

1.04.01 Operating results and investments

Growth reflects strategy

The Hera Group's results for 2020 were guided by its strategy, balanced between regulated and free market activities, with a focus on sustainability and circular economy. The main drivers were both internal growth, thanks to commercial development and organisational simplification, and the opportunities offered by the market, through the development of external growth and participation in public tenders related to the activities carried out.

The partnership with Ascopiave Spa and internal growth were principally responsible for the results achieved by Hera Group in 2020. These actions allowed the effects related to the Covid-19 emergency to be limited. The Group's multi-business industrial strategy, which balances regulated and free-market activities, continues to be a significant strong point that demonstrates its resilience even in a very difficult period such as the one we are currently going through.

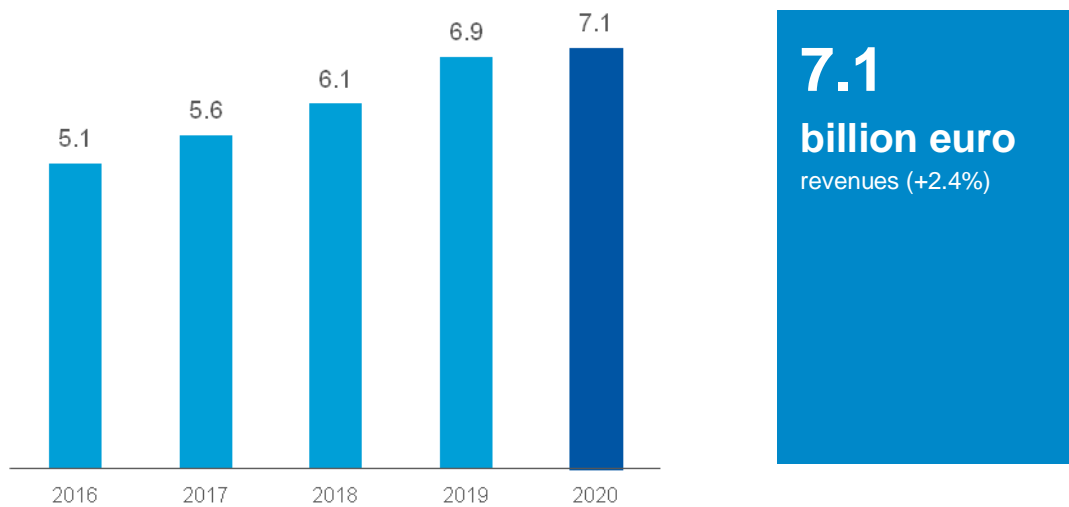


The companies that became part of the Group's scope of operations thanks to the transaction with Ascopiave Spa, not consolidated in the income statement for the previous financial year, and the consequent transfer of the gas distribution branch in some areas of the Veneto and Friuli regions, are considered as changes in the scope of operations in the remainder of this report. For further information on other corporate transactions, see paragraph 1.03.01.

The following table shows operating results at 31 December 2020 and 2019:

Constant and increasing growth

| Income statement (mn€) | Dec 20 | % inc. | Dec 19 | % inc. | Abs. change | % change |
|---|----------------|--------------|----------------|--------------|---------------|----------------|
| Revenues | 7,079.0 | | 6,912.8 | | 166.2 | +2.4% |
| Other operating revenues | 467.8 | 6.6% | 530.8 | 7.7% | (63.0) | (11.9)% |
| Raw and other materials | (3,410.6) | (48.2)% | (3,458.2) | (50.0)% | (47.6) | (1.4)% |
| Service costs | (2,424.9) | (34.3)% | (2,318.2) | (33.5)% | 106.7 | +4.6% |
| Other operating expenses | (58.9) | (0.8)% | (59.3) | (0.9)% | (0.4) | (0.7)% |
| Personnel costs | (572.7) | (8.1)% | (560.4) | (8.1)% | 12.3 | +2.2% |
| Capitalised costs | 43.3 | 0.6% | 37.6 | 0.5% | 5.7 | +15.1% |
| Ebitda | 1,123.0 | 15.9% | 1,085.1 | 15.7% | 37.9 | +3.5% |
| Amortization, depreciation and provisions | (571.7) | (8.1)% | (542.6) | (7.8)% | 29.1 | +5.4% |
| Ebit | 551.3 | 7.8% | 542.5 | 7.8% | 8.8 | +1.6% |
| Financial operations | (116.7) | (1.6)% | (100.0) | (1.4)% | 16.7 | +16.7% |
| Pre-tax result | 434.6 | 6.1% | 442.5 | 6.4% | (7.9) | (1.8)% |
| Taxes | (111.8) | (1.6)% | (125.4) | (1.8)% | (13.6) | (10.8)% |
| Net result | 322.8 | 4.6% | 317.1 | 4.6% | 5.7 | +1.8% |
| Result from special items | - | 0.0% | 84.9 | 1.2% | (84.9) | +100.0% |
| Net profit for the period | 322.8 | 4.6% | 402.0 | 5.8% | (79.2) | (19.7)% |
| Attributable to: | | | | | | |
| Parent company shareholders | 302.7 | 4.3% | 385.7 | 5.6% | (83.0) | (21.5)% |
| Non-controlling interests | 20.1 | 0.3% | 16.3 | 0.2% | 3.8 | 23.3% |

REVENUES (BN€)

Revenues increase thanks to changes in the scope of operations

Revenues were up 166.2 million euro, or 2.4%, compared to the same period in 2019. With regard to activities in the energy sectors, note the change in the scope of consolidation, which brought a 548 million euro increase, growth in the heat management business, thanks to activities related to insulation incentives and energy efficiency works, which contributed approximately 50 million euro, and the drop in revenues related to services in trading, production and sales of electricity, gas and district heating coming to approximately 275 million euro, due to lower commodity prices and lower volumes, partially linked to the ongoing health emergency; in addition, a reduction was seen in revenues from off-grid transmission and system charges coming to approximately 148 million euro, with an equal effect on costs.

Revenues from the water cycle for third-party contracts fell by approximately 13 million euro and revenues from water supply were down, due to the reduction in adjusted costs, by approximately 11 million euro.

Revenues from the waste management area were also down, due to lower energy production revenues and a reduction in the amount of waste treated, coming to approximately 19 million euro.

Finally, roughly 35 million euro in revenues from the sale of materials recovered through sorted waste collection were reclassified from other operating revenues to revenues.

For further details, see the analyses of each business area.

Other operating revenues decreased by 63.0 million euro, or 11.9%, compared to the previous year. This performance is mainly due to the different accounting of revenues for the sale of recovered materials, as mentioned above, coming to 35 million euro, lower energy efficiency grants amounting to roughly 12 million euro, of which 9 million euro due to branches leaving the scope of consolidation, a decrease in revenues from concession activities amounting to approximately 7 million euro, the loss of energy incentives on one plant coming to 4.3 million euro and lower refunds and grants in 2019.

Costs for raw materials in line with trends in revenues

Costs for raw and other materials decreased by 47.6 million euro compared to 2019, down 1.4%. This decrease is due to lower costs for the price of raw materials and lower volumes of electricity and gas sold, despite the effect of changes in the scope of operations, which increased costs by approximately 280 million euro. Also down were costs for purchasing plastic materials, water as a raw material for supply and electricity for plant operations.

Other operating costs rose by 106.3 million euro overall (higher service costs coming to 106.7 million euro and lower operating expenses totalling 0.4 million euro). Net of changes in the scope of operations, coming to roughly 197 million euro, these include higher costs for ICT expenses due to the Group's ongoing digitisation and innovation process, amounting to approximately 11 million euros, higher gas storage costs coming to approximately 23 million euro, higher costs linked to heat management activities amounting to 42 million euro and higher waste collection and treatment costs coming to roughly 6.3 million euro. The higher costs mentioned above were partially offset by lower costs for works on behalf of third parties, amounting to roughly 12.0 million euro, lower costs for

incremental improvements to assets under concession totalling approximately 11 million euro and lower costs for off-network transmission and system charges coming to roughly 148 million euro.. Finally, related to the ongoing health emergency, higher costs were seen for sanitization, cleaning and the purchase of PPE, offset by lower costs for canteens and utilities in the Group's buildings, due to the increase in remote working.



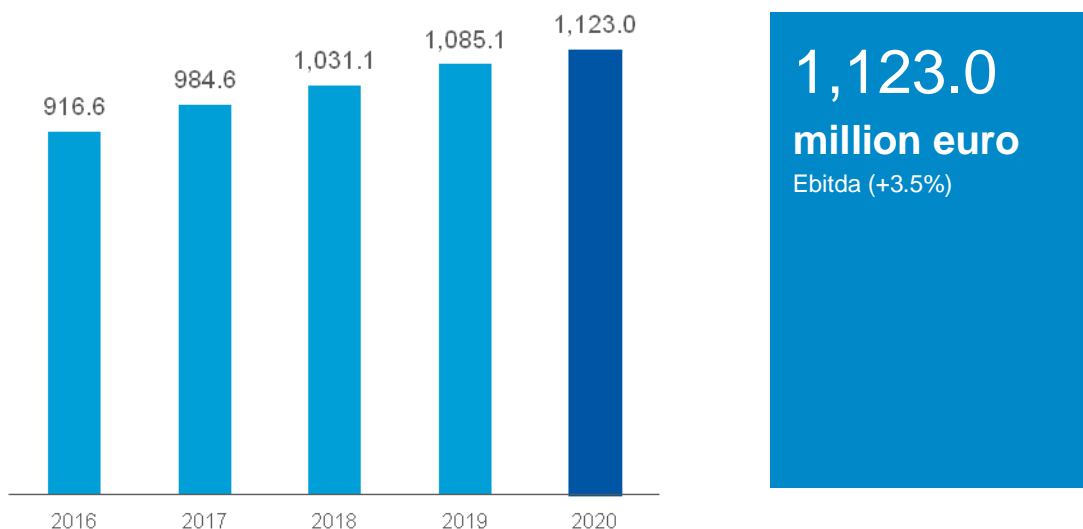
**+1.3%
personnel
costs**

Personnel costs rose by 12.3 million euro or 2.2%. This increase was linked to changes in the scope of operations coming to 10.3 million euro and increases in remuneration foreseen by the National labour contract, but was limited thanks to the benefit brought by the large-scale plan of holiday leave introduced by the Group during the health emergency and the lower average presence.



Capitalised costs rose by 5.7 million euro, owing to a higher amount of work invested in Group assets and between companies.

EBITDA (MN€)



Ebitda rose by 37.9 million euro, or 3.5%. This increase in Ebitda is due to the performance of the energy areas, which grew by a total of 42.5 million euro, primarily owing to the entry of companies in the EstEnergy Group. The other services area grew by 1.2 million euro, while the water cycle area increased by 0.5 million euros. Finally, the waste management area was down by 6.2 million euro. 2020 was impacted across all business areas by the Covid-19 health emergency, which led to an overall reduction in margins of approximately 31.4 million euro.

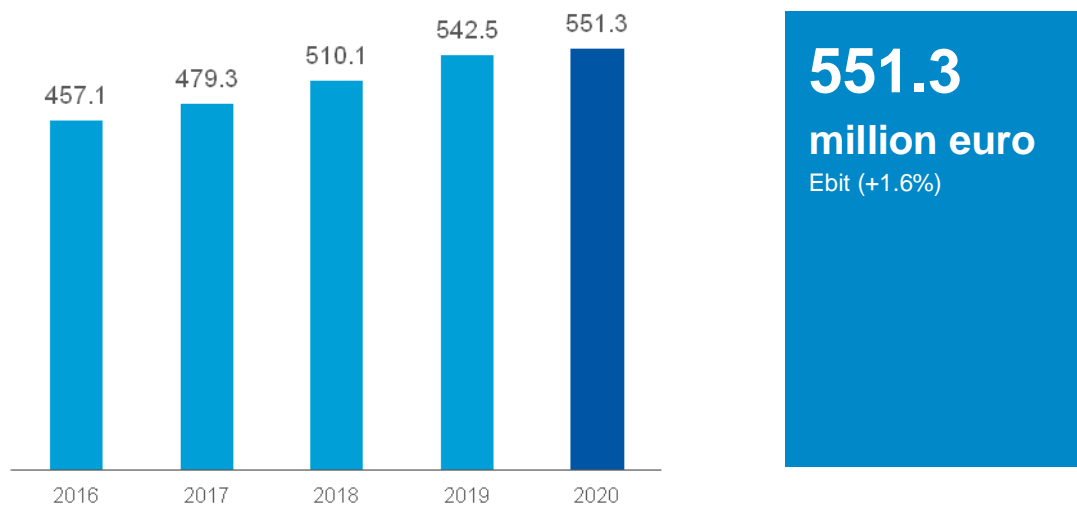


For further details, see the analyses of each single business area.

**Higher
amortisation
for changes
in the scope
of operations**

Amortisation, depreciation and provisions increased by 29.1 million euro. Higher amortisation coming to 16.7 million euro was mainly due to changes in the scope of operations, owing to amortisation for customer lists recorded following the transaction involving the acquisition Ascopiave sales companies, and the delta price for waste disposed of in landfills, partially offset by the revision carried out during the previous year of technical-economic useful lifetimes of assets in the integrated water cycle area, carried out in collaboration with a company working in asset valuation; following this revision, amortisation rates for the integrated water cycle were essentially in line with the ones set by Arera for the 2020 – 2023 tariff period. Excluding changes in the scope of operations, allocations to the doubtful debt provision increased slightly, by 0.6 million euro, while considering the entire Group the increase came to 29 million euro.

EBIT (mn€)



Ebit rose by 8.8 million euro or 1.6%. The increase coming from growth in Ebitda was offset by higher amortisation linked to customer list recording, as mentioned above.

Financial operations
+16.7%

The result of financial operations showed net charges rising by 16.7 million euro, or 16.7%, compared to 31 December 2019. The increase is mainly due to the higher notional charges related to the Put option held by Ascopiave Spa for the 48% shareholding in EstEnergy (19.4 million euro) and the loan recorded following the sale of 3% in HeraComm (3.2 million euro).

A positive impact came from lower charges ensuing from efficiencies in the financial structure, amounting to approximately 7.1 million euro, and non-recurring income coming to 8.8 million euro (of which 3.4 million euro deriving from dividends and subsidiary trading and 2.3 million euro in interest income related to the refund granted by the tax authorities in July 2020), which more than offset the increase in notional charges for discounting landfill post-mortem costs and lower profits from joint ventures, due to lower results owing to the Covid-19 health crisis.

Pre-tax results fell by 7.9 million euro, or 1.8%, for the reasons described above.

Tax rate falls

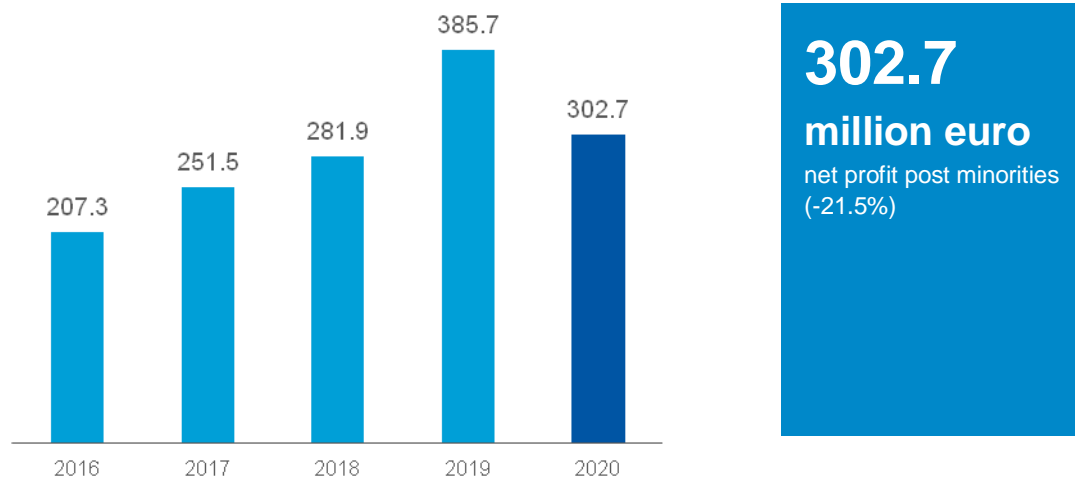
Taxes for the period fell by 13.6 million euro or 10.8%. The tax rate came to 25.7% and thus showed considerable improvement compared to the 28.3% seen one year earlier. This particularly positive result was due, as in previous years, to the benefits grasped in terms of large and extremely large amortisations, in addition to the tax credit introduced by the national budget for 2020 as regards the significant investments constantly made by the Group in pursuing a technological, digital and environmental transformation. The 2020 tax rate also benefited from the redemption, pursuant to Law Decree no. 185/2008 (converted into Law no. 2/2009), of some higher amounts originating from an equal number of acquisition transactions. For further details on this matter, see note 12, commenting on taxes, in paragraph 2.02.05 "Commentary notes on the financial statement formats".

+1.8%
Net result

The net result rose by 1.8%, corresponding to 5.7 million euro.

The 2019 statements include a result from special items with an overall value coming to 84.9 million euro. Detailed descriptions of its content are provided at the beginning of paragraph 1.04 "Overview of operating and financial trends and definition of alternative performance measures".

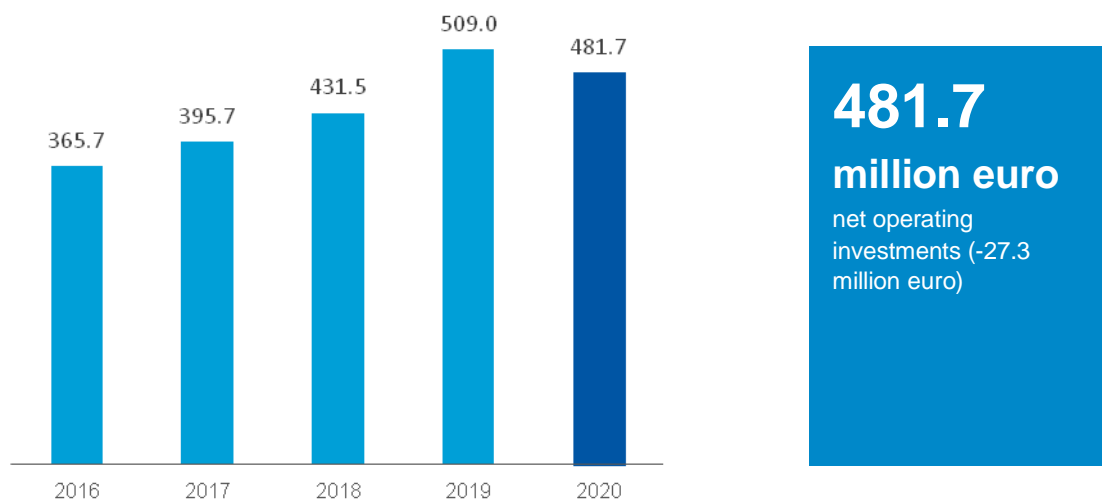
Net profit therefore dropped by 19.7% or 79.2 million euro, owing to the presence of special items in 2019.

NET PROFIT POST MINORITIES (MNE)

Profits pertaining to the Group dropped by 83.0 million euro, owing to the special items recorded in 2019, which came to 84.9 million euro. Adjusted net profits post minorities for 2019 therefore came to 300.8 million euro, and 2020 showed 1.9 million euro or 0.6% increase.

**Net
investments
at 528.5
million
euro**

In 2020, the Group's investments amounted to 528.5 million euro, including 46.8 million euro related to the purchase of financial investments, which mainly refer to a 4.9% shareholding in Ascopiave Spa. Capital grants amounted to 24.8 million euro, of which 13.6 million euro in FoNI investments, as provided for by the tariff method for the integrated water service. Net operating investments amounted to 481.7 million euro, down 27.3 million euro compared to the previous year.

TOTAL NET OPERATING INVESTMENTS (mn€)

The following table provides a breakdown by business area, with separate mention of capital grants:

| Total investments (mn€) | Dec 20 | Dec 19 | Abs. change | % change |
|--|--------------|--------------|---------------|---------------|
| Gas area | 135.3 | 138.3 | (3.0) | (2.2)% |
| Electricity area | 47.7 | 43.4 | 4.3 | +9.9% |
| Integrated water cycle area | 166.2 | 175.8 | (9.6) | (5.5)% |
| Waste management area | 68.3 | 81.8 | (13.5) | (16.5)% |
| Other services area | 11.1 | 16.0 | (4.9) | (30.6)% |
| Headquarters | 77.9 | 78.2 | (0.3) | (0.4)% |
| Total gross operating investments | 506.4 | 533.5 | (27.1) | (5.1)% |
| Capital grants | 24.8 | 24.5 | 0.3 | +1.2% |
| of which FoNi (New Investments Fund) | 13.6 | 13.4 | 0.2 | +1.5% |
| Total net operating investments | 481.7 | 509.0 | (27.3) | (5.4)% |
| Financial investments | 46.9 | 0.2 | 46.7 | +100.0% |
| Total net investments | 528.5 | 509.2 | 19.3 | +3.8% |

Including capital grants, the Group's operating investments came to 506.4 million euro, down 27.1 million euro compared to the previous year, and mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale metre substitution, and the purification and sewerage areas.

Remarks on investments in each single area are included in the analysis by business area.

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall, investments in structures decreased by 0.3 million euro compared to the previous year, with a reduction in the vehicle fleet and increased interventions on the Group's IT systems.

1.04.02 Financial structure and adjusted net debt

What follows is an analysis of trends in the Group's net invested capital and sources of financing at 31 December 2020.

| Invested capital and sources of financing (mn€) | Dec 20 | % inc. | Dec 19 | % inc. | Abs. change | % change |
|---|------------------|-----------------|------------------|----------------|---------------|---------------|
| Net non-current assets | 6,983.6 | +109.4% | 6,846.3 | +108.9% | 137.3 | +2.0% |
| Net working capital | 53.6 | +0.8% | 87.0 | +1.4% | (33.4) | (38.4)% |
| (Provisions) | (654.9) | (10.2)% | (649.1) | (10.3)% | (5.8) | (0.9)% |
| Net invested capital | 6,382.3 | +100.0% | 6,284.2 | +100.0% | 98.1 | +1.6% |
| Equity | (3,155.3) | +49.4% | (3,010.0) | +47.9% | (145.3) | (4.8)% |
| Long-term borrowings | (3,617.1) | +56.7% | (3,383.4) | +53.8% | (233.7) | (6.9)% |
| Net current financial debt | 390.1 | (6.1)% | 109.2 | (1.7)% | 280.9 | +257.2% |
| Net debt | (3,227.0) | +50.6% | (3,274.2) | +52.1% | 47.2 | +1.4% |
| Total sources of financing | (6,382.3) | (100.0)% | (6,284.2) | +100.0% | (98.1) | (1.6)% |

Group solidity increases

The higher amount of net invested capital (NIC) compared to 31 December 2019 is related to an increase in net non-current assets, mainly due to investments made during 2020. In particular, note the acquisition of a 4.9% shareholding in Ascopiave Spa, which reinforced the partnership launched in December 2019, and Hera Comm Spa's acquisition of 90% of the company Wolmann Spa, involved in creating solar panels.