employed in the plants' operations • Strict operation procedures regularly updated, taking into account incidents and near misses • Crisis management process established • Insurances to cover damages to plants, environment or third parties

The **Risk Exposure is reviewed by the Enterprise Risk Management every year** and disclosed to the Board of Directors.
In February 2026, the eleventh Enterprise Risk Management report on the 2026-2029 Business Plan was presented to the Board of Directors. Over the course of 2025, the ERM analysis made further improvements, while at the same time not revealing any critical risks, either in terms of reputation or operating-financial impact.

The **Risk Management Process** has been **audited** both **internally** by the Internal Audit Department and **externally** by Bureau Veritas in the last two years.

Risk Culture



Risk Management is not only a matter of procedures but most of all of culture. **Hera promotes a Group's Risk culture** aiming at increase employees' awareness through a wide range of strategies:

- Given the complexity of the businesses in which Hera operates, a **training program for non-executive directors** has been put in place that embeds risk management topics (evaluation of risk assessment results, definition of the risk appetite, risk limitation for energy portfolio, risk in the context of climate change). Furthermore, non-executive directors received insights on reporting for the monitoring and management of the Group's financial risks, update of the activities envisaged in the Administrative Accounting Control Models, periodic reports to the Board of Directors by the Risk Committee, approval of Group Risk Assessment and Internal Audit plan and budget)

- **Web courses regarding risk management principles**, Hera's relevant risk issues and other focused risk management topics (ex. H&S, Procurement, Cyber, etc) are uploaded on the portal MyAcademy (web training center of Hera) and available to all employees. Policies and procedures are available to employees on the intranet as well. There are also tools available and contact details to which employees can communicate to warn on danger, to ask for advice, etc., in case of risk or suspicious items and issues.

- **Incorporation of risk criteria in the development of products and services**: for example when it comes to the launch of a new energy supply offer, in order to mitigate the risk of energy commodity volatility (being Hera an energy supplier and not a power generator nor an oil&gas company, needs to procure from the market commodities), Hera has maintained elevated flexibility in energy procurement sources while at the same time developing hedging activities to minimize exposure to operating risks from electric generation, partly thanks to the lack of long-term gas supply contracting ("Take or Pay" provisions), thus ensuring ongoing alignment with the market and maximising natural hedging. Another example is in the development of Value Added Services (VAS) which need to comply with the strategic framework focused on the target to reduce carbon footprint, to maintain a low risk approach. All new products are analyzed in the strategic planning process in order to verify the consistency with the policies, strategies and risk appetite of the Group.

- **Financial incentives which incorporate risk management metrics**:
    - CEO and Executive Chairman have a long term variable remuneration linked to the CSV (Created Shared Value) which is evaluated on the basis of the portion of Ebitda generated over next 3 years in accordance with UN Global Agenda (11 out of 17 SDGs) and targeted to reach 68% in 2029 (see https://eng.gruppohera.it/group_eng/investor-relations/hera-overview/creation-of-shared-value). Their long term variable remuneration is also linked to EVA (Economic Value Added = Return on Invested Capital "minus" the weighted cost of capital) which is affected also by climate change risks among others. The introduction of metrics such as EVA and CSV (variable remuneration linked to '29 targets) was decided to promote a holistic approach of management to sustainability and risks that have a broader and in-depth impact in the longer term. Risk is therefore indirectly included in the remuneration system as it is affecting the WACC of the metrics used (EVA). This long term variable remuneration plan regards also some senior executives considered strategic for the Group wide-spreading the commitment to risk management.
    - Line managers have variable remuneration linked to risk metrics related to evaluation and prevention of risks, monitoring activity, development of risk management tools, training and activities to widespread risk culture.

Emerging Risks

Natural Resource Shortages

Environmental risk

Description
Supply shortages water for human, industry or ecosystem use. Manifesting as water insecurity at a local, regional or global level as a result of human overexploitation and mismanagement of critical natural resources, climate change (including drought, desertification), and/or a lack of suitable infrastructure. Despite the risk is not material in the short period for Hera, because it operates in regions with adequate water reserves and infrastructures, it could become an issue in the long term.

Impact
Hera manages the water business under a regulated regime that guarantees the return on investments and full recognition of costs. Furthermore, Hera does not own the water sources from which it draws, so it does not run the risk of water resources shortages. Therefore, the impact on Hera is not financial, but operational and reputational. In fact, if the aquifers were to run out, Hera would have to connect the network to new water sources or would have to use pumps to draw water deeper, increasing tariffs with possible repercussions on the company's reputation among public opinion.

Mitigating actions
Hera has started a process of monitoring groundwater levels through the installation of sensors and the use of predictive models to identify the deterioration of the groundwater in advance. In the event of a short-term crisis, temporary water rationing measures can be adopted, while in the long-term structural interventions can be planned in consultation with public authorities (e.g. the construction of catchment basins, the development of desalinization plants, etc.).

Emerging Risks

Misinformation and Disinformation

Technological risk

Description
Persistent false information (deliberate or otherwise) widely spread through media networks, shifting public opinion in a significant way towards distrust in facts and authority. Includes, but is not limited to: false, imposter, manipulated and fabricated content.

Impact
Hera is the enabler of the ecological transition in its reference territories and provides solutions to decarbonize consumptions and make the economy more circular. Hera is heavily investing in developing a wide range of services (green offers, value added services, photovoltaic plants, recycled materials, reused water, heat pumps etc.) expected to underpin future growth. False information and denialism about fossil fuels, pollution, climate change, could have an impact on customers' demand for this kind of services and consequently on the future perspective of the Group.

Mitigating actions
Hera put much effort in raising customers' awareness about environmental themes, through several levers: education in schools, information campaigns, dedicated webpages, articles in specialized magazines and newspapers, lobbying activity with the sector association Utilitalia, local communities' forums (HeraLab), expert speeches in public events. The aim is to educate citizens so that they can evaluate with greater awareness the information offered to them by communication channels and social networks.