

# Financial risks

As part of its operations, Enel is exposed to a variety of financial risks that, if not appropriately mitigated, can directly impact our performance.

In line with the Group's risk catalogue, these risks include the following:



- Interest rate
- Commodity
- Currency
- Credit and counterparty
- Liquidity

The internal control and risk management system (ICRMS) provides for the specification of policies that establish the roles and responsibilities for risk management, monitoring and control processes, ensuring compliance with the principle of organizational separation of units responsible for operations and those in charge of monitoring and managing risk.

The financial risk governance system also defines a sys-

tem of operating limits at the Group and region/country levels for each risk, which are monitored periodically by risk management units. For the Group, the system of limits constitutes a decision-making tool to achieve its objectives.

For further information on the management of financial risks, please see note 49 of the consolidated financial statements.

## Interest rate

The Group is exposed to the risk that changes in the level of interest rates could produce unexpected changes in net financial expense or financial assets and liabilities measured at fair value.

The exposure to interest rate risk derives mainly from the variability of the terms of financing, in the case of new debt, and from the variability of the cash flows in respect of interest on floating-rate debt.

The interest rate risk management policy seeks to contain financial expense and its volatility by optimizing the Group's portfolio of financial liabilities and using OTC derivatives.

Risk control through specific processes, risk indicators and operating limits enables us to limit possible adverse financial impacts and, at the same time, to optimize the structure of debt with an adequate degree of flexibility.

## Commodity

Enel operates in energy markets and for this reason is exposed to the risk of incurring losses as a result of an increase in the volatility of the prices of energy commodities, such as power, gas and fuel, and other commodities, such as minerals and metals (price risk), or owing to a lack of demand or energy commodity shortages (volume risk).

If not managed effectively, these risks can have a significant impact on results.

To mitigate this exposure, the Group has developed a strategy of stabilizing margins by contracting for supplies of fuel and materials and the delivery of electricity to end users or wholesalers in advance.

Enel has also implemented a formal procedure that provides for the measurement of the residual commodity risk, the specification of a ceiling for maximum acceptable risk and the implementation of a hedging strategy using derivatives on regulated markets and over-the-counter (OTC) markets. The commodity risk control process limits the impact of unexpected changes in market prices on margins and, at the same time, ensures an adequate margin of flexibility that makes it possible to seize short-term opportunities.

In order to mitigate the risk of interruptions in the supply of fuel and raw materials, the Group has diversified fuel sources, using suppliers from different geographical areas.

In 2023, despite the continuing economic strains at the global level owing to the rise in inflation, the Russia-Ukraine and Israel-Palestinian conflicts and climate change, the prices of energy commodities and other raw materials gradually declined, although they remain above their pre-pandemic levels. During the year, the risks recorded by Enel were below the limits set for 2023, which were contained thanks to careful and timely management and mitigation measures, the geographical diversification of our business and supply channels in order to reduce dependence on Russian gas. Finally, the adoption of global and local strategies, such as flexibility in contractual clauses and proxy hedging techniques (in the event that hedging derivatives are not available on the market or are not sufficiently liquid), has made it possible to optimize results even in a highly dynamic market context.

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## Currency

In view of their geographical diversification, access to international markets for the issuance of debt instruments and transactions in commodities, Group companies are exposed to the risk that changes in exchange rates between the presentation currency and other currencies could generate unexpected changes in the performance and financial aggregates in their respective financial statements.

Given the current structure of Enel, the exposure to currency risk is mainly linked to the US dollar and is attributable to:

- cash flows in respect of the purchase or sale of fuel or electricity;
- cash flows in respect of investments, dividends from foreign subsidiaries or the purchase or sale of equity investments;
- cash flows connected with commercial relationships;
- financial assets and liabilities.

The possible impacts of exchange rate risk are reflected in:

- costs and revenue denominated in foreign currencies with respect to the time at which pricing conditions were defined or the investment decision was made (economic risk);
- revaluations or adjustments to fair value of financial assets and liabilities sensitive to exchange rates (transaction risk);
- the consolidation of subsidiaries with different currencies of account (translation risk).

The currency risk management policy is based on systematically hedging the exposures of the Group companies, with the exception of translation risk.

Appropriate operational processes ensure the definition and implementation of appropriate hedging strategies, which typically employ financial derivatives obtained on OTC markets.

Risk control through specific processes and indicators enables us to limit possible adverse financial impacts and, at the same time, to optimize the management of cash flows on the managed portfolios.

During the year, currency risk was managed through compliance with the risk management policies, encountering no difficulties in accessing the derivatives market.

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## Credit and counterparty

The Group's commercial commodity and financial transactions expose it to credit risk, i.e. the possibility that a deterioration in the creditworthiness of counterparties or the failure to discharge contractual payment obligations could lead to the interruption of incoming cash flows and an increase in collection costs (settlement risk) as well as lower revenue flows due to the replacement of the original transactions with similar transactions negotiated on unfavorable market conditions (replacement risk). Other risks include the reputational and financial risks associated with significant exposures to a single counterparty or groups of related customers, or to counterparties operating in the same sector or in the same geographical area.

The exposure to credit risk is attributable to the following types of operations:

- the sale and distribution of electricity and gas in free and regulated markets and the supply of goods and services (trade receivables);
- trading activities that involve the physical exchange of assets or transactions in financial instruments with commodity underlyings (the commodity portfolio);
- trading in derivatives, bank deposits and, more generally, financial instruments (the financial portfolio).

The policy for managing credit risk associated with commercial activities and transactions in commodities provides for a preliminary assessment of the creditworthiness of counterparties and the adoption of mitigation instruments, such as obtaining guarantees.

The control process based on specific risk indicators and, where possible, limits ensures that the economic and financial impacts associated with a possible deterioration in credit standing are contained within sustainable levels. At the same time, this approach preserves the necessary flexibility to optimize portfolio management.

In addition, the Group undertakes transactions to factor receivables without recourse, which results in the complete derecognition of the corresponding assets involved in the factoring.

Finally, with regard to financial and commodity transactions, risk mitigation is pursued through the diversification of the portfolio (giving preference to counterparties with a high credit rating) and the adoption of specific standardized contractual frameworks that contain risk mitigation clauses (e.g., netting arrangements) and possibly the exchange of cash collateral.

During the year, after a temporary deterioration in the collection status of certain customer segments, the situation was restored to the conditions registered the previous year. The Group's portfolio has so far demonstrated resilience to the macroeconomic context and current price scenario. This reflects the expansion of digital collection channels and a solid diversification of the customer base.

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## Liquidity

Liquidity risk is the risk that the Group, while solvent, would not be able to discharge its obligations in a timely manner or would only be able to do so on unfavorable terms or in the presence of constraints on disinvestment from assets with consequent capital losses, owing to situations of tension or systemic crises (credit crunches, sovereign debt crises, etc.) or changes in the perception of Group riskiness by the market.

Enel's liquidity risk management policy is designed to maintain sufficient liquidity to meet expected commitments over a given time horizon without resorting to additional sources of financing, also retaining a prudential liquidity reserve, sufficient to meet any unexpected commitments. Furthermore, in order to meet its medium- and long-term commitments, Enel pursues a borrowing strategy that provides for a diversified structure of funding sources, which it uses to meet its financial needs, and a balanced maturity profile.

Among the factors that define the risk perceived by the market, the credit rating assigned to Enel by rating agencies plays a decisive role, since it influences its ability to access sources of financing and the related financial terms of that financing. A deterioration in the credit rating could therefore restrict access to the capital market and/or increase the cost of funding, with consequent negative effects on the financial position, financial performance and cash flows of the Group.

In 2023, Enel's risk profile changed compared with December 2022 for Standard & Poor's, whose rating went from "BBB+" with a stable outlook to "BBB" with a stable outlook, and for Moody's, whose rating went from "Baa1" with a stable outlook to "Baa1" with a negative outlook. Fitch maintained its rating at "BBB+" with a stable outlook.

In order to manage liquidity efficiently, treasury activities have largely been centralized at the holding company level, meeting liquidity requirements primarily by drawing on the cash generated by ordinary operations and managing any cash surpluses appropriately.

With regard to the increase in gas prices in 2022 following the Russia-Ukraine conflict and the associated sanctions imposed by the European Union on Russia, which had a major impact on the margins on commodity derivatives, in 2023, liquidity used for margin requirements decreased considerably despite the continuation of the war and the sanctions. At the end of the year, the liquidity risk index monitored for the Group was well within the limits set for 2023.

# Digital technology risks

The risks discussed in this section are as follows:



- Cyber security
- Digitalization, IT effectiveness and service continuity

## Cyber security

The speed of technological developments that constantly generate new challenges, the ever-increasing frequency and intensity of cyber-attacks and the attraction of critical infrastructures and strategic industrial sectors as targets underscore the potential risk that, in extreme cases, the normal operations of companies could grind to a halt. Cyber-attacks have evolved dramatically in recent years: their number has grown exponentially, as has their complexity and impact. In the case of the Enel Group, this exposure reflects the many environments in which it operates (data, industry and people), a circumstance that accompanies the intrinsic complexity and interconnection of the digital resources that over the years have been increasingly integrated into the Group's daily operating processes. In this context, it is clear that cyber risk must be managed promptly and in an integrated manner. In short, technological transformation could not exist without paying great attention to cyber security.

To manage cyber risk, the Group has developed a Cyber Security operating model and a related framework of processes. Specifically, the operating model defines roles and responsibilities for the implementation of the framework processes, establishing an *ad hoc* unit headed by the CISO (Chief Information Security Officer) and integrated into the Group's business areas. In addition, the Group has designed and adopted a framework of holistic processes to manage cyber-security issues that is applied to all the sectors of IT (Information Technology), OT (Operational Technology) and IoT (Internet of Things). The framework sets out a governance model based on the commitment of top management, on global strategic management, on the involvement of all business areas as well as of the units involved in the implementation of our IT, OT and IoT systems, constituting a solid foundation for the full merger of technologies, processes and people. The framework is based on two essential pillars: a "risk-based approach" and "cyber security by design". The former establishes that risk assessment is the prerequisite for strategic decisions and the development and safe maintenance of all assets within the organization; the latter ensures the adoption of cyber security principles from the beginning and throughout the entire life cycle of solutions, services and infrastructures in all areas, i.e. IT, OT and IoT. In applying the framework, a cyber risk management approach has been defined, applicable to all IT, OT and IoT environments. It comprises all the phases necessary to perform risk analysis and define related mitigation plans, consistent with the established cyber-security objectives. To balance the advantages of using IT/OT/IoT systems against the risk that they may engender, well-informed risk-based decisions are essential.

Enel has also created its own Cyber Emergency Readiness Team (CERT) in order to proactively respond to any IT security incidents.

In order to measure the possible financial impact of cyber risks and manage them more effectively, Enel has developed a Cyber Value-at-Risk ("Cyber V@R Enel Group<sup>®</sup>") methodology, which is being evolved as a metric to calculate Value-at-Risk in various attack scenarios.

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**Digitalization, IT effectiveness and service continuity**

The Group is carrying out a complete digital transformation of how it manages the entire energy value chain, developing new business models and digitizing its business processes, integrating systems and adopting new technologies. A consequence of this digital transformation is that the Group is increasingly exposed to risks related to the functioning of the IT systems, which are integrated across the Company with impacts on processes and operations, which could expose IT and OT systems to service interruptions or data losses.

These risks are managed using a series of internal measures developed by the Group to guide the digital transformation. It has set up an internal control system that introduces control points along the entire IT value chain, enabling us to prevent the emergence of risks engendered by such issues as the creation of services that do not meet business needs, the failure to adopt adequate security measures and service interruptions. The internal control system oversees both the activities performed in-house and those outsourced to external associates and service providers. Furthermore, Enel is promoting the dissemination of a digital culture and digital skills within the Group in order to successfully guide the digital transformation and minimize the associated risks.