

With its 2019 financial report, the Hera Group shows continued growth in all operational, financial and sustainability indicators. Ebitda settled at 1,085.1 million euro, up 5.2%, Ebit reached 542.5 million euro, increasing by 6.4%, and net profits came to 402.0 million euro, growing by 35.5%. From a financial point of view as well, improvement was seen over 2018, due to the Group's solid financial structure: the adjusted net debt/Ebitda ratio came to 2.48; adjusted Roi settled at 9.4% and adjusted Roe at 10.4%.

These 2019 results confirm the Group's path of uninterrupted growth and its solid foundations, having by now consolidated its multi-business strategy, balanced between regulated and free market activities. Reaching these results, which were matched by similar ones in terms of sustainability and opportunities for creating shared value through the principles of a circular economy, was made possible by respecting the pillars of the Hera Group's strategy, aimed at synergic growth: innovation, efficiency, agility, excellence and growth. The partnership with Ascopiave Spa, as described above, will also be highly important in the years to come.

The main corporate and business operations which had an effect on 2019 are as follows:

- Hera Comm Spa was awarded seven portions out of ten in safeguarded electricity auctions for the 2019-2020 two-year period held by the Single Purchaser, with 15 regions assigned (Liguria, Piedmont, Valle d'Aosta, Trentino-Alto Adige, Lombardy, Veneto, Emilia-Romagna, Friuli-Venezia Giulia, Sardinia, Lazio, Campania, Abruzzo, Puglia, Molise and Basilicata).
- On 1 February 2019, after winning the public auction, Hera Spa acquired 0.5% of Marche Multiservizi Spa from shareholder Unione Montana Alta Valle del Metauro, thus increasing its shareholding from 46.2% to 46.7%.
- As of 1 March 2019, the Hera Group merged the natural gas distribution activities of CMV Servizi, through the company A Tutta Rete Srl, and the energy sales activities of CMV Energia e Impianti Srl. The two companies were owned by the Municipalities of Cento, Vigarano Mainarda, Bondeno, Poggio Renatico, Terre del Reno and Goro. The transaction involved roughly 25 thousand customers (21,300 in gas and 3,500 in electricity) and roughly 30

thousand delivery points (26,500 in the Ferrara area and over 3,100 in the Bologna area) in natural gas distribution.

- On 23 April, Hera Spa acquired 3.28% of the share capital of Acantho Spa from Aimag Spa, thus increasing its shareholding from 77.36% to 80.64%.
- On 9 May 2019, Hera Spa was definitively awarded the tender for acquiring 100% of shares of Cosea Ambiente Spa, a company managing municipal and similar waste services mainly in the province of Bologna. Cosea Ambiente Spa was consolidated as of June 2019, with operating and financial effects backdated to 1 January 2019. Furthermore, a Concession Act was stipulated between Cosea Consorzio Servizi Ambientali and Herambiente Spa which conceded the municipal, assimilated and special non-dangerous waste disposal plant located in Gaggio Montano to Herambiente Spa.
- Effective as of 1 July 2019 and with accounting effects backdated to 1 January 2019, the company Waste Recycling Spa was merged by incorporation into Herambiente Servizi Industriali Srl. This transaction was aimed at simplifying and generally improving operating efficiency, and led to the establishment of Italy's largest operator in industrial waste management.
- On 17 July 2019, Herambiente Spa acquired the entire shareholding of Pistoia Ambiente Srl, involved in managing the special waste landfill located in the Municipality of Serravalle Pistoiese. The company was consolidated with operating and financial effects as of 1 July 2019.
- Hera Comm Spa was awarded the tender, for the period from 1 October 2019 to 30 September 2020, four portions of the gas service (for customers in public services or without a supplier) and two portions of the default gas distribution service (for customers in arrears).
- On 19 December, with the finalised closing of the corporate transaction between the Hera Group and the Ascopiave Group, the following operations were completed: shareholdings in the companies Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa, Etra Energia Srl, Asm Set Srl and Hera Comm NordEst Srl were transferred to Estenergy Spa, a company controlled by Hera Comm Spa; shareholding in the company Amgas Blu Srl was transferred to Hera Comm Spa; shareholding in the company AP Reti Gas Nord Est Srl was transferred to Ascopiave Spa. Furthermore, AcegasApsAmga Spa's Gas Distribution branch concerning the Padua 1, Padua 2, Udine 3 and Pordenone Atems, effective as of 31 December 2019, was transferred to AP Reti Gas Nord Est Srl. For further information, see paragraph 1.03.01.

The acquisitions of Sangroservizi Srl, Cmv and Atr Srl in the energy area and Cosea Ambiente Spa, Pistoia Ambiente Srl and the Gaggio Montano plant in the waste management area are considered as a change in the scope of operations in the remainder of this report. The Ascopiave transaction has no operating effects on the Group's income statement at 31 December 2019.

As of 2019, accounting standard IFRS 16 leases came into effect, which provides a new definition of leases and introduces a criterion based on the right of use of an asset to distinguish leasing contracts from service contracts. Put briefly, what this standard entails for the Hera Group, in the first adoption phase, are lower costs for services but higher amortisation and financial charges in the income statement, and from a financial point of view, higher non-current assets and higher financial debt.

As indicated by accounting standard IFRS 15, the costs involved in commissions paid to agents, amounting to roughly 13 million euro, have been recorded as assets and are amortised according to the average useful life of the customers acquired (churn rate).

The following table shows operating results at 31 December 2019 and 2018:

Income statement (mIn/euro)	Dec 19	% inc.	Dec 18	% inc.	Abs. change	% change
Revenues	6,912.8		6,134.4		+778.4	+12.7%
Other operating revenues	530.8	7.7%	492.0	8.0%	+38.8	+7.9%
Raw and other materials	(3,458.2)	-50.0%	(2,984.1)	-48.6%	+474.1	+15.9%
Service costs	(2,318.2)	-33.5%	(2,040.5)	-33.3%	+277.7	+13.6%
Other operating costs	(59.3)	-0.9%	(62.5)	-1.0%	-3.2	-5.1%
Personnel costs	(560.4)	-8.1%	(551.4)	-9.0%	+9.0	+1.6%
Capitalised costs	37.6	0.5%	43.3	0.7%	-5.7	-13.2%
Ebitda	1,085.1	15.7%	1,031.1	16.8%	+54.0	+5.2%
Amortisation, depreciation and provisions	(542.6)	-7.8%	(521.0)	-8.5%	+21.6	+4.1%
Ebit	542.5	7.8%	510.1	8.3%	+32.4	+6.4%
Financial operations	(100.0)	-1.4%	(91.7)	-1.5%	+8.3	+9.1%
Pre-tax profit	442.5	6.4%	418.5	6.8%	+24.0	+5.7%
Taxes	(125.4)	-1.8%	(121.9)	-2.0%	+3.5	+2.9%
Net result	317.1	4.6%	296.6	4.8%	+20.5	+6.9%
Result from special items	84.9	1.2%	0.0	0.0%	+84.9	+100.0%
Net profit for the period	402.0	5.8%	296.6	4.8%	+105.4	+35.5%
Attributable to:						
Parent company shareholders	385.7	5.6%	281.9	4.6%	+103.8	+36.8%
Non-controlling interests	16.3	0.2%	14.7	0.2%	+1.6	+10.9%

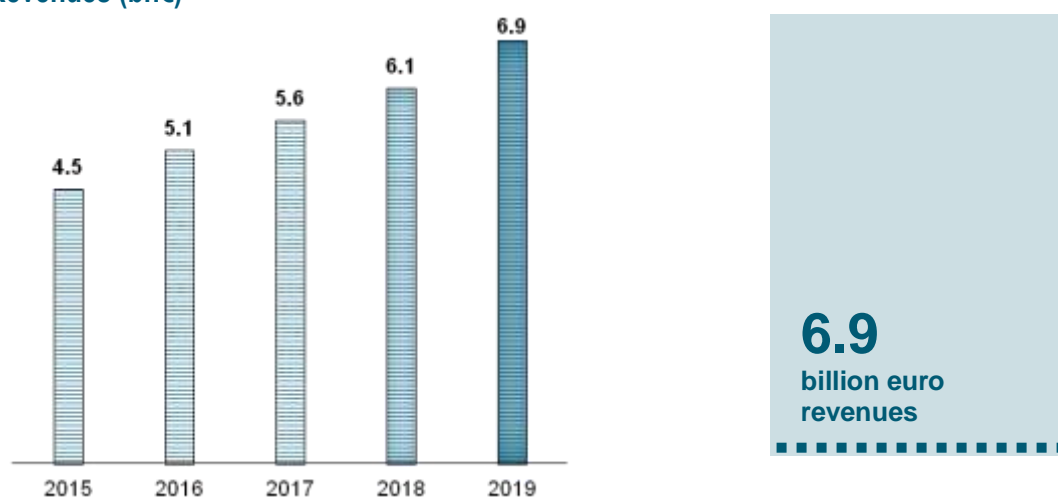
Constant and increasing growth

Revenues came to 6,912.8 million euro, up 778.4 million euro or 12.7% over the 6,134.4 million euro seen in 2018. In the area of energy, this growth in revenues was sustained by roughly 435 million euro in trading, roughly 59 million euro in higher volumes of gas and electricity sold, roughly 14 million euro in higher revenues from electricity generation, and pass-through revenues for volumes transmitted and system charges coming to 205 million euro; a decrease was seen in gas and electricity sales revenues, owing to the lower price of commodities, coming to roughly 21 million euro. Furthermore, higher regulated revenues were seen in the gas, electricity and water cycle areas, amounting to 16 million euro overall and, lastly, in the waste management area higher revenues were seen for waste treatment. Changes in the scope of operations led to an overall rise in revenues amounting 25 million euro. Growth in foreign activities, in Bulgaria, contributed with 5 million euro.

Revenues grow thanks to higher volumes of energy sold and trading

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

Revenues (bn€)



Other operating revenues increased over the previous year by 38.8 million euro or 7.9%. This growth is mainly due to higher revenues from Ifric 12 commissions coming to 46 million euro and higher contributions from sorted waste totalling roughly 5.0 million euro. The increase was offset by a lower contribution from energy efficiency certificates coming to roughly 4 million euro, the loss of CEC contributions in two Group plants amounting to roughly 5 million euro and lower reimbursements and non-recurring contributions from the previous year totalling roughly 3 million euro.

Costs for raw and other materials rose by 474.1 million euro compared to 31 December 2018, up 15.9%. This increase, not including changes in the scope of operations, which accounted for roughly 1.5 million euro, was due to a larger amount of trading, a rise in the price of raw materials and higher volumes of gas and electricity sold.

Rise in costs of raw materials linked to higher revenues

Other operating costs rose by 274.5 million euro overall (with higher costs for services coming to 277.7 million euro and lower operating expenses amounting to 3.2 million euro). Not including changes in the scope of operations, which accounted for roughly 13 million euro, note the higher pass-through costs for service charges and volumes transmitted coming to roughly 205 million euro, higher costs in gas trading services totalling 18 million euro, roughly 34.5 million euro in higher costs for Ifric 12 commissions, higher costs in the waste management area coming to roughly 29.0 million euro and expenses in the Ict area amounting to roughly 7 million euro for the Group's ongoing digitalisation and innovation processes. The higher costs noted above were only partially offset by lower costs for leasing, following the application of accounting standard Ifrs 16, amounting to roughly 16.6 million euro, and lower costs in the income statement owing to the acquisition of energy customers which are capitalised, as indicated above, amounting to 13 million euro.

The cost of personnel rose by 9.0 million euro or 1.6%. This increase is due to changes in the scope of operations, amounting to 7.0 million euro, while the remainder results from the increases in remuneration foreseen by the National labour contract, offset by reductions in contribution benefits and a lower average presence.

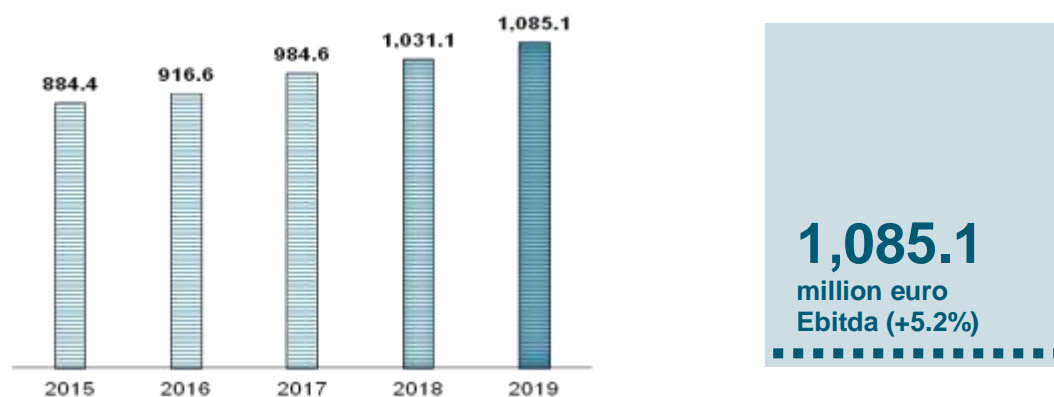
+1.6% increase in the cost of personnel

Capitalised costs at 31 December 2019 fell compared to the previous year by 5.7 million euro or 13.2%, owing to a lower amount of interventions on plants and work on Group assets.

Ebitda settled at 1,085.1 million euro, up 54.0 million euro or 5.2% over 2018. This growth in Ebitda can be traced to the excellent performance seen in almost all business areas. The energy areas grew by 20.1 million euro overall, thanks to the good of the gas area, whose result increased by 25.1 million euro, offsetting the trend seen in the electricity area, which dropped by 5.0 million euro. The water cycle area contributed to growth with 15.6 million euro, the waste management area with 12.2 million euro and, lastly, the other services area with 6.1 million euro.

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

Ebitda (mn€)



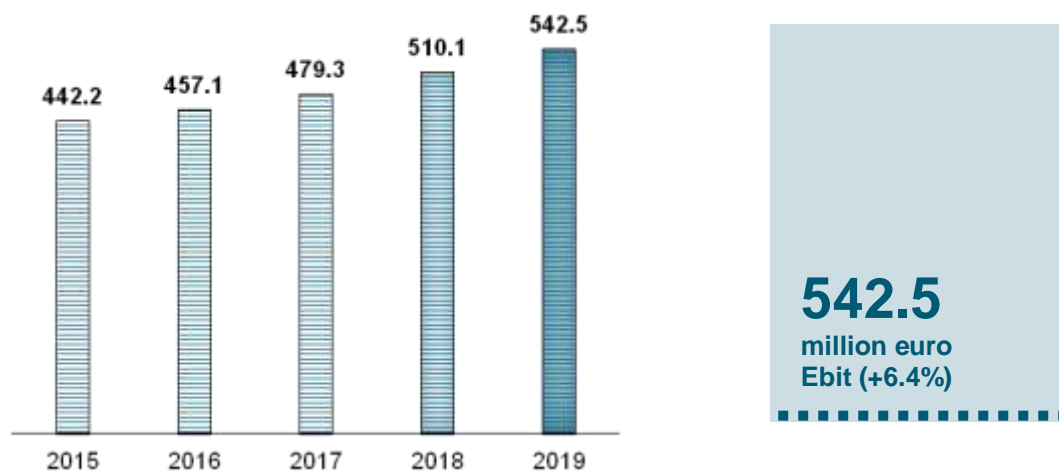
Amortisation, depreciation and provisions at 31 December 2019 increased by 21.6 million euro over the previous year, going from 521.0 million euro to 542.6 million euro. Amortisation rose on account of new operating investments and by way of the application of accounting standard Ifrs16 concerning the statement of leasing contracts, and due to an adjustment in the technical-economic useful lives of assets in the integrated water cycle. This analysis, carried out in collaboration with a company working in asset valuation, led to an increase in amortisation rates whose net effect came to roughly 8.2 million; 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.

Higher amortisation owing to Ifrs 16 and adjustment in rates for useful life in the water sector

Allocations to the doubtful debt provision dropped, in particular in the sales company.

Ebit for 2019 came to 542.5 million euro, up 32.4 million euro or 6.4% over the 510.1 million euro seen one year earlier.

Ebit (mn€)



The result of financial operations came to 100.0 million euro at the end of 2019, up 8.3 million euro or 9.1% compared to 31 December 2018. This increase is due to lower non-recurring income received in the previous period: higher dividends paid by subsidiary Veneta Sanitaria Finanza di Progetto coming to roughly 2.0 million euro, the application of international accounting standard IFRS 16 on operating leases, which had a roughly 3.5 million euro impact on charges. Lastly, lower profits amounting to roughly 1.5 million euro came from affiliated companies and joint ventures.

Financial operations
increase due to non-
recurring elements

Pre-tax results rose by 24.0 million euro or 5.7%, going from 418.5 million euro at 31 December 2018 to 442.5 million euro in 2019.

Taxes went from 121.9 million in 2018 to 125.4 in 2019. The adjusted tax rate, calculated on the pre-tax result net of the special items described above, came to 28.3% and thus improved sharply compared to the 29.1% seen one year earlier. This result is mainly due to the benefits grasped in terms of large and extremely large amortisations and the patent box, in particular concerning investments added to the ones made in previous years to move towards the technological, digital and environmental transformation pursued by the Group.

Tax rate drops

The net result increased by 6.9%, amounting to 20.5 million euro, going from 296.6 million euro at the end of 2018 to 317.1 million euro in 2019.

In 2019, the result was increased by special items coming to 84.9 million euro. As regards the Hera – Ascopiave partnership and the effects on the income statement of the entire transaction, note:

- as regards gas distribution, Ascopiave Spa acquired from the Hera Group an area of concessions covering roughly 188,000 users in the Veneto and Friuli-Venezia Giulia regions. This transfer caused a capital gain of 30.2 million euro for the Hera Group, classified in the income statement under "Other non-operating revenues" (see note 11 in the explanatory notes).
- the reassessment of the previous shareholding in EstEnergy Spa (coming to 51% of the share capital), following the control obtained over that company, led 81.4 million euro in profits to be included in the income statement, classified among "Other non-operating revenues" (see note 11 in the explanatory notes).

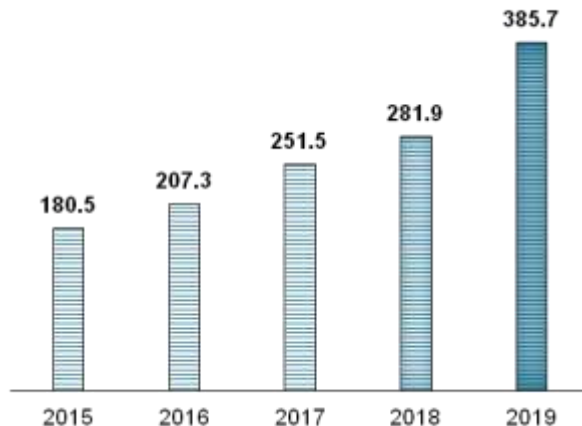
Furthermore, the impairment process carried out on a yearly basis for electricity generation assets led to a depreciation amounting to 26 million euro, classified in the income statement under "financial charges". For a more detailed description of the entire process, see note 32 in the explanatory notes. The effect on taxes coming from the Ascopiave transaction, which amounted to 0.7 million euro, involved taxes applied to capital gains/losses on transfers of branches and shareholdings between the parties, once again concerning the same transaction, classified in the income statement under "taxes", (see note 12 in the explanatory notes).

Net profit thus rose by 35.5% or 105.4 million euro, going from 296.6 million euro in 2018 to 402.0 million euro at the end of 2019.

+35.5%
Net profit

Profits pertaining to the Group amounted to 385.7 million euro, up 103.8 million euro over the amount seen in 2018.

Net profit post minorities (mn€)



385.7
million euro
net profit post
minorities (+36.8%)