2021
CONSOLIDATED FINANCIAL STATEMENT

The results of a multi-business strategy
and long-term value creation,
rising to tomorrow's challenges today

2021
CONSOLIDATED FINANCIAL STATEMENT

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HERA GROUP CONSOLIDATED FINANCIAL STATEMENTS

KEY

The Hera Group's 2021 financial report is set out in two chapters:

DIRECTORS' REPORT

This chapter examines the contexts in which the Group operated during the year and the scenarios that are expected to influence it in the future, the elements that give rise to the strategic approach adopted to respond to challenges, manage emerging risks and seize the opportunities that lie ahead. The operating and financial performance of each strategic business area is also analysed, including in terms of sustainability and shared value.

CONSOLIDATED FINANCIAL STATEMENTS

This overall report follows international standards in providing the economic results achieved and the financial position of the entire Group, with specific details about the individual figures in the financial statements and their respective valuation processes.

In order to facilitate a clear and coherent reading of the contexts, strategy, risks and results achieved, a number of icons are included in the report.

LINK

BS Link to sustainability report

CG Link to corporate governance

RS Link to sustainability thematic reports

web Link to information found on the website

CLIMATE CHANGE

Task force on climate-related financial disclosures

Governance and strategy

Risk and opportunity management

Metrics & targets

INFORMATION

Macroeconomic-financial

Businesses and regulations

Environmental

Human capital

Technology

In order to provide a full and coherent vision of all the information Hera shares with its stakeholders, other reporting tools are also available.

INTRODUCTION

LETTER FROM THE CHAIRMAN TO SHAREHOLDERS

Dear Shareholders,

In 2021, despite the ongoing health emergency caused by the Coronavirus and an international scenario complicated by the volatility of the energy market, the Group once again demonstrated the solidity and resilience of its business model.

The results that appear in our financial statements – which are submitted for your approval – are positive on all fronts and confirm a trend of sustainable growth, both internal and external. This growth has continued uninterruptedly since 2002, throughout the Group's twenty-year history, and is also reflected by improvement in the main indicators.

Ebitda rose to 1,223.9 million euro, up 9% on the previous year. This result is linked to the performance coming from the energy areas, and also includes a strong increase in energy services due to the incentives deriving from tax bonuses and energy efficiency works. A decisive contribution was made by the waste management area, which, as regards treatment, also benefited from the higher number of plants managed, following recent acquisitions.

Our focus on creating value was also confirmed: net profit attributable to shareholders amounted to 333.5 million euro, up 10.2% on 2020, with returns remaining high on both invested capital, at 9.2%, and equity, at 10.5%.

Our commitment to jointly pursuing the company's growth and sustainable development enabled us, in 2021 as well, to support the economic fabric in which we operate. This primarily involves our customers, and concrete actions such as bill instalment plans to enable them to meet their payments. We will continue to do so in spite of the current scenario, which remains complex. Our proposal to increase the dividend to 12 cents per share, in line with what was announced during the presentation of our new Business Plan, goes in this direction. We are certain that our shareholders will appreciate this, knowing they will be able to count on higher income to face the current difficult situation.

The results achieved in 2021 show a further strengthening of the company's equity and financial solidity, with the net debt/Ebitda ratio coming to 2.66x, an improvement compared to the previous year. The positive cash flow, in addition to financing M&A transactions and covering most of our liability management operations, allowed us, in fact, to keep our net financial debt essentially stable, at 3,261.3 million at 31 December 2021, in line with the 3,227.0 million seen at 31 December 2020.

Furthermore, the positive cash flow allowed us to make greater investments, with positive effects on the areas in which we operate, both in terms of service quality and satellite activities. Including capital grants, operating investments coming to 588.7 million euro were made in 2021, up 16.3% from 506.4 million euro in the previous year, with an important focus on asset resilience. Plants, networks and infrastructures all benefited from this, with regulatory upgrading in the field of purification and sewage and a large-scale installation of new-generation gas meters.

In spite of the uncertain external context, our Group has confirmed that it is a strong point of reference for its stakeholders. In 2021, Hera won all the tenders for renewing concessions in regulated services, among the first held in Italy, with proposals geared towards sustainability and innovation, from gas distribution in the Udine 2 ATEM, through our subsidiary AcegasApsAmga, to the water cycle in the Rimini area, including the provincial capital, to the most recent awards for waste management services in Bologna and Modena. By winning these tenders, we have transformed old concessions into new, long-term concessions with a high asset value.

The fact that growth in economic results, for us, goes hand in hand with an increasing focus on sustainability is reflected by the growth in shared value Ebitda, which refers to business activities that also meet the drivers for sustainable growth. In 2021, this figure exceeded 570 million euro, equivalent to 46.6% of total Ebitda, with a significant 25.4% increase over 2020.

The Hera Group's best practices in ESG (Environmental, Social, and Governance) areas are also demonstrated by Hera's inclusion in the MIB ESG Index, the first blue-chip index in Italy dedicated to ESG best practices, and by its confirmation in the Dow Jones Sustainability Index, World and Europe, one of the world's most authoritative stock exchange indices for evaluating social responsibility, in which our company ranked as the best in the Multi-Utility & Water sector. Furthermore, as part of our strategy to reduce emissions and recycle plastics, we successfully launched our first sustainability-linked bond in 2021, with a nominal value of 500 million euro.

A climate of confidence therefore exists around us, which attests to the farsightedness of the path we have set out for ourselves. This invites us to continue with even stronger impetus, with the aim of continuing to create value in the interest of all our stakeholders, as reported in greater detail in the sustainability report, presented alongside with our annual financial statements.

The international scenario, which has deteriorated with the war in Ukraine, deserves our utmost attention in this regard and, in turn, can only confirm how indispensable two factors are, on which we have based our twenty-year history: concreteness and solidity. This is precisely the reason for which, in line with our new Business Plan, presented in January, we will continue to work attentively on risk prevention and management, using a medium- to long-term approach that will enable us to overcome the complexities of the current economic situation, guaranteeing service quality and continuity and creating further value for the many people, inside and outside the Group, who have never stopped believing in us.

Thank you for your kind attention,

Tomaso Tommasi di Vignano
Executive Chairman

MISSION

HERA AIMS AT BEING THE BEST MULTI-UTILITY IN ITALY

for its customers, workforce and shareholders. It intends to achieve this by further developing an original corporate model capable of innovating and forging strong links with the areas served, while respecting the local environment.

FOR HERA, BEING THE BEST IS A WAY OF CREATING PRIDE AND TRUST FOR:

OUR CUSTOMERS, who receive quality services that satisfy their expectations, thanks to Hera's constant responsiveness.

OUR EMPLOYEES, because the women and men who work for the company, with their skills, engagement and passion, are the foundation of its success.

OUR SHAREHOLDERS, confident that the economic value of the company will continue to be generated in full respect of the principles of social responsibility.

OUR SUPPLIERS, because they are key elements in the value chain and partners in growth.

THE LOCAL AREAS SERVED, because economic, social and environmental wealth represents the promise of a sustainable future.

PURPOSE AND STRATEGY

Hera pursues a **multi-business** growth strategy concentrated on three core business areas: **waste management, water services and energy**. This allows us to maintain a balanced portfolio that includes both regulated and free-market activities, which even when facing a scenario that shows increasingly frequent systemic crises lays the foundations for a path of steady growth.

The Group is distinguished by its search for excellent and innovative management models which, as appears in the Business Plan to 2025 as well, embody the principles of a **circular economy** and move towards **carbon neutrality**, making the most of emerging technological innovations, ever more decisive in increasing efficiency and resilience in assets and services.
In much the same way, long-term **risk and opportunity** assessment and management is continuously improved within the Group's strategy, as it is required to guarantee the **fundamental services** it provides to all, even in extreme or extraordinary circumstances.

Measuring the shared value generated for the local area provides tangible, quantifiable evidence that Hera has adopted a model suitable to achieve **sustainable growth** and a "just" transition, in which stakeholders are invited to play an increasingly active role.
Overall, the Group's strategy combines business development with the needs of the ecosystem in which it operates, enhancing the reciprocal trust-based relationship it enjoys with its local areas, as is further shown by the formal inclusion of Hera's social and environmental purpose within its Articles of Association.

THE WORDS THAT GUIDE OUR VISION

G

GREEN

Continuing along our path towards **CARBON NEUTRALITY**, with bioenergies and energy efficiency, respecting the TCFD's recommendations and the SBTi

R

RESILIENCE & REGENERATION

Reinforcing the **RESILIENCE** of our assets and processes, making them reactive and adaptive to **CLIMATE CHANGE**, and coming full circle, reducing our footprint and regenerating resources

O

OPPORTUNITIES

Grasping occasions for **GROWTH**, directly or in partnerships, leveraging our assets, changes in the market and innovations

W

WELFARE

Creating **SHARED VALUE** for a fair prosperity, spread across the local communities served, to produce positive effects on our stakeholders' wellbeing and prospects for future generations

T

TECHNOLOGY

Developing innovative solutions for the energy transition, circular economy and **EXCELLENCE** in our services, through means including our "IoTility" model

H

HUMANS

Achieving an effective and **BALANCED INTERACTION** between human beings, technology and our purpose, through an increasingly agile and collaborative organization

OUR LEADERSHIP, BY BUSINESS AREA

1st WASTE SERVICES OPERATOR,
by waste treated

6.8 MILLION TONS OF WASTE TREATED

- Collection and street sweeping ☆
- Treatment and selection
- Recycling, recovery and disposal

2nd WATER CYCLE OPERATOR,
by volume of water supplied

291.5 MILLION M^3 OF WATER SUPPLIED

- Abstraction, conveyance and treatment ☆
- Distribution and sales ☆
- Sewerage and purification ☆

3rd ENERGY SALES OPERATOR,
by number of customers served

3.5 MILLION ENERGY CUSTOMERS SERVED

4th GAS DISTRIBUTION OPERATOR,
by volumes dispensed

2.8 BILLION M^3 DISTRIBUTED ☆

5th ELECTRICITY DISTRIBUTION OPERATOR,
by volume dispensed

2.9 THOUSAND GWH OF ENERGY DISTRIBUTED ☆

4th PUBLIC LIGHTING OPERATOR

184 Municipalities served

563 THOUSAND lighting points

Rankings updated on 30 September 2021

☆ Activities regulated by Arera

MAIN OPERATING INDICATORS

EBITDA >1 BN€

MN€	2021	2020	%
Revenues	10,555.3	7,079.0	+ 49.1%
Ebitda	1,223.9	1,123.0	+ 9%
Net profits	372.7	322.8	+ 15.5%
Investments	570.3	528.5	+ 7.9%
Net debt	3,261.3	3,227.0	+ 1.1%
Net debt/Ebitda	2.66	2.87	- 7.3%

TRENDS BY BUSINESS AND MARKETS

EBITDA 1,223,900,000 EURO

56% free market: 684.8 mn€

44% regulated market: 539.1 mn€

GAS — 39.8%

2021	mn€	2020
487.6	Ebitda	374.4
141.3	Investments	135.3

Installation of **NexMeter**, Hera's 4.0 increasingly sustainable meter that can also be used to measure green gas. Green marketing offers with compensated emissions and **sustainable added value services**. Additional increase in energy efficiency.

WASTE MANAGEMENT — 23.8%

2021	mn€	2020
291.7	Ebitda	258.0
98.2	Investments	68.3

Development of industrial **waste treatment plants**, with the **acquisition of three new companies**. Confirmation of **concessions in Modena and Bologna** for urban waste collection. **Partnership** on **rigid plastics** recycling and start-up of a new **biomethane** plant.

WATER CYCLE — 21.4%

2021	mn€	2020
262.4	Ebitda	265.8
194.6	Investments	166.2

Technologies for data analysis and water loss prevention, optimising maintenance. Extension of **concessions** and confirmation **in the Rimini area**. **Use of purifiers** to produce of **green hydrogen**.

ELECTRICITY — 11.8%

2021	mn€	2020
144.7	Ebitda	188.2
55.3	Investments	47.7

Green marketing offers with **fully renewable energy**, accompanied by **sustainable value-added services**. Offer launched for installing **photovoltaic panels**, enabling customers in their energy **transition**.

OTHER BUSINESSES — 3.1%

2021	mn€	2020
37.4	Ebitda	36.7
14.6	Investments	11.1

Efficient **public lighting**, with worksites measured for **circularity** and high percentages of materials sent for recycling. Innovative **cloud services** offered, using Acantho's data centres and **cybersecurity** services.

SUSTAINABILITY AND SHARED VALUE

Sustainability and shared value are the foremost operating principles indicated in the Group's code of ethics, and one of the cornerstones upon which Hera's strategy is developed, combining operating and financial targets with environmental and social objectives.

DRIVERS OF SHARED VALUE

WASTE MANAGEMENT
regenerating resources and closing the circle
292.0 MILLION EURO

LOCAL AREAS (AND ENTERPRISES)
enabling resilience and innovating
93.0 MILLION EURO

ENERGY
pursuing carbon neutrality
225.1 MILLION EURO

UN 2030 AGENDA

SHARED VALUE EBITDA

570.6 MILLION EURO

+25.4 % COMPARED TO 2020

+115.5 MN€

46.6% OF TOTAL EBITDA

	2021	2020
% of total EBITDA	46.6%	40.5%
Shared value EBITDA	570.6 mn€	455.1* mn€

REDUCED CO_2 EMISSIONS
CALCULATED WITH THE SBTi METHOD
-11.6% (vs 2019)

SORTED WASTE
65.3%** (65.3% in 2020)

REDUCED INTERNAL WATER CONSUMPTION
-17% (vs 2017)

PLASTIC RECYCLED AND SOLD BY ALIPLAST SPA
80.9 K TONS (+36% compared to 2017)

* amount updated according to the accounting methods provided for by Regulation 852/2020 which introduced the European Taxonomy

** data calculated based on Legislative Decree 116/2020

HERA'S POSITIONING WITH RESPECT TO ESG STANDARDS

The Group's Sustainability Report is drafted according to **GRI** standards (Core Level)

DOW JONES SUSTAINABILITY INDEX

90/100

In 2021 as well, with a score of 90/100, up compared to 2020, Hera was recognised as the world's best multi-utility for Environmental, Social and Governance (ESG) factors by S&P Global, which once again included the Group in the Dow Jones Sustainability Index, World and Europe, awarding it Gold Class 2022, the highest rating for companies included in the DJSI.

SUSTAINALYTICS

18.8 Low risk

Hera achieved a score of 18.8, which ranks it among the companies with the lowest ESG risk (best European multi-utility). The score improved by 7.2 points compared to 2020.

CDP

A-

Rating unchanged compared to 2020 and improved vs 2019 (B). Hera was given top rating (A) for governance, climate change opportunities, emission reduction initiatives and targets.

MSCI

A

Hera confirmed its A rating by MSCI. In particular, the score shows a strong outperformance in the 'Carbon Emissions' category, reaching 9.8/10.

INTEGRATED GOVERNANCE INDEX

1st place global ranking

1st place green finance

In 2021, Hera came in first in this global ranking and in the survey concerning the degree to which ESG is integrated in company finance.

STOCK AND RATINGS

S&P BBB+ STABLE OUTLOOK

MOODY'S BAA2 STABLE OUTLOOK

5.45 BILLION EURO

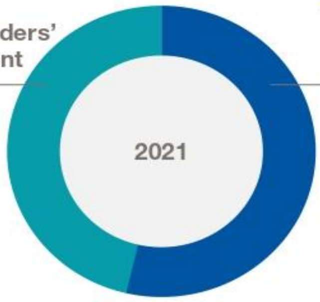
capitalisation at 31/12/2021 is the highest in the local utility sector

SHAREHOLDER BREAKDOWN

Stability and balance in shareholder breakdown; shareholders highly diversified (the largest shareholder has a shareholding coming to less than 10%).

45.8% public shareholders' agreement

54.2% free float



MIB ESG INDEX

In October 2021, Hera was included in the MIB ESG index, the Italian stock exchange's index with leading Italian companies that stand out for their best environmental, social and governance performances. Becoming part of this index came after an assessment carried out by Vigeo, which assigned Hera an "Advanced" rating.

ALONGSIDE STAKEHOLDERS, FOR A JUST TRANSITION

Over time, Hera has proven itself a leading figure in the multi-utility sector, continuing to display internal and external growth. The Group's strategy is shaped by focusing on the interests of its various key stakeholders, understood as the protagonists of change within the context of a balanced and inclusive transition.

INTERNAL

273,274 HOURS OF TRAINING

(30 hours per capita, with most of the training provided by the Group digitally re-planned)

1,782 NEW HIRES

in the last three years, with a 5.9% turnover

5.3 MILION EURO

dedicated to **WELFARE FOR EMPLOYEES**

REMOTE WORKING EXTENDED TO 4,200 EMPLOYEES,

equivalent to 77% of total employees (+45% compared to 2019)

30.5% FEMALE PRESENCE

in roles of responsibility

138 ACTIONS TAKEN TO IMPROVE HEALTH AND SAFETY

over the course of the year

-61% DAYS OF ACCIDENT LEAVE IN 2021

(compared to 2013). 2021 was the best year ever for limiting absences due to accidents

EXTERNAL

OVER 2 BILLION EURO IN ECONOMIC VALUE

distributed to **LOCAL AREAS**

+9% AMOUNT OF SUPPLIES COMING FROM LOCAL BUSINESSES (compared to 2020)

82 million euro invested in **INNOVATION** in three areas: **ENERGY TRANSITION, CIRCULAR ECONOMY** and **DIGITAL TRANSFORMATION**

GOVERNANCE SYSTEM

Hera's corporate governance is aimed at understanding and evaluating the stimuli coming from an increasingly complex context, in order to continue growing and, at the same time, further consolidate the close links with the area served that have distinguished the Group since its establishment. Constant engagement and specific knowledge of the actors involved have led us to develop an open and transparent way of doing business. This distinctive trait has been implemented over the years thanks to the creation of corporate bodies that are integrated with each other and, in line with the Corporate governance code and the Code of ethics, enable the expectations of all those interacting with Hera to be satisfied.

CG

For further information, consult the Corporate Governance Report

SHAREHOLDERS MEETING

INDEPENDENT AUDITING FIRM

BOARD OF DIRECTORS

BOARD OF STATUTORY AUDITORS

EXECUTIVE COMMITTEE

REMUNERATION COMMITTEE

ETHICS AND SUSTAINABILITY COMMITTEE

CONTROL AND RISKS COMMITTEE

CHAIRMAN

CEO

VICE CHAIRMAN

BOARD OF DIRECTORS

MEMBER	OFFICE	EXECUTIVE COMMITTEE	REMUNERATION COMMITTEE	CONTROL AND RISKS COMMITTEE	ETHICS AND SUSTAINABILITY COMMITTEE
Tomaso Tommasi di Vignano	Executive Chairman	C			
Stefano Venier	CEO	M			
Gabriele Giacobazzi	Vice Chairman	VC	C	C	
Fabio Bacchilega	Member		M		
Danilo Manfredi	Member				
Alessandro Melcarne	Member	M			
Lorenzo Minganti	Member			M	
Monica Mondardini	Member		M		
Erwin P.W. Rauhe°	Member			M	
Manuela Cecilia Rescazzi	Member				
Paola Gina Maria Schwizer	Member			M	
Federica Seganti	Member				C
Bruno Tani	Member				
Alice Vatta	Member		M		M
Marina Vignola	Member				
					Filippo Maria Bocchi
					Cristiana Rogate

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Myriam Amato
STANDING AUDITORS
Antonio Gaiani
Marianna Girolomini

INDEPENDENT AUDITING FIRM

DELOITTE AND TOUCHE SPA

KEY

- C Chairman of the Committee
- VC Vice-chairman of the Committee
- M Member of the Committee
- ° Lead Independent Director

1 DIRECTORS' REPORT

1,223.9 MILLION EBITDA

372.7 MILLION NET PROFIT

2.66x NET DEBT/EBITDA RATIO

570.3 MILLION INVESTMENTS

ROE 10.5% RETURN ON EQUITY

ROI 9.2% RETURN ON INVESTMENT

1.01 TRENDS AND CONTEXTS, STRATEGIC APPROACH AND GROUP MANAGEMENT POLICIES

1.01.01 Trends and contexts

Hera makes ongoing efforts to interpret the signs coming from the contexts in which it operates, in an attempt to obtain an overall view of what lies ahead for the Group and its stakeholders. In order to anticipate future developments, the main drivers of change and their essential interrelations are identified below. In particular, the macro-trends of the Group's reference contexts are described, as are its main management policies, i.e. its industrial strategy and the related sustainability factors (concerning the environment, technology and human capital).

Macroeconomy and finance

World economy: year-end results

The world's economic and social fabric, damaged by the pandemic that spread globally in 2020, showed increasingly encouraging signs of economic expansion in 2021, boosted by the measures taken by various countries. The most recent estimates formulated by the International Monetary Fund (IMF) for the year show an increase in global gross domestic product coming to 5.9% compared to the previous year. All global economies grew strongly, with advanced economies up by 5.0% and developing economies expected to grow by more than 6.5% year-on-year. From the first available estimates, India and China were the drivers of recovery, with 9.0% and 8.1% growth over 2020; the United Kingdom and the United States grew by +7.2% and +5.6% respectively.
The measures taken to limit the pandemic, and the extraordinary actions implemented by national and international institutions to support the economy, enabled and encouraged recovery in consumption and global trade, despite the presence of some critical points. The new Omicron variant, more contagious than the previous ones, the increase in energy prices and the crisis in the supply of raw materials for industry represented at the end of the year, and still represent, fundamental challenges while continuing along the path of economic recovery that began in 2021.

European economy: year-end results

In the Eurozone, the strong economic expansion seen in the first half of 2021 slowed down sharply in the latter part of the year, mainly due to the new wave of contagions and the ongoing critical situation in supplies of raw materials for businesses, which put manufacturing production under pressure. Overall, 2021 nevertheless proved to be a year of recovery for all European Union countries, with average growth coming to 5.2% according to the most recent IMF estimates. Particularly noteworthy recovery occurred in France (+6.7% vs. 2020) and Italy (+6.2%), followed by Spain (+4.9%) and Germany (+2.7%).
Average inflation for 2021 was around +2.6%. In particular, strong trends were seen since the beginning of the year in inflation, which continued to rise at a sustained pace, especially in the second half of the year, growing by +5% in December 2021 compared to the same month of the previous year, the highest figure since the birth of the European monetary union. The increase in the price of energy, +26% compared to 2020 values, was crucial in this increase. The European Central Bank confirmed the use of the extraordinary interventions linked to the health emergency, including the Pandemic emergency purchase programme or PEPP (1,536 billion euro in public bonds purchased at the end of November) and the Next Generation EU programme, for which the first grants were launched following the approval of the national recovery and resilience plans of EU countries.

Projected economic trends in the world and European economies

The IMF's latest projections for the next two years (published prior to the Russian military intervention in Ukraine) confirm the recovery trend that began in 2021. The global economy is expected to grow by 3.9% in 2022, and 2.6% in 2023. These prospects will occur unevenly across countries: advanced economies are expected to reach pre-pandemic levels of growth as early as 2022, while developing economies may show a more fragile recovery. According to Eurosystem estimates, growth in the euro area is expected to come to +3.9% in 2022 and +2.5% in 2023, overcoming the sharp decline seen in 2020 and returning to 2019 levels as early as the first quarter of 2022.

National data: year-end results and projections

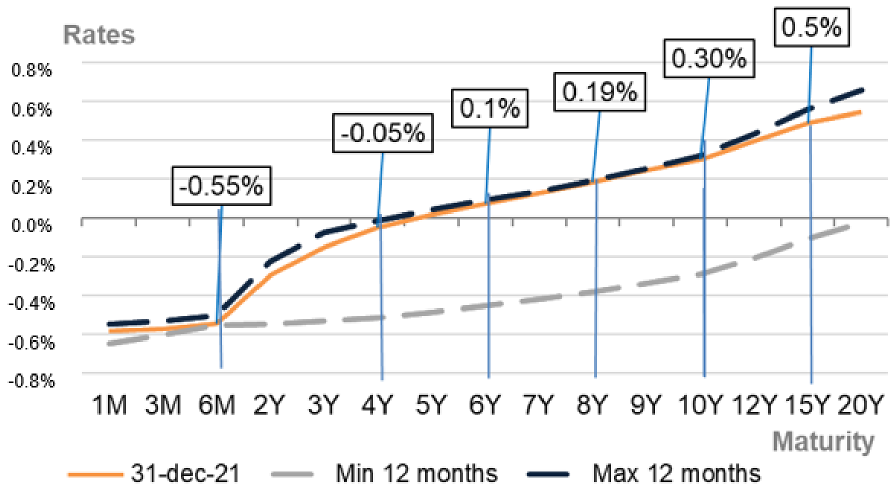
Unlike the other Eurozone economies, the Italian economy continued to grow in the third quarter of 2021 (+2.6% compared to the previous three months), driven above all by household consumption, while it began to show signs of slowing in the last quarter of the year. According to the Bank of Italy's initial estimates, GDP grew by about half a percentage point during this quarter; the increase, among the best in the Eurozone, reached 6.2% on an annual basis compared to the previous year. Industrial production grew at a rate of around 1.0% per quarter during the first nine months of 2021, weakening in the latter part of the year. This slowdown, as outlined above, mainly reflects supply difficulties for companies. As regards other indicators, exports and household consumption continued to grow and the labour market showed positive signs: the employment rate stood at 59% in the fourth quarter, up compared to the previous three months.

Monetary policies, financial markets and interest rates

The IMF's latest estimates project a 3.8% recovery for Italy in 2022 and 2.2% in 2023. Despite the increase in infections recorded in early 2022, the economy should continue to grow, supported by favourable financial conditions and expansion in world trade.
The rise in inflation mentioned above led the major central banks to review their monetary policies, moving towards a gradual reduction in emergency measures and monetary stimulus. In December 2021, the US central bank (Fed) announced an acceleration of the process of reducing securities purchases, setting its conclusion at March 2022 (instead of June of the same year), following which interest rates are expected to rise again. The Bank of England similarly launched the first post-pandemic increase in its official rate, from 0.10% to 0.25% during 2021, and announced a further rate increase of 0.5% in early 2022. During the past year, the ECB, unlike the US and the UK, confirmed an accommodative stance, but did not rule out higher rates in the future. In March 2022, the PEPP will end as planned, while the quantitative easing programme (i.e. purchases of ordinary securities and reinvestment of maturing securities to prevent liquidity crises) and credit easing operations will continue until at least 2024. Flexibility will remain a key element of European monetary policy: in the event of further pandemic-related market fragmentation, the PEPP will allow for possible reinvestment across asset classes and countries.

The improvement in the economic situation, generated by the strengthened macro-financial framework in 2021 and the upturn in growth prospects for 2022, favoured less use of measures to support access to credit for households and businesses. Liquidity conditions on financial markets are not critical, however the rise in interest rate curves during the year, together with the pressure of inflation and the way and timing of the reduction in monetary accommodation in the main advanced economies, all represent a risk factor for liquidity in the financial markets themselves. In the short term, therefore, risks for domestic financial stability are expected to be moderate, while they are more uncertain in the medium term, should developments be less favourable than expected.

In order to ensure that inflation stabilises at the 2% medium-term target, at its last meeting in February 2022 the ECB confirmed the reference interest rate at zero and the deposit rate as negative (-0.5%) and stated that it was capable of adjusting its instruments where appropriate.
An increase in the interest rate curve of about 50 bps on medium/long-term maturities (swap rates) was seen in 2021, marking a shift from negative to positive rates for maturities above 5 years.



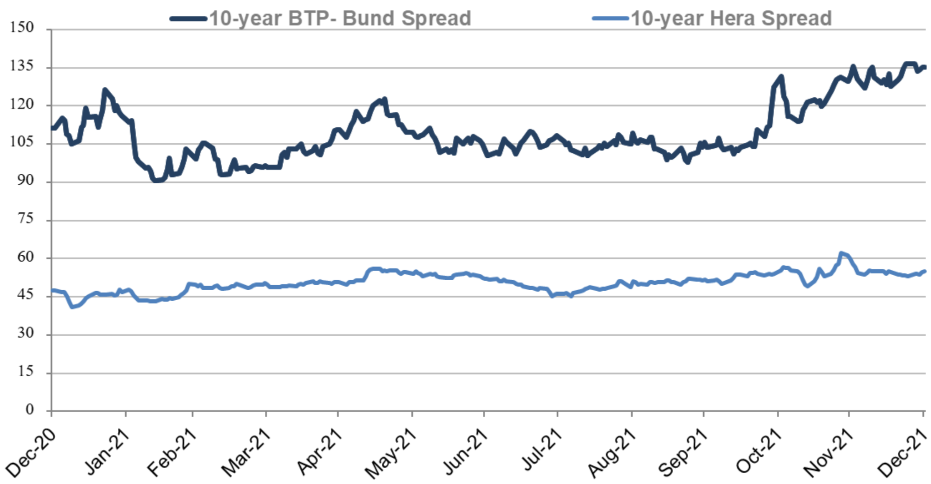
Bond market and spread

Against this backdrop, conditions in euro area government bond markets did not fluctuate and were characterised by good trading liquidity, partially thanks to the continuation of the ECB's purchase programmes. Intraday volatility in yields remained moderate on average and the abundant liquidity available, coupled with low transaction costs, supported market activity.

The corporate bond market and supportive monetary and fiscal policy measures allowed for a rapid recovery in bond issuance during 2021, particularly for companies with high credit ratings. Bond issues to finance environmentally sustainable projects (green bonds) and the commitment to environmental, social and governance (ESG) issues continued and became increasingly important criteria for companies' access to capital markets.

In the last quarter of the year, the sovereign spreads of some countries, including Italy, widened, mainly due to fears that a faster-than-expected reduction in monetary stimulus could be accompanied by the re-emergence of market fragmentation. Spreads on private bonds remained at historically low levels in both the investment grade and high yield segments.

As regards the Group, the spread of its bond portfolio was limited, around 40/60 bps depending on maturity, with a fairly constant trend during the year. Hera's 10-year spread, shown in the graph below, confirmed the positive trend in the Group's creditworthiness, always remaining lower than the BTP-Bund spread of the same duration, while showing significantly less volatility.



Note that these forecasts for the development of world economies were drawn up before the Russian military intervention in Ukraine and will therefore have to be updated by the main international institutes in the coming months. The uncertainties surrounding the direction this conflict will take, and the impact of the economic sanctions imposed on Russia, make it difficult to quantify the effects on the global economy, so it has not been possible to estimate their impact.

Businesses and regulations

Business trends

The national economic recovery that occurred during the year also affected electricity consumption. The data processed by the national grid operator (Terna) show a total national consumption coming to 318.1 TWh in 2021, up 5.6% compared to 2020. Approximately 87% of energy demand was met by domestic production, 3 percentage points less than in the previous year. This decrease was due to a higher contribution from foreign trading (+32.9% compared to 2020), which saw the combined effect of a fall in exports and an increase in imports.

Net domestic production from renewable sources amounted to 40.9% of the total or 113.8 TWh, in line with 2020, which translated into 36% of consumption met by renewables. Hydropower production remained the main source of renewable energy (39%), even though it was down 2 percentage points compared to the previous year. Wind production, on the other hand, rose by 2 percentage points over 2020, while photovoltaic production (22%), biomass production (16%) and geothermal (5%) remained stable.

According to the initial data processed by the Energy Market Manager (GME), natural gas consumption came to 76.2 billion cubic metres (+8.1% on 2020), the highest amount seen in the last ten years. The upturn in consumption was particularly strong in the spring, which in the same period in 2020 was hard hit by the national lockdown caused by the health emergency. The thermoelectric and civil sectors, which came to 26.0 and 33.4 billion cubic metres respectively, reached their highest levels since 2012, growing by 6.4% and 8.4% respectively compared to the previous year. Consumption in the industrial sector also increased strongly (+6.7%), returning to pre-pandemic figures.

The annual production of urban waste in Italy that emerges from the latest data provided by the Institute for Environmental Protection and Research (ISPRA), relating to 2020, came to 28.9 million tonnes, down 3.6% compared to 2019, and is equivalent to an average per capita production of 489 kg. The reason for the low volume of urban waste produced mainly lies in the effects of the Covid-19 health emergency, in particular the closures of businesses and the travel restrictions implemented several times during the year.
With regard to hazardous waste, ISPRA's most up-to-date report estimates production at 154 million tonnes in 2020, a 7.3% increase compared to the previous year. The increase is mainly attributable to non-hazardous waste, in particular to waste from construction and demolition operations, which increased by more than 8.5 million tonnes (+14.2%). Roughly 70% of the total production of hazardous waste is due to the construction (45.5%) and waste treatment and remediation (25.1%) sectors, followed by manufacturing (18.9%) and other sectors (approximately 10%).
To date, no information is available on the production of municipal and special waste in 2021, but it is reasonable to assume that the economic recovery seen during the year and the reopening of business activities led to an increase in waste production nationwide compared to 2020.

On the occasion of World Water Day 2021, ISTAT presented its updated report on the national water sector statistics. In Italy, the amount of freshwater withdrawn for drinking stands at just over 9 billion cubic metres, comparable to previous years. This figure once again ranks Italy as the first country in the EU (27) for freshwater withdrawn for drinking from surface or groundwater bodies.
With reference to the uses of water nationwide, according to the Blue Book, 54% of water usage is for agriculture, 21% for industry, 20% for civil use and 5% for energy. This data clearly shows the importance of taking action to encourage water reuse in agriculture and industry.

Competition

In 2021, all sectors served by utilities were characterised by strong competition, both with regard to free market and regulated businesses.

As regards the energy market, competition remained very high, concerning both the retail market and tenders in last resort markets. Various players showed a strong interest in the tenders called to eliminate protected electricity services for small and very small businesses. Further evidence of competitive pressure in the retail market can be seen in the high churn rates (source: ARERA) for both electricity and gas sales. Sales companies are increasingly shifting competition towards more complex value-added products (VAS), such as energy efficiency tools (HVAC), combined with the sale of commodities, in order to build customer loyalty and orientate them towards new needs. The healthcare emergency accelerated this change in behaviour shown by customers, who are now increasingly inclined to use digital channels when choosing offers and interacting with service providers. This change has led to a number of sales companies coming onto the market and experimenting with a new way of communicating with customers, based on fully digital relations.
In last resort markets, the interest shown by operators in recent years has led to a gradual drop in margins. In 2021, in particular, tenders were held for assigning Last Resort services in the gas sector (Gas Default and Gas Last Resort Supplier, now called every two years and no longer every year) and in the electricity sector (Safeguarded, with a two-year duration).

As regards waste treatment and recovery, the competitive context now extends across Europe, with large players integrated along the entire reference chain and undertaking plant expansions or aggregations between operators. One example of this is the upcoming merger between the two French giants Veolia and Suez, whose integration will change the current balance between operators in the sector. Within Italy, the industrial waste sector is seeing an increase in investments to expand the treatment capacity of existing plants, as well as the type of waste treated and the integration of activities along the supply chain. In line with this trend, the demand for recycled materials is growing strongly, driven by increasing consumer attention towards sustainable materials, commitments from major international manufacturers to use recycled plastics and European recycling legislation. Market players are responding to these trends by progressively expanding their plant capacity, thereby creating higher competitive pressure than in the past.

Concerning regulated businesses, the Hera Group operates within the market regulated by the Regulatory Authority for Energy, Networks and the Environment (ARERA), which manages and monitors the rules relating to the conditions market access and functioning, as well as compliance with transparency obligations.
During 2021, progress was seen in activities related to tender procedures for awarding contracts for gas distribution, water cycle and waste management services. With regard to the latter business, the management of the Modena and Bologna areas was definitively assigned, with effect from January 2022, and the Hera Group was confirmed as the operator. As regards the gas distribution business, 2021 was also characterised by the small number of tenders actually awarded at a national level. Among these, the main ones were the Milan 1, Turin 1 and 2, Belluno, Naples 1 and Aosta ATEMs (almost all of which are subject to appeal), as well as the Udine 2 ATEM, assigned to the Hera Group (also the outgoing operator). With reference to the areas in which Hera currently provides this service, the process of approving the tender documents for the Forlì-Cesena, Modena 1 and Trieste ATEMs (for which the call was withdrawn) has been completed. As far as the water cycle is concerned, at the end of 2021 the tender for the Rimini province was awarded and a new deadline was set, coming to the end of 2039. In the same year, the concession (which expired at the end of the year) for the water service in the Bologna area was extended to the current operator. Finally, the Authority approved requests for a five-year extension of the service concessions for the Ravenna and Forlì-Cesena areas, the expiry dates of which were postponed from 2023 to 2028.

In regulated businesses, the measures approved in 2021 having the most significance for the Hera Group are as follows:

- a revision of the WACC (weighted average cost of capital) for energy infrastructure activities;
- initial guidelines for new regulations, involving expenditure and service objectives (Ross-base);
- new regulations for reactive energy;
- trials for procurement of local ancillary services in electricity dispatching by distributors, anticipating a new role for distributors with respect to their traditional responsibilities;
- commissioning plans for 2G electricity meters submitted to Arera;
- compensation for the lack of depreciation on decommissioned traditional gas meters;
- regulations for the metering service concerning the natural gas transmission network;
- ARERA's final guidelines on the reorganisation of metering activities and trials aimed at innovation in gas transmission and distribution infrastructures;
- a communication to sales companies of the causes of non-accrual of the two-year statute of limitations in the cases provided for by the Civil Code;
- instalment payments for bills for household energy users issued between January and April 2022;
- supplementary regulations for measurement and technical quality in the integrated water service;
- the 2022-2033 tariff adjustment for the integrated water service;
- a two-year limitation for the integrated water service;
- approval of the second tariff method (known as MTR2), which regulates the criteria for recognising efficient operating and investment costs for 2022-2025 in the integrated waste service;
- initial regulations for the quality of the integrated waste service.

Revised WACC for energy infrastructure sectors

With a view to the beginning of the second regulatory period of the WACC, by way of resolution 614/2021/R/com, published in late 2021, ARERA adjusted its criteria for determining and updating the rate of return on invested capital for the energy infrastructure sectors (gas and electricity). The new regulatory period will still cover six years (2022-2027) and, in addition to the infra-period update, every three years, it provides for the possibility of an annual update if certain control parameters should undergo significant fluctuations with respect to the values established; resolution 614/2021 therefore formally defines the rates for 2022 only. As a result of the macroeconomic scenario and the performance of the financial markets, WACC was reduced by 70 bps compared to 2021. The remuneration rate for gas distribution went from 6.3% in 2021 to 5.6% in 2022, while WACC for electricity distribution went from 5.9% in 2021 to 5.2% in 2022. The decrease in remuneration rates is essentially due to the abolition of the floor of the risk-free rate, a revision of the country risk hedging portion, the new methodology for the cost of debt and an updated amount of taxation recognised.

Initial guidelines for new regulations for expenditure and service objectives (Ross)

In late 2021, with document 615/2021/R/com, Arera initiated consultation for the first methodological guidelines on the new regulation by expenditure and service objectives (Ross). According to ARERA's outlook, the transition to a regulation that eliminates distortions in the investment choices made by distributors, and increases the overall productivity of infrastructure services, will be gradual and will begin with the application of an initial tariff method referred to as Ross-base. This method will be applied across the board to all operators in infrastructure sectors, with effect from the upcoming regulatory periods (as of 2024 for electricity distribution and as of 2026 for gas distribution). The Ross-base approach will focus on controlling the total expenditure of distributors, setting capitalisation ratios defined by the regulator and extending efficiency to capital costs. Recognition of the capital stock existing at the date of transition to the new criterion will be handled with an overall continuity in the criteria. The more advanced, so-called Ross-integral approach, in addition to including the Ross-base method, will include an analysis of companies' business plans and an integrated outlook that includes output-based regulation. This advanced approach will be reserved for the electricity transmission operator, the main gas transmission operator and the main electricity distribution operators (with a size threshold yet to be defined) as of 2024.

New regulations for reactive energy in the electricity sector

Regarding the electricity distribution sector, note that, in 2021, ARERA expressed its opinion on the need for a change in the tariff regulation of reactive energy. In its latest consultation document, 515/2021/R/eel, the Authority:

- postponed to 1 July 2022 the completion of the tariff regulation for reactive energy, including the initial date for the application of the fees concerning the reactive energy injected;
- proposed a refinement of the method of calculating the fees and the application of those for reactive energy injected in F3 hours only;
- proposed for the medium term (as of 2023 or 2024) a tariff approach for homogeneous macro-areas that takes into account local technical features in reactive energy management;
- encouraged the active involvement of end customers and producers in managing reactive energy transits and the ensuing control of voltage regulation.

2G electricity metres: Group distributors' commissioning plans presented to ARERA

As regards electricity metering, in order to request individual recognition of investments, pursuant to resolution 306/2019/R/eel, note that the electricity distribution companies of the Hera Group, Inrete Distribuzione Energia Spa and AcegasApsAmga Spa, sent their respective 2G electricity meter commissioning plans (Pms2) to Arera in June 2021. These Pms2s illustrate the projected schedules for replacing meters, the expected benefits of the new smart technology and the expenses foreseen. Arera's preliminary proceedings are currently in progress.

Gas distribution: lost depreciation for decommissioned traditional metres covered

With regard to gas distribution, through resolution 559/2021/R/gas, ARERA intervened on the issue of the effects of decommissioning traditional small-calibre meters. Operators shall be reimbursed for an amount of depreciation for traditional meters that does not consider the time in their useful life when they are decommissioned. The amounts covering the lost depreciation (so-called Irma) are paid to companies in five annual instalments, starting from the 2020 tariff year.

Regulations for the metering service for the natural gas transportation network

With resolution 512/2021/R/gas, ARERA, at the end of a consultation process that focused, among other things, on reorganising the metering service at delivery points from the transportation network (Remi), approved regulations for the metering service on the natural gas transportation network (Rmtg). Responsibility for metering activities remains in the hands of distributors, and meter reading activities in those of the transmission operator. Minimum and optimum plant, performance and maintenance requirements have been introduced and specific quality levels for the metering service (expressed by specific indicators) and penalty fees have been defined for failure to comply with them. Monitoring service levels is scheduled to start in 2023, while the introduction of penalties for non-compliance is expected for 2024.

ARERA's final guidelines on the reorganisation of measurement and trials to innovate gas transport and distribution infrastructures

In the area of gas distribution, mention should also go to Consultation Document (Dco) 167/2021/R/gas, relating to the Authority's final guidelines on the reorganisation of measurement at the entry and exit points of the gas transport network, and Dco 250/2021/R/gas, relating to the launch of pilot projects for innovation in gas transport and distribution infrastructures. With the guidelines of the first Dco, Arera aims to ensure that the measurement of gas entering and leaving the transport network will meet predefined standards for accuracy and reliability, through an adequate accountability applied to all players along the chain. To this end, the Authority intends to introduce plant, performance and maintenance requirements for measurement systems, service standards and appropriate incentive mechanisms that translate into financial compensation in the event of non-compliance with the standards. With Dco 250/2021/R/gas, instead, ARERA has outlined procedures for launching pilot projects for testing solutions for optimised management and innovative uses of gas transport and distribution infrastructures, in terms of types of intervention and the subjects involved, general evaluation criteria and coverage of the costs of the trials.

Two-year limitation in energy chains: new information in energy bills and introduction of compensation mechanism for settlement charges

As regards the two-year statute of limitations in the electricity and gas sectors, with resolution 603/2021/R/com, ARERA complied with the rulings of the Lombardy Regional Administrative Court (TAR), providing, as of 2023, for a definitive arrangement of the information flow from distributors to sales companies, in which the distributor, at the same time as making a measurement covering more than two years available through the integrated information system, will also have to communicate to the distribution (UDD) and transport (UDT) Users any causes of non-accrual of the prescription in the cases provided for by the Italian Civil Code (causes not expressly provided for by the previous regulation). Pending upgrades to information systems, which will bring this framework up to standard, a transitional framework is foreseen for 2022 in which the sales company, having received a request for objection to the limitation period from the end customer, shall promptly ask the distributor whether there are any causes for the non-accrual of the limitation period; failure to respond within the next seven working days will be considered a negative response, with the result that the seller will have to waive the now-expired receivable, but will be entitled to claim from the distributor the transportation and conveyance fees, and will also be entitled to participate in the compensation mechanism for settlement charges, as established by resolution 604/2021/R/com. More specifically, in the case of electricity, the charges for financing this mechanism are borne by distributors, unless a distributor can prove a cause for the non-accrual of the two-year statute of limitations; in the case of gas, instead, the charges for financing the compensation mechanism are currently borne by the system, without any economic effect on distributors.

Instalment plans for bills to household energy users issued between January and April 2022

Once again regarding energy sales, by way of resolution 636/2021/R/com ARERA defined procedures for the instalment plan for bills issued in January-April 2022 for household users envisaged by the 2022 Budget Law. These measures cover both safeguarded and free market services and will have to be offered to household electricity and natural gas customers who are in default of payment of their bills issued in the period in question. The instalment plan must be interest-free and provide for an instalment period equal to that of the invoices normally applied, with the first instalment coming to 50% of the amount subject to the instalment plan.

Integrated water service: additional regulations for metering and technical quality

As regards the integrated water service, the main regulatory changes introduced in 2021 concern additions to the regulations governing the metering service, certain changes to technical quality (resolution 609/2021/R/idr) and, with regard to tariff regulations, the criteria and parameters underlying the two-year adjustment valid for 2022-2023 (governed by resolution 639/2021/R/idr). Water metering will be impacted by the introduction of performance indicators relating to the effectiveness of the service (which will serve to increase the performance evaluations of operators by way of a mechanism providing incentives for technical quality), indicators for the introduction of smart meter technologies (currently only used for monitoring purposes), specific standards related to the failure to comply with reading attempts and changeover notices, with some aspects also related to the value of the users' own readings, in order to meet the service obligations relating to reading attempts, moving towards higher management efficiency. In order to understand the length of the user branches (connections), following a number of appeals and rulings by the State Council, technical quality has also undergone a change in the definition of the indicator of linear network losses ("M1a").

Tariff adjustment for the 2022-2023 two-year period in the water sector

Among the new rules relating to the two-year adjustment of tariffs for 2022 and 2023, approved by resolution no. 639/2021/R/idr, in addition to a redetermination of the rate of recognition of tax and financial charges (which goes from 5.24% for the two-year period 2020-2021, to 4.8% for 2022 and 2023) note the introduction of a system of incentives or coverage of costs for condominium users (or users grouped under a single centralised meter) that will work towards individualising supply or creating internal divisional meters, with an organised reading process of the same (so-called organised divisionalization). This incentive/coverage of costs will be recognised by the water operator who, in turn, will be compensated through the introduction of a specific tariff component (Op_{mis}).

Two-year limitation in the water sector

Lastly, with regard to the water sector, also note resolution 610/2021/R/idr, concerning the two-year limitation period introduced by the 2018 Budget Law for certain types of users, which amends the previous rules and explicitly provides, as for the energy sectors, for the existence of causes for suspending the limitation period (citing Articles 2935 and 2941 of the Civil Code), recalling that the latter must be identified and promptly communicated to the individual user as of 2022 in invoices containing amounts relating to adjustments over two years.

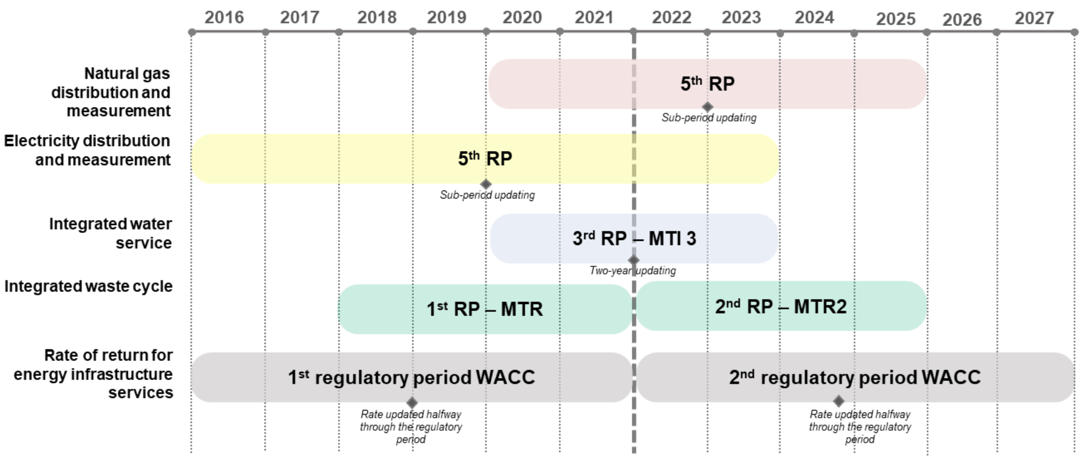
Integrated waste service: approval of the second tariff method (so-called Mtr2)

With regard to the integrated waste service, the main regulatory innovation in 2021 concerns the approval of the second tariff method (resolution 363/2021/R/rif, known as Mtr2), which sets out criteria for recognising efficient operating and investment costs for the period 2022-2025, updating the previous method and introducing tariff regulation for treatment, in the case of minimum plants, i.e. those which are essential for closing the cycle (determined by the Regions on the basis of the conditions defined by ARERA), with the sole exclusion of plants that treat the dry portion of sorted waste. This resolution introduces a four-year regulatory period, with annual updates in the tariff parameters. It also introduced the possibility of compensation over a four-year period for costs eligible for recognition that exceed the tariff growth limit (established by the regulation). With specific regard to the tariffs of the treatment plants, the Rab-based rationale previously identified for integrated operators will apply, with tariff methods and incentives for the recovery of materials and energy, similar to those applied to collection companies and integrated operators. A limit on annual growth is also envisaged for the treatment service, based on the amount of planned inflation, but which may be increased by up to 4% per year to take into account the technological and environmental characteristics of the plants. Price signalling to end users is also foreseen, which allow greater benefits for those users of the service who are in contexts in which material and energy recovery plants prevail, and, at the same time, benefits to the communities in the areas surrounding the plants. As far as the rate of return on invested capital is concerned, for the two-year period 2022-2023 the WACC related to collection has been set, at least provisionally, at 6.3% (resolution 459/2021/R/rif). The rate relating to treatment has not yet been defined, although it is expected to be similar to the fundamental parameters underlying the rate for collection, with differences linked to the specific amount of risk in the sector.

Integrated waste service: initial regulations for service quality

Once again concerning the waste sector, two consultation documents were issued during the year, intended to regulate service quality. The latter of these (Dco 422/2021/R/rif) establishes that the first regulatory period (2022-2025) will come into force on 1 January 2023, providing for a set of service obligations in terms of contract quality (uniform rules on activation requests, invoicing, presentation of complaints, etc.) and technical quality (continuity, regularity and safety of the service), together with indicators and general standards. Lastly, future incentive mechanisms (bonuses/penalties) are foreseen.

A timeline showing the main regulatory periods and related measures introduced by ARERA, pertaining to the Group's sectors of activity, is provided below.



Lastly, the table below indicates the main tariff references for each regulated sector, based on the regulatory framework in effect in 2021 and expected to remain until the end of the current regulatory periods.

	Natural gas distribution and measurement	Electricity distribution and measurement	Integrated water service	Integrated waste cycle
Regulatory period	2014-2019 4th regulatory period (resolution 573/13) 2020-2025 5th regulatory period (resolution 570/19)	2016-2019 1st sub-period of the 5th regulatory period (resolution 654/15) 2020-2023 2nd sub-period of the 5th regulatory period (resolution 568/19)	2016-2019 2nd regulatory period (resolution 664/15) 2020-2023 3rd regulatory period (resolution 580/19)	2018-2021 1st regulatory period (resolution 443/19) (1) 2022-2025 2nd regulatory period (resolution 363/21) (2)
Regulatory governance	Single level (Arera)	Single level (Arera)	Double level (Governmental authority, Arera)	Double level (Regional authority, Arera)
Invested capital recognised for regulatory purposes (Rab)	Previous cost revised (distribution) Average between standard and actual cost (measurement) Parametric recognition (centralised capital)	Parametric recognition for assets until 2007 Previous cost revised assets as of 2008	Previous cost revised	Previous cost revised
Regulatory lag for investment recognition	1 year	1 year	2 years	2 years
Return on invested capital (3) (real, pre-tax)	2019 6,3% Distribution 6,8% Measurement 2020-2021 6,3% Distribution and measurement 2022 5,6% Distribution and measurement	2019-2021 5,9% 2022 5,2% Distribution and measurement	2018-2019 5,31% 2020-2021 5,24% 2022-2023 4,8% +1% for investments as of 2012, covering the regulatory lag	2020-2021 6,3% +1% for investments as of 2018, covering the regulatory lag 2022-2023 Currently being defined by Arera. A higher level of risk is expected for the treatment and recovery service
Recognised operating costs	Average value of actual costs by company grouping (size/density), based on 2011 (for revenues until 2019) and 2018 (for revenues as of 2020) (4) Sharing for efficiencies achieved compared to recognised costs Update with price-cap	Average value of actual sector costs, based on 2014 (for revenues until 2019) and 2018 (for revenues as of 2020) Sharing for efficiencies achieved compared to recognised costs Update with price-cap	Efficiency-applicable costs: actual amounts for the manager in 2011, adj. for inflation Updatable costs: actual values, with 2-year lag Added charges for specific purposes (previsional)	Actual costs for manager with 2-year regulatory lag (as of 2020 tariffs for 2018 costs) Added costs for quality improvement and change in manager's scope (previsional) Balance for 2018-2019 based on 2017 costs (gradual) As of 2022: Balance for 2020-2021 based on 2019 costs, gradual
Annual efficiency factor for operating costs	Annual X-factor 2019 Distribution:	Annual X-factor 2019 Distribution: 1,9%	Efficiency-applicable mechanism based on: sharing manager's 2016	

	1.7% large companies 2.5% medium companies Measurement and commercialisation: 0% As of 2020 Distribution: 3,53% large companies 4,79% medium companies Measurement: 0% Commercialisation: 1,57%	Measurement: 1,3% As of 2020: Distribution: 1,3% Measurement: 0,7%	efficiencies Amount of sharing differentiated according to the discrepancy between actual costs and manager's efficient cost	
Incentive mechanisms		Sharing for net revenues coming from fibre optics transit in electricity grids	Sharing for electricity costs, based on energy saving achieved; Recognition of 75% earnings from activities aimed at environmental and energy sustainability	Sharing for revenues coming from sales of materials and energy (range 0.3-0.6) and Conai incentives
Annual limit on tariff increases			Asymmetric, based on: -investment requirements -management cost -changes in scope Possibility of motion guaranteeing operating and financial balance	Asymmetric, based on the presence of: -changes in scope -service quality improvement Possibility of motion guaranteeing operating and financial balance

(1) Resolution 443/19 applies to operators in the integrated waste cycle, including treatment activities (disposal or recovery), only if these activities are included in the operator's corporate scope. The specific measure to be introduced for tariff regulation of compensation for plants falling outside this scope has been postponed.

(2) Resolution 363/21 updated the previous regulatory period and introduced tariff regulation for treatment in the case of minimum plants, i.e. those essential for closing the municipal waste cycle.

(3) For the energy and waste sectors, the WACC methodology is applied, while for the integrated water service the amounts indicated refer to rate of coverage of financial and fiscal charges.

(4) Regarding the significant reduction in the recognition of operating costs introduced by resolution 570/2019 in February 2020, Inrete Distribuzione Energia Spa, the Group's main distributor, like other operators in the sector, has filed an appeal at the Lombardy-Milan Regional Administrative Court.

Climate and the environment

Climate change

Regulatory and economic interventions aimed at facing climate change, and the concrete opportunities that derive from taking on the risks linked to it, have become priorities for international and national institutions, as well as those operating in all economic sectors. The Group's main concerns in pursuing environmental sustainability coincide with the 17 goals on the 2030 Agenda for Sustainable Development (SDGs), as well as the indications contained in the Paris Agreement to limit global warming to below 2ºC, and the long-term climate strategy "A Clean Planet For All" (adopted by the European Union), intended to achieve total decarbonisation by 2050, through carbon neutrality, and to limit the increase in temperature to below 1.5ºC. Further important elements moving in this direction include the change called for by the Green Deal, the European Commission's plan for a Europe that is more competitive in the fight against climate change and increasingly capable of transforming the economy and society by setting them on a path of sustainable development and, in the wake of this, the circular economy action plan (CEAP). The actions taken by European and national institutions are coordinated and converge towards the objectives of a fair, sustainable and inclusive transition. Adopting the Green Deal and related initiatives, aimed at tackling climate and environmental problems in order to achieve carbon neutrality and the transition to a regenerative and circular growth model, is aimed towards an industrial strategy that implements the circular economy in all sectors.

Circular economy action plan

The circular economy action plan, presented by the Commission last year, has made it possible to outline a strategic framework for circular economic development in the European Union and, in so doing, is geared towards accelerating the transition and making the change envisaged by the Green Deal possible.
Incentive initiatives, reuse and recyclability in products, reduction of overpackaging and rules for bioplastics have become increasingly important in this respect. Above and beyond the plastics sector, the promotion of the circular economy is also encouraged with respect to water management, both in terms of reuse of purified wastewater for irrigation in agriculture and in terms of minimum requirements for the use of reclaimed water.

Opportunities

National policies are being developed in a European context where priorities are defined and available resources are allocated accordingly. In this sense, the National Recovery and Resilience Plan (NRP), which uses the European funds made available by the mechanism included in the NextGenerationEU package, supplemented by a complementary national fund, guides Italy in the implementation phase of the European Green Deal. Since it has highlighted the need to introduce progressively more challenging climate targets, the action plan has been updated with the aim of:

- accelerating the achievement of a reduction of greenhouse gas emissions, bringing the target to 55% by 2030;
- accelerating the transition to a regenerative and circular growth model;
- providing a tool to help investors in the transition to a low-carbon economy.

A new push to decarbonise the European economy has been entrusted to the Fit for 55 package, which is still being discussed by the EU institutions. The Fit for 55 package aims, in particular, to increase targets for reducing energy consumption and increasing the penetration of renewable energy in the production mix. In terms of energy efficiency, the current 2030 targets, revised upwards to meet the ambitious emissions reduction target, will be approached thanks to the leading role given to public buildings in the process of improving the efficiency of Europe's buildings. In terms of renewable energies, the increased production of which is crucial to replacing fossil fuels and reducing carbon intensity, the electrification of consumption will require major investments throughout the supply chain, and the recovery of waste heat from industrial processes will represent a major potential for regional energy planning. The development of renewable gases, a further element of the decarbonisation strategy drawn up at European level, and the development of renewable hydrogen, through the creation of electrolysers powered by renewable energy sources (RES), will also be priorities.

In early 2018, the European Commission published the Sustainable Finance Action Plan, which aimed to respond to three objectives: redirecting capital flows towards sustainable investments in order to achieve sustainable and inclusive growth; managing financial risks arising from climate change, resource depletion, environmental degradation and social issues; and promoting transparency and a long-term vision of economic and financial activities.
The first concrete action took the form of the EU's own definition of a Taxonomy for sustainable investments, aimed at directing investors' funds towards sustainable initiatives.
In order to be aligned with this Taxonomy, economic activities must comply with three principles identified by the Regulation:

- contribute positively to at least one of the six environmental objectives set out, including mitigation of climate change, adaptation to climate change, sustainable use and protection of water and marine resources, transition to a circular economy, prevention and reduction of pollution, and protection of biodiversity and ecosystem health;
- not produce negative impacts on the environment;
- respect minimum social guarantees.

Moreover, as of 1 January 2022, companies subject to the directive on non-financial reporting will have to indicate the amount of their activities that fall under the European Taxonomy.
The six strategic missions are built around the six pillars of intervention set out in the European Regulation for Recovery and Resilience and are accompanied by specific sectoral reforms. Mission 2, "Green revolution and ecological transition", the largest in terms of resource allocation, addresses the initiatives that most closely concern the Hera Group.
For the water cycle and waste sector, the NRP aims to modernise networks and plants and reduce the infrastructure gap between the north and south of the country. Among the instruments to be used in this regard, note the central role of the national plan for the water sector, for providing public funding, and the adoption of the national programme for waste management.

In the energy sector, the NRP will focus on developing renewable sources, modernising networks and energy-saving solutions. The main actions include those on networks, to increase their digitalisation and resilience to climate events, the integrated development of the hydrogen chain, including the adaptation of transport and distribution infrastructures, and the principle of energy efficiency such as the first zero-emission fuel.
Over the past few months, the first calls for tenders have been published under the NRP: those pertaining to the Group relate in particular to the circular economy, including the improvement and mechanisation of the urban waste collection network, the construction, modernisation and expansion of treatment plants for urban waste collection, and for absorbent products, wastewater sludge, leather and textile waste, circular economy "flagship" projects relating to collection networks and treatment plants, with particular attention going to strategic supply chains: Waste from electrical and electronic equipment (WEEE), paper and cardboard, plastics and textiles.

Strategy for decarbonisation

Following the Paris Agreement, the EU Commission has required member states to draw up a strategy for reducing greenhouse gas emissions by 2050. Even though this document was published a year later than required by law, it does not yet incorporate the latest Green Deal guidelines. This strategy is aimed at identifying a path of change towards full decarbonisation of the Italian system by 2050, i.e. to intensify actions to increase resilience. The strategy will move towards improving knowledge of climate impacts, intensifying climate risk planning and assessment, accelerating adaptation actions and developing resilience to climate change globally. People are becoming increasingly sensitive to environmental and social inclusion issues and are driving the increase in demand for green & digital interventions, in line with EU recommendations on economic recovery and resilience. In order to get various stakeholders and civil society involved in the adoption of sustainable behaviour, the European Commission has created the European Climate Pact. This initiative offers individuals and organisations opportunities to learn about climate change and find solutions and provides a space for interaction between individuals and to promote a European climate movement. Organisations can identify their own ambassadors with a focus on gender equality and, in order to support the beginning of concrete actions, the Pact's platform will make it possible to share experiences, funding opportunities and know-how.

Opportunities in the utility sector

The inevitability of climate change, which has led the European Commission to anticipate its emission reduction targets to 2030, with the hope of achieving full decarbonisation by 2050, is also forcing local authorities to review their priorities and lines of action. Moreover, the pandemic has made it urgent to implement actions to make cities and local programmes more resilient, and has increasingly oriented them towards circular economy initiatives, sustainable mobility, climate adaptation and digitalisation. This scenario is increasingly challenging and offers new opportunities for the utility sector. All types of customers (household, industrial and public administration) will be called upon to introduce technological improvements to reduce their energy needs.
The promotion and sale of energy efficiency products and services, and support for energy efficiency in buildings, are some of the initiatives being promoted.

Environmental and socio-economic factors

Stakeholders, both financial and non-financial, who are increasingly oriented towards sustainability issues and, therefore, also towards the sustainability ratings of companies, are increasingly directing financing opportunities towards green products, which are able to raise liquidity on the capital market at rates that are potentially lower than the alternatives.
Following a rationale based on value sharing between companies and communities, oriented towards finding solutions for the benefit of both, the engagement of the community and of individuals is becoming increasingly important. The main megatrends are those that build on the UN 2030 Agenda, theoretical references and successful experiences in shared-value approaches and new business opportunities.
The new lines of development will continue to include the full exploitation of data (seen as a real corporate asset) and a greater focus on cybersecurity, to protect the company and its data. The speed of change makes it essential to define training plans that enable the corporate population to manage change (especially digital change) in the best possible way. This includes, where necessary, training that may be fragmentary but is still able to provide the necessary continuity (self-development).

Technology and human capital

Digital technological evolution involves a continuous acceleration of some major ICT trends and, in addition to moving beyond the paradigms found in economic and social contexts with increasing speed, it alters entire market segments and social relationship patterns. The rise of Artificial Intelligence, automation, Robotic Process Automation, data collection and management (Internet of Things, data governance and data analytics), cybersecurity and, finally, cloud platforms, favours an increase in the amount of data produced and the speed of its availability, generating further opportunities for companies. The Internet of Things and digital interaction between people (exemplified by the automation of more standardised relations with customers through chatbots) make available a continuous and growing flow of data, which allows not only timely diagnoses of different situations (real time analytics), but also a more precise definition of decisions and actions to be taken, often with the support of artificial intelligence. In this direction, the EU Commission has defined the path for an ethical digital development in Europe, with clear targets for 2030 benefiting citizens and businesses, such as: 80% of the adult population with basic digital skills, 75% of businesses favouring the use of cloud computing, big data and artificial intelligence services, more than 90% of small and medium-sized businesses with a basic level of digital intensity, 100% of public digital services available online and 100% of households with gigabit connectivity and inhabited areas covered by 5G. Although Italy is lagging behind other European countries in terms of digitalisation, it is now showing a remarkable improvement over the past. Remote working is an established way of working for 75% of large companies in the public sector and 58% of small and medium-sized enterprises. 13.5 million Spid identities exist, to manage communications to and from public administrations. Italy also ranks third in terms of readiness for 5G. Investments in telecommunications, networks, software, automation and other technological infrastructures, which are essential for reaching European targets, must be accompanied by the spread of an overall approach and training that enables the use of new technologies, which in turn must be oriented towards a sustainable and circular economy, as well as revolving around digitalisation and artificial intelligence. The NRP intends to use 22% of the available funds to give way to a major digital acceleration in Italy, as a lever to give a decisive boost to the country's competitiveness. Various initiatives aim to encourage migration to the cloud, full interoperability between government data, improvement of the digital services offered to citizens, strengthening of cybersecurity defences, and enhancement of digital skills. This will also be possible thanks to tax incentives for digital transformation (Industry 4.0), contributions for investments in technologically advanced production, coverage of the entire national territory with ultra-wideband networks, and the launch of a reform of the intellectual property system. By virtue of their relationship with the public administration and SMEs, utilities played an important role in supporting digital transformation, in particular through digital services for optimising the yield of production processes, but also through sensors installed for data collection and analysis, without forgetting connected machinery for the automatic performance of tasks and predictive maintenance. Examples of this can be found in the various applications in the businesses in question, such as data-driven energy management solutions, thanks to connected systems and devices equipped with intelligent sensors in public buildings, or smart sensors and devices distributed throughout the territory, coordinated and integrated by digital platforms that process the big data generated for resource planning and service optimisation. The widespread presence of digital technology affects all aspects of business operations, extending changes to the point of translating into additional and new value-added services. The increase in infrastructural needs, which continues to drive the demand for investment in connectivity and remote collaboration tools, for utilities focuses on connection and security needs applied to smart working and also multi-channel interaction with the customer, not to mention the management and sensitisation of infrastructures across the area served. The digitisation process is also fuelled by incremental investments in Artificial Intelligence and hyper-automation, Internet of Things and Internet of Behaviours (IoB), distributed cloud and 5G. Operation technology (OT) or remote management, which had developed over the past few years as a niche area limited to plant effectiveness and with little attention to cyber security aspects, has required companies to increase investments to reduce system fragility. The year 2021 confirmed the growing trend of cybersecurity attacks, both in terms of numbers and severity of impact. In this context, it is essential to continue to deploy all available technological skills and resources to increase the level of protection and attention to cybersecurity risks, in order to counter threats and minimise possible consequences. Customers in all sectors, who are increasingly inclined to interact through digital channels, expect real-time responses and uninterrupted service availability, and therefore reward the most proactive suppliers in terms of attention to behaviour and optimisation of consumption, but also, increasingly, additional services such as smart house and e-mobility.

Cloud platforms have made high-performance connectivity available and enabled significant infrastructural economies of scale for exponential technology development, optimising the use of time to the utmost. The availability of processing power also drives the spread of Artificial Intelligence and Robotic Process Automation applications with integrated Artificial Intelligence (IRPA), which are useful for making the most appropriate decisions on actions to be taken. The identification and formalisation of operational processes that combine human and automated activities, balancing them according to the value added to the process, is therefore one of the issues to which all organisations will have to pay particular attention, not only in terms of organisational design, but also from the point of view of training and operational monitoring.

The added value of a resilient workforce

The enhancement of the human component is also fundamental for a balance between technology and people, focusing the organisation of resources on value-added activities, according to a pattern of intelligent integration, which is not limited to mere cost efficiency and mere replacements, but rather fits into the broader horizon of the Just Transition targeted by the European Union. The current historical moment and the health emergency have emphasised the need to address the priorities towards which corporate culture, leadership styles and models must be directed. The strong acceleration of the digital transformation and the progressive technological literacy of people confirm the need for an increasingly sensitive approach to relational aspects. When dealing with the consolidation of remote working, therefore, the ability of companies to develop distinctive and inclusive communities will be a critical factor in their success, and this consolidation will reduce the risk of weakening the relational capital resulting from an irrational use of remote working. The digital workplace transformation and the interconnection on a single platform allow people to interact, share information and gain knowledge and skills. However, World Economic Forum research in the energy and utilities sector shows that 11.8% of workers are at risk of redeployment, with only 51% of them successfully re-employed. The emerging roles on which to focus training investments will depend on skills related to the digital transformation, the energy transition (with a focus on decarbonisation and renewable energy), the environmental transition (with a focus on circular economy, climate change and green finance) and, last but not least, problem solving and self-management, thus underlining the increased importance of "soft skills". The technological capacity to acquire huge amounts of data makes it even more important to invest in the human capacity to read it and make it "speak", so that it can generate the expected value. At the same time, while the increasingly pervasive adoption of tools for remote collaboration has created a change in the way of working and measuring performance, the ability to offer an environment that is also connected in terms of human relations becomes, precisely for this reason, sought after and appreciated. The diffusion of performance management skills, necessary to ensure the achievement of objectives in a context where working time becomes a less and less important factor than the result, has proved to be crucial. Employer branding will also be fundamental in attracting and retaining talent; engagement and inclusion, interconnected by the idea that each person should be valued and encouraged to express their potential, are paramount in maximising performance.
In order to generate value for people, it seems increasingly necessary to move towards structured data governance and to develop sustainable and circular behaviour. Enabling experiences and paths in training and development that are increasingly defined by a rationale of individual and collective responsibility will make it possible to face future scenarios that are changing and not always predictable. Flexible organisational models used to increase agility and resilience, individual empowerment actions, accompanied by a rethinking of working methods, the reinterpretation of space and time, and the well-being of people, are therefore drivers for the enhancement of human capital and, in so doing, work towards increased productivity. In this respect, the creation of fair and inclusive environments is essential for the responsible financial community, and the commitment to promoting policies of inclusion and protecting diversity must increasingly translate into a fight against discrimination in the workplace.

1.01.02 Strategic approach and management policies

Scenario analysis is a methodology for defining useful inputs for strategic plans to increase the effectiveness of a business model over time.

This type of analysis involves a process aimed at testing a strategy's resilience under different assumptions describing possible future states. For the Hera Group, it is essential to analyse the potential impact, positive or negative, of various economic-financial, business, regulatory, competitive, environmental, technological and human capital scenarios that are different from each other, but equally plausible and internally consistent.
The study of scenarios has also been applied to climate change, in order to understand how physical and transitional climate opportunities and risks may plausibly affect the business and its areas over time.

The reference framework within which the Group's strategy has been developed in the various areas consists of three areas:

- **the environment**, in order to respond in a concrete way to the threats linked to climate change, by regenerating resources and strengthening the resilience of the assets managed, favouring the energy transition and aiming at carbon neutrality;
- **socio-economic factors**, in order to match developments in the Group's size with the generation of an increasing portion of shared value, to positively affect the well-being and prosperity of stakeholders and the areas served;
- **innovation**, to drive the evolution of the Group's activities, thanks to the opportunities offered by the most advanced technologies and digitalisation, with the aim of increasing the efficiency and quality of the services provided, multiplying opportunities for stakeholder engagement and accelerating the spread of behaviours and skills capable of meeting the challenges of a constantly evolving context.

Macroeconomy and finance

Financial planning

The debt structure towards which the Hera Group is oriented is geared towards its business needs, not only in terms of the duration of loans, but also in terms of interest rate exposure. The Group's financial strategy, in turn, is risk-adjusted and aimed at maximising its return profile while maintaining a prudent risk strategy.

The scenario projected in the Plan includes an increase in the variable-rate portion over the short term and in the fixed-rate portion over the long term; in this sense, it shows that the Group's financial structure will reach 72% of fixed rate borrowing in 2025, respecting the limits of its financial risk policy. These projections are part of a careful long-term planning for the necessary financial resources, which Hera carries out by analysing and monitoring cash flows, and paying close attention to its debt structure. The average cost of debt, in particular, is constantly improved, both through financial risk management, which include the use of derivative instruments, and the evaluation of liability management operations aimed at seizing favourable market opportunities. Over the period covered by the plan, the average cost of debt is expected to decrease by approximately 0.3%. Over this five-year period, no significant amounts are expected to fall due, guaranteeing that the average cost of debt will remain stable even in volatile scenarios. In the same direction, the plan confirms the Group's intention to meet its financial requirements through fixed-rate bond issues, including green and/or sustainable bonds, in order to respond with additionally increased efficiency to the Group's investment needs and thus guarantee the implementation of innovative and sustainable projects in the waste management, water and energy sectors. Coherently with the above, in October 2021 Hera launched its first sustainability-linked bond, worth 500 million euro, as part of its funding strategy, representing once again Hera's commitment to achieving the objectives on the UN 2030 Agenda. This sustainability-linked bond is tied to actions included in the business plan relating to projects to reduce greenhouse gas emissions and increase the amount of recycled plastic. It attracted great interest from international investors, who subscribed for roughly four times the amount offered. This new bond creates value both from an operating-financial point of view, by reducing financial charges and extending debt maturities, and as regards image, because it sends a concrete signal of environmental commitment to the market, linking the return of the bond to the achievement of objectives.

Credit ratings

Most of the Group's business is concentrated in Italy, and its rating is thus closely linked to the country's rating, its macroeconomic trends and its political scenario. Hera's actions and strategies remain oriented towards maintaining and improving adequate ratings; its usual communication with the rating agencies Moody's and Standard & Poor's (S&P) has confirmed positive feedback in terms of the solidity and excellent balance of its business portfolio, as well as in terms of excellent operating performance, efficient and proactive risk management and resilient creditworthiness indicators. In 2021 in particular, Moody's rating was confirmed at BAA2 with a stable outlook, while the S&P Rating Agency further improved its rating to BBB+ with a stable outlook. These recognitions reflect the path of growth implemented over the years and the results achieved by the Group in 2020, higher than expected. The rating obtained by the Group is among the highest in the multi-utility sector across Europe and higher than the sovereign rating.

Sustainable financial reporting

Over the period covered by the plan, the ongoing adoption of sustainable financial reporting best practices will support the Group's green financing and ratings. Hera has already been committed to green funding for some time: it was the first Italian company to issue a green bond in 2014, which was followed by an ESG-linked loan in 2018. In 2019, it adopted a Green Financing Framework (GFF), accompanied by a further green bond issue. An expected further improvement in sustainability ratings, in turn, will make it even easier to access lines dedicated to sustainable financing, characterised by potentially lower costs than traditional credit lines. Consistently with these guidelines, the Group is implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) of the Financial Stability Board, which foresee the definition of climate scenarios, risks and opportunities related to climate change, as well as processes for managing these risks, and the definition of targets for reducing climate-changing emissions.

In this context, becoming part of the Dow Jones Sustainability Index (DJSI), the first index to track the financial performance of the world's leading companies in terms of sustainability, bears witness to the validity and credibility of the path taken by the Hera Group, opening up further developments. Recognitions of this type, in fact, act above all as a stimulus and allow Hera to identify the areas to be developed for further improvement in its performance and, at the same time, to include among its reference investors those who are engaged in socially responsible investing (SRI), a segment that, as mentioned above, is undergoing considerable and continuous expansion.

Business areas and industrial strategy

In January 2022, the Group's new 2021-2025 business plan was presented. It defines a strategy covering the next few years which is capable of driving economic and industrial growth and focuses on sustainability, in line with European and national policies and the objectives on the UN 2030 Agenda. The framework adopted confirms the Group's previous strategic approach, while placing even greater emphasis on its implementation. All the projects underlying the business plan have been defined in detail in order to progress in three areas, namely:

- Climate and Environment: this includes all initiatives that address the energy transition, promoting the circular economy and increasing resilience in activities and services;
- Economy and Society: this covers all projects that will be implemented to promote the well-being and prosperity of the Group's regional ecosystem;
- Innovation and Skills: this is the area that supports business development across the board, offering technological and digital solutions, alongside initiatives in favour of employees, called upon to rapidly increase their skills in a way that is consistent with digitalisation processes.

Free-market businesses

As regards free-market businesses, the Group's strategy focuses in particular on the areas of industrial and commercial development, in terms of decarbonisation and contribution to the circular economy.

In the free-market businesses of the energy sector, the Group aims to consolidate its position at national level by expanding its customer base, to reach a target of 4.5 million energy customers by 2025. Consistent with the transitional climate scenario, that includes an increasing electrification of consumption, the Group has set itself the objective of increasing its customer base, especially in the electricity segment, with a growth of over 1 million customers, while keeping it substantially stable in the gas segment. Based on the plans made, in 2025 the customer base for electricity will exceed the customer base for gas. This goal will be pursued through growth in sales on the one hand, and the opportunities deriving from the liberalisation of the protected electricity market on the other, for which the Group expects to be awarded a portion of customers consistent with its market share. With reference to commercial growth, Heracomm will expand its range of Added value services (VAS) over the next few years, strengthening its solutions for reducing waste and proposals for protecting the environment and saving on consumption, such as photovoltaic generation and electric mobility, and thus achieving important commercial synergies. In order to strengthen communication between the supplier and the customer and encourage the latter to engage in sustainable behaviour, customer experience-oriented initiatives will be implemented, focusing on economic aspects and digital evolution, through dedicated green loyalty programmes. In the coming years, Hera will also continue to address the energy transition of its customers by exploiting the opportunities offered by the super-bonus for condominiums, the effectiveness of which was recently extended to 2025, while modifying the rates and the parties concerned. Finally, the Group's interest in participating in tenders in markets of last resort is confirmed, with the aim of reconfirming its position as a key player on the national scene.

With regard to the waste treatment and recovery business, the Hera Group intends to consolidate its leadership by leveraging plant and industrial development with a view to the circular economy, as well as on commercial development in the industrial waste and recovery sectors. In the latter area, Hera will extend the capacity of plants dedicated to treating flexible plastics (PET and LDPE), and will enhance the partnerships initiated with important operators in the sector, entering the rigid plastics segment by constructing an innovative plant for the production of high-quality recycled polymers. Concerning sustainable industrial development, the Group also plans to build two new biomethane production plants, replicating the success of the Sant'Agata Bolognese plant, in order to double biomethane production by 2025 compared to current levels. In terms of commercial development, the Global Waste Management solutions offered to industrial customers will be strengthened, with customised services covering the entire waste cycle, water resource management and energy services, fully exploiting the synergies between the various businesses covered by the Group. The ongoing commitment to achieving sustainability targets is further confirmed by the objective of reducing the use of landfills for municipal waste to below 3%. This will prospectively mitigate the physical risks of this supply chain related to climate change. For more details, see paragraph 1.02 "Risk factors: actors, methodology and areas of management".

Regulated businesses

With regard to regulated businesses, the lines of development pursued over the next few years will focus on strengthening adaptive and reactive resilience to climate change and the asset readiness of infrastructures, in terms of modernisation, digital evolution, redundancy and preparation for the distribution of green gas, and on reconfirming Hera as the reference operator in gas distribution and urban environmental services in the areas currently covered, which are expected to be put to tender during the time covered by the plan.

In gas and electricity distribution, in order to prevent and mitigate exogenous risks and in favour of overall strengthening and greater digitalisation of infrastructures, increased resources have been allocated compared to previous planning. The most important projects in the plan include a project for the installation of increasingly advanced meters, which, in addition to allowing more precise measurement of consumption, will offer sales companies the opportunity to exploit the numerous kinds of information relating to users. In the area of gas distribution, 300 thousand NexMeters are to be installed. These smart meters, developed by Hera with Panasonic, provide benefits in terms of operational safety and environmental protection, thanks to the reduction of gas dispersed into the atmosphere. A green version has already been developed for measuring green gases, in particular a mixture of methane and hydrogen, and its components are made from a significant percentage of recycled plastic. With regard to electricity distribution, the old meters installed in all areas managed by the Group are expected to be replaced with new generation (2G) devices.
The business plan also foresees the start-up of a Power-to-gas plant, built at the Idar purification plant in Bologna Corticella, which will make it possible to exploit synergies in the various businesses managed by the Group (not only gas and electricity, but also the water cycle), and at the same time to start experimenting with the production and distribution of hydrogen or other green gases.

In the water cycle, work will continue to make networks more resilient to climate change, smarter in terms of automation and remote monitoring of assets, and more efficient in managing water resources. Pursuing these objectives, Apennine sources will be upgraded, predictive models will be implemented that can anticipate supplies in the event of prolonged drought risk, and predictive maintenance will be enhanced with a view to a selective renewal of the network. The Group's attention also continues in the purification phase, benefitting the circular economy, which has always been an important objective for the Group and will be further pursued in the period covered by the plan. The extension of the programmes for reuse of water resources in agriculture to the other plants in the areas managed will

allow the current volume of wastewater sent for reuse to be increased, reaching 8.5% of the total reusable water by 2025.
District heating will also receive incremental investments compared to the previous plan, benefiting business continuity and the smart evolution of the infrastructure. The project for the physical interconnection of two district heating systems in Bologna will be the most significant initiative in this business over the next five years and will make it possible to optimise plant capacity while providing important benefits in terms of reducing CO_2 emissions.

Lastly, in the urban waste management business, the Group has confirmed its commitment to achieving recycling targets, focusing on improving the quality of sorted waste collection. To this end, new communication campaigns and citizen engagement actions will be launched, with a particular focus on single-use plastics and packaging, as well as the fight against abandonment and degradation. To support the virtuous behaviour of citizens, 62,000 Smarty (with IT devices) bins will be made available, covering more than half of the current amount, which can be monitored remotely and in real time (by a control room) in order to improve the service and optimise operators' interventions.

The path of growth outlined in the strategy described above will allow the Group to reach 1,400 million euro in Ebitda by 2025, up 277 million euro compared to 2020, thanks to the contribution of both internal and external growth. Investments coming to more than 3.8 billion euro, allocated in the period covered by the plan, will provide the basis for changes in margins and the implementation of the projects foreseen over the next few years, which will be significantly higher than both the average of the last five years (+59%) and the amount set out in the previous plan (+20%). Of these investments, around 1.2 billion will be earmarked for plant resilience, with a view to adapting to identified climate risks, such as strengthening the electricity distribution network and developing interconnections of water and gas networks. Despite this significant financial commitment, the net debt/Ebitda ratio will remain constantly below 3x, thanks to a sustained cash flow and the optimisation of financial and fiscal management.

The Group has also confirmed, in this industrial plan, the consistency of its strategy with the most recent and ambitious European policies, as well as with the recommendations of the UN Agenda. By 2025, 55% of the Group's total Ebitda will contribute to creating shared value, driven by approximately 2.5 billion euros of investments over the period covered by the plan (66% of total investments). As of this year, a target of 70% of total Ebitda has also been set for 2030, in line with the growth trend recorded over the years.
Hera's work towards the 2030 industrial targets set and communicated to the market a year ago also continues. The 2025 plan confirms, in fact, the converging path towards 2030 targets on carbon neutrality, the circular economy and shared value.

Growth

Hera's strategy has always been based on a close relationship with the areas served and its own ecosystem. The evolution of this context, in its economic, political, local and technological aspects, affects the Group's activities across the board and influences the guidelines that will characterize their evolution, leading towards increased resilience and accelerating the evolution of its corporate culture. "Growth", in particular, offers an overview of the Group's strategy, and is subdivided into various areas of action:

- a path of economic growth and sustainability for the green transition;
- resilience, confirmed and reinforced through the evolution of its enterprise risk management model;
- increased regeneration, including the project for the reuse of soil and demolition materials;
- the **development** of green gasses, an opportunity that allows for synergies between the Group's various businesses;
- the extension of laboratories towards the external market, exploiting the experience and know-how accumulated;
- tools for listening to and communicating with the areas served, considered fundamental for wellbeing, aimed at consolidating relationship with stakeholders and generating the engagement necessary for the initiatives to succeed;
- updating the shared value framework, based on developments in the EU taxonomy for sustainable finance;
- valorising the enormous amount of data available and its use in artificial intelligence projects;
- enhancing cybersecurity monitoring tools.

See the following paragraphs for further details about the strategic actions mentioned above, and the attention towards human capital implied by each of them.

Climate and the environment: sustainable development

Shared value framework

Hera's shared value framework, introduced in 2016, has oriented the Group's strategy towards growth based on responses to the problems of the external context, capable of maximising shared value, both for the company and for the community. Creating shared value is the perspective that integrates an orientation towards sustainability into the very heart of the Group's strategic approach.

The 2020 revision of this model includes the topics of resilience and adaptation to climate change, drinking water (included within the scope of sustainable management of water resources, together with purification, which was already present) and biodiversity. These are issues to which the Group has been committed for years, which complement the other dimensions of Hera's framework (such as the circular economy and sustainable management of water resources).

The Group's objective is to create shared value through business activities that are strongly integrated into the socio-economic fabric of the communities served, generate operating margins and respond to the drivers of the Global Agenda, i.e. the calls to action for change indicated by policies at a global, European, national and local level. The year 2021 confirmed the validity of the initiatives already launched by the UN Global Agenda 2030 to respond to the megatrends in place: fragile planet, technological disruption and accelerated urbanisation were considered the most closely linked to Hera's business, having a direct impact on corporate activities. Hera's contribution is most significant for seven sustainable development goals on the 2030 Agenda: 6) clean water and sanitation, 7) clean and affordable energy, 9) business, innovation and infrastructure, 11) sustainable cities and communities, 12) responsible consumption and production, 13) combating climate change and 17) partnership for the goals.

Green

The Group's website (www.gruppohera.it/gruppo/sostenibilità) and its Sustainability Report (Sustainable Strategy and Shared Value section) offer further details on the actions that the Group intends to promote by contributing in a broad sense to the 169 targets or the 17 Goals of the UN 2030 Agenda. Also note that the Group has set itself clear industrial objectives for both 2025 and 2030, to make a significant contribution to achieving carbon neutrality. The main elements include energy efficiency solutions applied both within the Group's operations and to customers (by valorising multi-business assets), the development of new renewable plants, the sale of green energy to customers and a strong commitment to reduce carbon dioxide emissions from the industrial chain, reaching 37% by 2030 (compared to 2019), calculated according to Science Based Target references.

In order to foster a culture linked to these SDGs among the Group's entire workforce, dedicated training events have been made available on its corporate training platform, concerning the circular economy in particular; the UN agenda is also part of training for all newly hired employees. The main actions include those aimed at promoting energy efficiency, sustainable management of water resources, the selection of suppliers with qualifications in terms of environmental and social sustainability aspects, the development of employment and new skills, and the spread of innovation and digitalisation. In order to ensure that the principles of the Green Deal, operationally set out in the circular economy action plan and in Next Generation EU, increasingly become elements of which all Group employees are aware, specific training courses have been planned, which provide for the enhancement of internal skills to develop projects consistent with the SDG framework. Awareness of the significance of climate change is considered by the Group to be the first necessary step towards incorporating precise responses to the resulting risks and opportunities into its corporate strategy, consequently reflecting the effects of these responses in the drafting its multi-year plans.

Among the initiatives identified to seize the opportunities defined through an analysis of the climate scenarios hypothesised, the most promising were included in the Business Plan to 2025, which also reflects the mitigation actions identified in response to the risks defined. In particular, the Group's strategy to implement climate change mitigation mainly consists of:

- choosing renewable electricity to power its own activities and to sell to customers;
- increasing the production of energy from renewable sources (in particular geothermal and biomethane, in relation to which, at the Sant'Agata Bolognese plant, performances exceeding expectations have been obtained);
- offering solutions to reduce the carbon footprint of customers in all segments (households, condominiums, businesses and public administrations, for example by setting commercial objectives in the time covered by the Plan that aim to involve customers in replacing boilers with a high environmental impact);
- initiatives and projects to reduce the carbon footprint, such as the launch of technological and regulatory feasibility studies to produce green hydrogen through water electrolysis, using the share of renewable energy generated by WTEs, or connecting the two district heating systems in the Bologna area that are currently separate, from which a single, more resilient, efficient and saturated district heating network will emerge;
- promoting and implementing the principles of the circular economy (for further details, see below);
- implementing technological innovation projects and initiatives for greater environmental sustainability in the Group's activities.

Circular economy and the area served

The Group's approach to the circular economy also defines specific projects in the various sectors.
By way of example, the design and execution phases of engineering works show a progressive focus on the issues of sustainability, reducing the environmental footprint and minimising the use of virgin soil. Building information modelling (BIM) technology, which makes material analysis possible (even during plant demolition), allows for maximum recycling and reuse and extends the circular approach to the end-of-life of the work. The development of plastic recycling and an increase in the production of biomethane, foreseen in the period covered by the Plan, are increasingly oriented towards giving new value to the organic portion of solid municipal waste. The rationale underlying circularity also involves the Group's main purchasing processes: Hera's strategic approach involves an increasing focus on materials or goods that meet the principles of the circular economy and extends the adoption of minimum environmental criteria (MC) to the definition of product characteristics, not only to components for water connections but also to other standard elements of the networks such as gas and water reducers and sewer lifts. The Group confirms its commitment to widely adopting circular economy solutions with medium- and long-term industrial objectives and projects based on defined deadlines, through technological and behavioural solutions to improve the volume and quality of sorted waste collection, new plant capacity for the treatment, recovery and recycling of special urban waste (including through partnerships in the local area) and, lastly, technology to maximise the reuse of water resources and advanced plant engineering for the quality of purification.

Regeneration & resilience

Measures to increase the resilience of the Group's activities also include the installation of remote-controlled accessories and sensors in all networks (to ensure remote monitoring and management), the installation of smart meters in each business, and the implementation of programming and modelling tools based on artificial intelligence, to anticipate critical events and optimise maintenance. Over the period covered by the Plan, for example, revamping and automation of primary electricity substations are planned, as is roboticising approximately 1,400 secondary substations ("Apennine resilience plan", which will address resilience with a view to mitigating the risks identified in the electricity distribution sector). For further details, see the following paragraph, "Technology and human capital: innovation").
To benefit the wider use of circular models, greater attention will also be paid to the various customer engagement tools, so as to use the different communication/dissemination channels according to the features of the various geographical areas, as well as to improve and expand the tools already in place by paying attention to the different types of customers.
The campaign to raise awareness of environmental challenges will continue to involve schoolchildren (environmental education projects), including distance learning designed for the current health situation, and will be carried out through the main media at a local level (press tour on environmental issues).

Contribution to the energy transition

In order to support the energy transition towards which the entire company is called to act, the Hera Group constantly plans actions aimed at increasing energy efficiency among its various categories of users, as well as at exploiting every possible form of renewable energy.

Actions to reduce energy consumption within the Group's scope of operations (-8% by 2025 compared to 2013), as well as those carried out with industrial customers, household customers and public administrations, will therefore continue with even greater impetus. The legislative framework, while continuing to present interesting opportunities in the household sector, will facilitate the building renovations deemed necessary for a fully effective energy transition. Similarly, the real estate assets of the public administration will also have to see a gradual improvement in energy consumption.

Contribution to decarbonisation

The Group's plant assets also have further potential to seize opportunities related to the development of new renewable energy vectors, such as hydrogen. The Group intends to become involved in the various phases of the hydrogen chain and is launching experimental projects in this direction. In the sustainable hydrogen production phase, a circular solution comes from synergies between the electrolytic process and the water purification process, with multiple circular flows of material between the two activities (oxygen as input for purification and biogas from sewage sludge as material for hydrogen methanation). Or again, the Group's Waste-to-Energy plants will be able to use biogenic electricity (considered renewable) to power electrolysers capable of obtaining hydrogen for industrial customers, mobility or the distribution network. With reference to gas distribution, experiments are underway on the Group's assets to assess the optimal blending percentage between methane and hydrogen for the operation of cogeneration assets and plants for industrial and household users. Finally, note the project to install the latest generation of "NexMeter" gas meters, suitable for measuring hydrogen/methane mixtures, as described in the paragraphs above.

Opportunity

For Hera, the need to guarantee the quality and continuity of essential services in such a changing context, subject to increased climate risks, represents a cost, but at the same time an opportunity. The necessary increase in investments to improve the resilience of its assets puts the Group, thanks to its solidity and financial capacity, in an advantageous position compared to smaller competitors, who could face greater difficulties in dealing with such a volume of investments.

In other words, the Group aims to make the most of the opportunities offered by technological evolution and digitalisation to extract innovations, operational improvements, cost efficiencies and synergies related to data management, in order to meet the needs of the local area and stakeholders, to take a leading role in the provision of services and to accompany cities towards new development models, overseeing each technological upgrade by analysing its impacts and mitigating its side effects.

Technology and human capital: innovation

A strategy moving towards green innovation

Advances in the chemical and engineering industries are at the forefront of technological development and concern the waste management (first and foremost plastics) and energy (biogas and biofuels) sectors. This is where the search for concrete solutions may prove to be instrumental adapting to climate change or countering the depletion of natural resources. The Group strategically exploits these advances in order to identify plastic recycling processes that can flank mechanical procedures and make the process effective even for less pure and less valuable types of plastic. The same advances make it possible, for example, to experiment with solutions that use excess renewable electricity (otherwise unusable) to split molecules into hydrogen and oxygen and then convert the result into synthetic methane gas by adding carbon (from CO_2).

Digital strategy

Hera has adopted a Group strategy to exploit all available information and to be able to guarantee quality and exchange in data flows. The principles that have guided the implementation of this strategy come from an organisational approach to data architecture, which consists of four guiding principles:

- organise information by "domains";
- develop it according to a product strategy;
- rely on a self-service technology platform;
- adopt a federated governance model.

The Group's data strategy model and related guidelines were included in training courses intended for individual company units, with the aim of spreading awareness of the strategic plan at all levels. In order to increase the ability to block anomalous events, the data sources used with the convergence between the management environment (applications) and the industrial environment (Group plants) must be continuously extended. Vulnerability assessment activities in both environments, aimed at preventing attacks on systems and plants, are fundamental; to this end, the model calls for distributed actions and responsibilities, and will be further strengthened over the time covered by the Plan thanks to projects aimed at increasing monitoring capacity and the evolution of prevention tools.

The utility sector is fragmentary and shows considerable technological gaps, and this must be resolved in order to comply with new European directives. In order to consolidate its role in the Italian utility sector, Hera intends to leverage the specialisations it has built up over time, by implementing new analytical methods and developing projects to automate and digitise processes. More specifically, the Plan provides for various interventions, including: the implementation of additional types of parameterised estimates to be sent to customers following the insertion of a request in the front-office channels; the creation of a technical help desk that filters requests for estimates before inspections and assists customers, with the aim of reducing the number of technicians in the field, potentially including virtual inspections or online estimates. The next few years will also see the expansion in remote control, which will manage a considerably larger perimeter of activities, offering a significant operational capacity. Digital transformation processes will cover various business areas, in order to make the most of the opportunities offered by new technologies. In the sales business (energy and gas), for example, customer acquisition activities will be supported by advanced digital marketing tools; the technological infrastructures of the billing processes will be renewed to optimise the "meter to cash" process; electricity offers will be provided with customisable discounts thanks to the functions of new generation (2G) meters and, to enhance customer centricity, a new customer relationship management platform will be implemented. In distribution (water, gas and electricity networks) and collection (waste) businesses, the implementation of advanced functionalities aimed at improving the effectiveness of the service is planned, such as predictive maintenance, the sharing of operational progress with municipalities through the development of a "dual system" or the implementation of virtual control for containers, in order to optimise their maintenance.

Technology

Data strategy is increasingly designed in such a way as to transform the Group into a data-driven company, where decisions guided by data, valued as a corporate asset and subject to an ethical and conscious reading, highlight the growing importance of data management and resources dedicated to its protection.
In 2021, the cybersecurity initiatives carried out in the Group consistently concerned three main macro-groups: technologies, processes and people. Cybersecurity interventions were introduced both in the traditional spheres of ICT and ICS (Industrial Control Systems), and, more generally, cybersecurity in industrial plants (Operation Technology). In addition to what is required by national regulations in the field of Operation Technology, the Hera Group has adopted a security management paradigm that extends its perimeter to all potentially vulnerable systems, not limiting itself to the traditional field of management and network application infrastructures but extending to the industrial plants through which the Group's services are provided. In this sense, a convergence between cyber security monitoring in the IT and OT contexts was launched, which, in addition to introducing new network traffic monitoring probes in the management context, allowed an initial probe to be activated for analysing anomalies in industrial protocols dedicated to the OT context. The Threat Intelligence service also continued, consolidating relations with Italy's Computer Security Incident Response Team (CSIRT) and the main public and private bodies. The Group also extended its vulnerability assessment activities, which previously covered IT, to OT as well, analysing some of the main plants at the basis of the Group's service provision.

In order to increase its ability to react to cyber security events and integrate centralised, across-the-board monitoring capabilities in its IT and OT contexts, the Group extended its vulnerability assessment activities to the OT context. In order to limit cyber incidents and protect accesses, but at the same time guarantee the minimum possible impact in terms of user experience (especially as regards balancing swift access to resources and adequacy of security requirements), digital identity protection continued thanks to an extension of multi-factor authentication. The widespread introduction of cybersecurity awareness continued through a dedicated online training platform, which now covers the entire corporate population, and monthly adaptive ethical phishing exercises.

These activities, on which Hera's strategic model focuses, contribute to a reduction of overall risk, as well as to the Group's preparedness for possible attacks, which translates into greater speed of action and reaction.

The evolution of technology and digitalisation, calling for continuous development of employee skills and the consequent training needs, confirms the Group's strategic decision to introduce cloud-based platforms to increase individual productivity and as the main tools for collaboration, since cooperation between man and technology requires continuous evolution in the way we work. With this in mind, process automation projects (virtual factories and digital labs) encourage a wider awareness of technological integration, focusing on initiatives to apply artificial intelligence and enhance the community, through digital workplace tools.

The Group intends to use data to generate value for people and for its business; the gradual digitalisation of human resources management processes, as well as the creation of a reference architecture to integrate systems and data available by using a prescriptive analytics approach, confirm this intention. Lastly, the Group's strategic vision of digitalisation technologies, which logically overlap with the area of environmental and social sustainability, led to the introduction in 2020 of a strategic framework called Corporate Digital Responsibility (CDR), which is described in detail in the Sustainability Report.

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Hera's human capital

In the context marked by the transitions currently taking place, human resources development guidelines are constantly updated in order to address priorities within the Next GeneHERAtion Growth model and guide the company's policies. In order to bring out ethical values and behaviour that represents a distinctive model for the Group, a culture oriented towards results, relationships between individuals and widespread leadership is increasingly encouraged. The Group's programmes on culture and an agile approach to improve performance, achieved by embedding trust, responsibility, autonomy and work ethics, are guided by the continuous development of a "work by objectives" culture. As part of the Group's strategy, it is fundamental to make everyone feel that their work and sense of belonging are related to the company's overall results and performance. In order to go beyond the concept of equality and achieve fundamental fairness in treatment, thus recognising specific individual features, as of 2021 the Group has launched a project for the evolution of performance management, with the aim of making the dialogue between team leaders and team members increasingly effective, orienting it towards accountability towards measurable objectives and greater delegation and autonomy in the organisation of work activities. This Result management-oriented path will be further consolidated through a series of initiatives foreseen over the time covered by the Plan. The Group, in this regard as well, continues its path of progressive digitalisation, which makes it possible to enable experiences, training, development and career paths in an increasingly self-determined manner, confirming the rationale of individual and collective responsibility guided by purpose. Human resources management and development processes are designed to preserve the distinctive skills and values built up over time and, at the same time, to develop individual talent, regardless of gender and age, seeking innovation in all aspects that can generate added and sustainable value over time. Hera's strategy hinges on the continuous development of an inclusive culture of diversity, understood as a means of generating change, in which employees can benefit from a good balance between the development actions assigned to them by the manager and the development actions in which the initiative instead comes from the individual. It is no coincidence that, in addition to retaining the figure of the Diversity Manager (introduced in 2011), Hera, a signatory of the "Utilitalia Pact - Diversity makes the difference", promotes inclusive policies at all levels of its organisation, progressively refines measures to reconcile work-life balance and adopts a merit management system which is not only transparent, but also and above all neutral with respect to gender, age and cultural differences, with the adoption of systems aimed at monitoring progress and internal and external awareness-raising policies. Artificial intelligence and digital tools, moreover, are now consolidated in analysing the data emerging from listening initiatives, which allow for a deeper level of employee satisfaction on issues related to the working environment and corporate values, which translates into corrective actions in each employee's department, but also through internal mobility involving more than one department. In order to verify the level of satisfaction and engagement of the company population, in 2021 a further accurate and quantitative analysis of the gender pay gap was launched within the company, investigating diversity in relation to the roles played, the performance achieved and seniority in the company.

The Group's strategy also contributes to creating value by accelerating the processes of re-designing training activities with a blended learning approach, continuously evolving its professional academy courses, encouraging an increasingly widespread use of the HerAcademy learning centre as a reference point for knowledge sharing within and outside the Group, not to mention other projects to further improve employee engagement. As of 2022, the ambassador engagement project will be finalised, with the aim of developing engagement through digital channels, inside and outside the company.

Welfare Consistently with its corporate direction, the Group has planned multidisciplinary initiatives to develop projects coherent with its SDG framework, with particular reference to the circular economy, and to work with an ecosystem outlook alongside the Group's various stakeholders, to converge towards common objectives in terms of the green economy. The wider presence of a green culture and an approach oriented towards sustainability and circularity is a central element of Hera's strategic plan, and presupposes a process of cultural change that, since last year, has been supported by various initiatives. The intervention concerning digital skills, customised for the entire company population, is continuing, to accompany the energy and environmental transition with updates in roles, skills and the Group's training offer. The objective of achieving results in terms of green economy related a reduction of the Group's carbon footprint, by way of example, is shared through an enhancement of the contribution of remote working, or through a reinforced green offer as part of corporate welfare tools, or again through raising awareness of green issues even at the time of recruitment. From 2022, the propensity to adopt an approach that is culturally consistent with these principles will become a key element in the Group's selection, recruitment and development processes.
An integrated vision of technological evolution and employee experience, accompanied by the application of Organisational Network Analysis, artificial intelligence and business intelligence tools, aims to foster the optimisation of organisational processes, human capital development and individual decision-making capabilities. The evolution of skills and roles according to business needs, through a strategic dialogue between the lines of business and human resources, allows the meaning of the business challenges addressed over the time covered by the Plan to be shared, along with a sense of the risks and opportunities involved.

After identifying the factors of success for the utilities of the future, and the objectives of industrial growth, circularity and risks are translated into an equal number of coherent company policies.

1.02 RISK FACTORS: ACTORS, METHODOLOGY AND AREAS OF MANAGEMENT

1.02.01 Risk governance

The Hera Group's organizational structure is designed to manage any risk exposure arising from its businesses and simultaneously to uphold management effectiveness and profitability across the entire value chain.
Hera's corporate governance system enables organisational strategies to be handled uniformly and consistently. The Risks Committee is the principal policy-making, monitoring and reporting organ for risk management. 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 2021, the Risks Committee met four times and the Controls and Risks Committee met seven times.

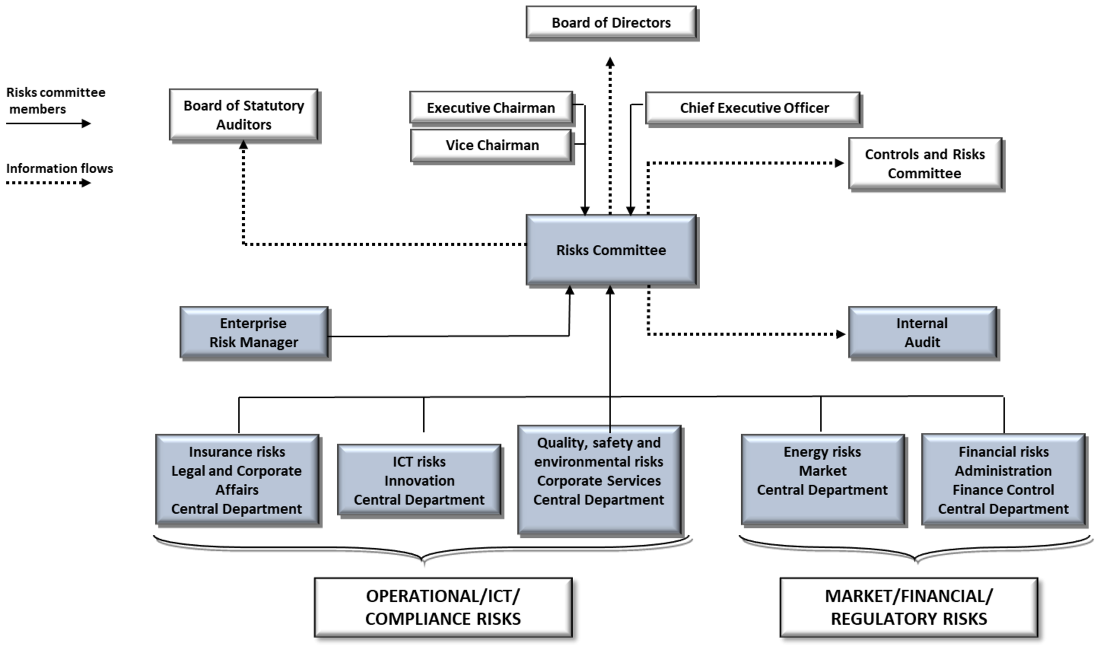
The Group has adopted a three-tier risk defence strategy, appropriately distinguishing:
- the role of risk management, entrusted to the risk owners in charge of the different organizational sections;
- the role of risk guidance and control, entrusted to the Risks Committee, which relies on risk specialists 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 President 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 their own independent status.

The risk governance structure is outlined here below:



1.02.02 Management methodology

Hera has introduced 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 a given risk management strategy, through the identification of:
  - key risk scales;
  - risk metrics;
  - their associated limitations;
  - 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, also 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 27 January 2022, the sixth Enterprise Risk Management report on the 2022-2025 business plan was presented to the Board of Directors.
Over the course of 2021, the ERM analysis made further methodological improvements and refinements:

- backtesting of the previous year ERM analysis was carried out to assess that actually incurred impacts were consistent with estimated impacts;
- the Group's resilience analysis, carried out in previous years in relation to risks that may jeopardise the continuity of core activities, made it possible to plan further mitigation actions in the 2022-2025 business plan;

- the identification and analysis of climate change (physical and transitional) risk scenarios relevant to the Group's activities continued, to begin assessing the impacts and business development opportunities for certain relevant risk factors in keeping with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).
- further methodological refinements were introduced in the ERM analysis, to improve the comprehensibility of the risks.

The 2021 ERM analysis did not reveal any critical risks, either in terms of reputation or operating-financial impact.
Areas of significant risk include reputational impact deriving from possible proceedings by supervisory/regulator/investigation bodies, generated by the degrees of discretion on the opening of audit/investigation procedures in cases of non-univocal interpretative guidelines (even when the Hera Group's conduct complied with legal provisions), as well as the operating-financial impact deriving from high-intensity seismic events relating to networks. The risk deriving from potential fires at waste treatment and recovery plants is confirmed; however, the related impact in terms of consequences on Group results is assessed as insignificant, while consequences for the environment and operational continuity have zero impact. However, due to growing social awareness on the issue, such events may lead to significant reputational consequences because of perceived risk. The difficult economic situation, which is due to the long-term effects of the health emergency, spreading in various ways across the agenda and priorities of all economic operators, could also affect the full compliance of the actions undertaken by companies which, on behalf of Hera, work through external contracts on the networks managed by the Group. However, Hera is committed to containing this risk by confirming its commitment to extensively monitoring the health of the value chains involved in its business.

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 macroeconomic and financial, business (regulatory and competitive), technological, environmental and human capital contexts, including with constantly increasing regard to 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 PRICE	Fluctuations in commodity prices.
	COUNTERPARTS	Counterparties unable to meet the obligations undertaken, both in terms of respect for economic conditions and in the execution of contractual provisions.
BUSINESS AND REGULATORY	COMPETITIVE AND MACROECONOMIC	Business activities involving increasing competition on the free market, carried out mainly in Italy, with an economic context of limited growth: ▪ Changes in energy consumption; ▪ Reduced production of volumes of waste treated at Hera's plants, which affects the achievement of targets.
	REGULATORY AND LEGISLATIVE	▪ Interventions by the regulatory authorities of the sectors in which Hera operates; ▪ Regulatory developments with possible impact on both network and free-market businesses and municipal waste collection.
	STRATEGIC	▪ 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 company activities.
CLIMATE AND THE ENVIRONMENT, TECHNOLOGY AND HUMAN CAPITAL	ENVIRONMENTAL-CATASTROPHIC AND CAUSED BY CLIMATE CHANGE	▪ 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	▪ 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	▪ Reduced occupational health and safety and limited social protection for workers; ▪ Skills mismatch; ▪ Reduced attractiveness of the workplace environment.

MANAGEMENT

- Diversified funding source structure 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 strong focus on skills and a single interface for the constant monitoring of the market.

- Structured process of counterparties identification and selection through credit checks;
- Constant monitoring of counterpart positions;
- Possible external transfer of risk through credit assignment.

- Continuous innovation in and timely presentation of the commercial offer;
- High degree of flexibility in the supply sources for energy commodities, in parallel with the timely management of hedging activities;
- Diversified plant equipment with high-performance environmental technologies, and a strategy focused on the circular economy, specifically in the industrial waste cycle: ongoing efforts in recovering and recycling polymeric materials and in the production of biogas.

- Communication with national and local authorities through an organizational structure designated for this purpose;
- Timely alignment of commercial offerings to 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 the face of multiple adverse risk scenarios in an enterprise-wide logic;
- 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 engagement in the area of climate change;
- Activating projects to promote the production and consumption of energy from renewable sources and reduce energy consumption;
- Incentivizing recovery strategies.

- Centralized network monitoring systems that are in constant operation, with real-time detection of potential critical factors;
- Constant monitoring of the level of cybersecurity risk, with governance and organizational structures designed for this purpose;
- Constant engagement and internal training on ICT security issues.

- Careful 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 are only partially mitigated by an integrated assessment of these markets and associated management strategies.
Energy market risks are centralised in the Central Market 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 of 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 structured the processes to achieve effective management of procurement and hedging concerning the energy market, with a clear-cut focus on the skills involved. The Group's approach provides for a single interface for the management of risk to market: 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 context, in addition to fluctuating energy and commodity prices, shows changes in interest rates, exchange rates, credit spreads and possible liquidity crises. Such fluctuations may affect 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 to do so only on unfavourable economic terms, or an inability to liquidate assets on the market or due to a changed risk perception on the part of the market. 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 funding sources and the related economic conditions. The Group's debt structure is not subject to financial covenants on debt balances, with the exception of the corporate rating limit defined on a portion of debt equal to approximately 150 million euro (i.e. in the assignment of a rating lower than BBB-). On the other hand, with respect to the remaining outstanding debt, 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 is revoked (concession event), or assets are sold (sale of assets event), resulting in downgrading the Group to non-investment grade or lower, or terminating of the publication of the rating.

Managing risks associated with the debt market

Hera's financial management is centralised in the Central Administration, Finance and Control 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 66% of the Group's financial debt is long-term (more than five years) and 86% of this is represented by bonds with repayment at maturity. See note 26 to the consolidated financial statements, "Non-current and current financial liabilities", for further details in terms of worst case scenarios.
Moreover, the Group's activities and strategies are particularly focused on ensuring that the highest rating level is maintained, as confirmed by the upgrade of its rating to BBB+ with a stable outlook by S&P, in May 2021.

Sensitivity analysis

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 to reduce its exposure to interest and exchange rate fluctuations.

At 31 December 2021, the Group's exposure to the risk of interest rate fluctuations was 7%, while the remaining 93% of debt is at a fixed rate. A 1% increase in the benchmark interest rate with respect to the business plan scenario, based on the assumption of a coupon rate shift and the Group's debt structure in the plan, would increase financial expenses by an average of approximately 7 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 all of the various areas in which the company operates: the sale of energy commodities and services, waste treatment activities and telecommunication services.

Managing risks from counterparties
Hera employs 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 the counterparties are regularly monitored while articulated, proactive actions are planned, 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 2021, the 24-month unpaid ratio of the Group's main sales companies amounted to 0.85%.

Regulatory and business area

Identifying competition and economic risks
Hera operates mainly in Italy, where there has been a recovery in energy consumption and in the volume of waste disposed of in connection with the easing of restrictive measures following the emergency situation due to the pandemic. External factors, however, still influence this economic recovery; in addition to the pandemic, the sudden and abnormal increase 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. Changes in retail energy consumption levels, and the increased difficulty in forecasting volumes to cover the needs of the sales portfolio, may require Hera to purchase or sell additional energy on unfavourable terms.
The potential reduction in waste production, deriving not only from the economic context and European and national regulatory frameworks but also from new trends in customer behaviour, together with the 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 centralised under the Herambiente Group.

Managing competition and economic risks
The Group 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, thus ensuring ongoing alignment with the market and maximising natural hedging.
In waste management and treatment activities, the Group's diversified plant equipment features technologies that are cutting-edge and high-performance in terms of environmental impact, which to date has enabled the Group to achieve its strategic objectives. The implementation of a circularity strategy – through the inclusion of polymeric materials in the recycling process carried out by Aliplast Spa – and the development of recycling lines for other types of plastics make it possible to seize the opportunities offered by the evolution of European legislation.
Over the years, free-market businesses have gained increasing importance in the Group's portfolio, contributing significantly to its economic performance but also exposing it to growing competition. The Group responds to the challenge of competition by continuously innovating its commercial offering and introducing these new products in a timely manner, increasing its presence and customer base on the free market, and ensuring the fulfilment of expectations in terms of service range and quality.

Sensitivity analysis

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 business plan scenario would lead to an average annual drop in Ebitda of approximately 3 million euro.
A 1% reduction in the inflation rate compared with the business plan scenario would lead to an average annual drop in Ebitda of approximately 5 million euro. The reduction of the electricity price in the wholesale market by 1 €/MWh compared with the business plan scenario would lead to an average annual drop in Ebitda of approximately 0.5 million euro.
Finally, the reduction of the gas price by 1 €c/smc compared with the business plan scenario would lead to an average annual drop in Ebitda of approximately 0.2 million euro.

Identifying regulatory risks

Hera carries out part of its activities in a regulated market, therefore its operations are influenced by the regulatory measures taken by the sector authorities and legislator (in particular concerning tariffs and market structure), government incentives for renewable energies, the concessions granted by local authorities (in the case of regulated activities relating to waste collection services, gas distribution, integrated water service and public lighting) and national authorities (in the case of electricity distribution), as well as by 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 significantly impact on the sectors in which Hera operates, influencing its profitability.
Regulatory risks impact network businesses (water, gas and electricity distribution) and the urban hygiene business 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.
The tenders for gas distribution, the integrated water service, waste collection and street sweeping scheduled in the Plan determine the risk of losing some of the areas currently managed, especially in contexts with a significant presence of competition. However, it should be noted that, in the event of a loss of management areas, the Group is compensated for the portion of invested capital not yet depreciated.
Lastly, there is a risk arising from the regulatory uncertainty surrounding the end of the protected services, in terms of the implementation timeframe.

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 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 innovation 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, the 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 activities are not maintained or obtained.
Achievement of 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 (ERM) 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

perform scenario analysis, stress testing and what-if analysis 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.

Environmental-catastrophe, climatic, technological and human capital areas

Seismic, atmospheric and other climatic events may affect the resources deployed and consequently the Group's performance. Hera seeks to enhance these resources by ensuring that they are preserved and developed so as to continue to enjoy their benefits in the future. In this context, the physical and transitional risks linked to climate change are particularly important, as are accidents in the Group's plant equipment which in turn may generate potential environmental damage. In this respect, the Group has already developed a detailed analysis of the TCFD recommendations which led on one hand to implementing, at the operational and strategic level, best practices for managing risks and opportunities related to climate change, and on the other hand allowed the Group to gradually align its current reporting instruments with these recommendations. Risks arising from cybercrime, which Hera also assesses in terms of their impact on service continuity, are also becoming increasingly significant. It also becomes imperative to determine whether accidents may pose a risk to people's rights and freedoms, i.e. whether they may cause physical, material or immaterial damage, based on the parameters and acceptability thresholds defined by Group policies (published on the company's 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 uses natural resources to provide essential services to customers. As its activities have an environmental, water and carbon footprint, the Group is aware of the need to preserve natural resources by adopting mitigation and adjustment measures to reduce these risks. In keeping with the ambitious goal to reduce current levels of greenhouse gas emissions as set out by international organisations, the following physical and transitional climate change risk scenarios have been identified as relevant to its activities. For further details, please refer to the next section "Identifying climate change risks".
In terms of the environmental standards that Hera must comply with in carrying out its business, the Group's activities are subject to various rules and regulations, including rules relating to CO_2 emissions, emissions of other substances produced by combustion, water discharge and the handling of hazardous and solid waste. Non-compliance with CO_2 limits contributes to environmental changes, 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 on natural resources in order to meet water demand.
In addition, there are risks stemming from the impact on the Group of weather variability in relation to the electricity and gas demand deriving from the various scenarios. The most significantly affected areas pertain to the Central Market Department, which is exposed in terms of electricity, gas and heat sales and to the variable demand resulting from different weather scenarios.

Managing environmental-catastrophe risks
Investments aimed at preventing and reducing the frequency of harmful events and measures to curb their severity, play a key role.
The Group's commitment to reducing carbon dioxide production began with reporting on its own performance and commitments to climate change and continues with projects to promote energy production from renewable sources, reduce energy consumption, and provide customers with opportunities to cut greenhouse gas emissions. The Group is committed to contributing to reducing environmental risks by complying with the energy efficiency objectives set by national legislation and

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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 uses exclusively 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, such as, for example, the Rimini seawater safety plan, currently underway which, in addition to maintaining the quality of marine resources, increases the resilience of the stormwater drainage infrastructure in the event of extreme events. For further details on specific initiatives, please refer to the section "Mitigating climate change" in the Hera Group's Sustainability Report.
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 succeeds in tackling 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. For more details, see the sections on "Protection of air, soil and biodiversity" and "Sustainable water management" in the Sustainability Report. 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. For more details, see the "Transition to a circular economy" section in the Sustainability Report.
The strengthening of the resilience of the Group's water supply and distribution system in a medium to long-term outlook is ongoing. Furthermore, the reduction of the water footprint is pursued through the water management system, which aims to promote 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.
Regarding weather-variable risks, the Group relies on advanced 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 Business plan scenario leads to an average annual drop in Ebitda of approximately 13 million euro.

Identifying climate change risks
The physical and transition 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 two of the most relevant scenarios out of the nine that were considered as starting points. In particular, the IEA ETP 2DS transition scenario by the International Energy Agency, chosen as an optimistic climate scenario, envisages 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 scenario, chosen as a pessimistic scenario, instead envisages 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, 8 physical risks and 8 transition risks were identified, associated with related business impacts. Each risk and opportunity was associated with a timeline, a priority level (defined as the combination of the probability that the context in which Hera operates will change and the impact of the risk/opportunity on the business) and consequent management methods, in the case of the risks identified, and business initiatives, in the case of the opportunities identified.

Type	Causes
Physical risks	▪ heat waves, ▪ abnormal winter temperature changes, ▪ flooding and floods resulting in landslides and mudslides, ▪ extreme weather phenomena, ▪ rising sea levels, ▪ changes in the timing of annual and average rainfall, ▪ drying soils, ▪ rising temperatures; the risk associated with decreased gas consumption and district heating for residential use as a result of an increase in temperature was also assessed as significant in the long term.
Transition risks	▪ electrification of energy consumption, ▪ development of renewable energy sources, ▪ introduction of measures requiring structural and non-structural efficiency upgrades, ▪ limits on the production of greenhouse gas emissions, the increase in the cost of raw materials and greenhouse gas emissions, ▪ stigmatisation of the sector in which the company operates, or limited access to the capital market, ▪ absence and/or obsolescence of the highly specialised skills required by the market to develop new technologies or replace existing products, ▪ legal disputes, ▪ obsolescence of existing plants and the associated need to introduce new, more sustainable solutions/technologies.

During 2021, a flood risk analysis was carried out, with a medium-long term time projection, to assess potential impacts on the Group's assets deriving from extreme phenomena related to climate change. The conclusion of this analysis, and the ensuing updated scenarios, are expected within 2022.

Note that physical risks are distributed over both the medium and long term, with a higher number of occurrences in 2031-2050, consistent with the notion that climate change impacts will become more evident in the long term..

Transition risks are mainly concentrated in the medium term and are distributed across all categories of the classification suggested by the TCFD. Each risk has also been associated with one or more management methods: 21 management methods were identified for physical risks and 12 for transition risks; some of the resulting actions have already been integrated into the investments made, as well as reflected in the Business plan. For more details, please refer to the section "Hera's climate strategy" in the Sustainability Report. The investments and the mitigation and adaptation actions planned to date, moving in the direction of the energy transition towards carbon neutrality and the environmental transition towards the circular economy, as well as for technological evolution, in line with European strategies and the objectives of the UN 2030 Agenda, have been implemented within the estimated timeframe and at times accelerated in light of the Group's positive results.

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The short- and medium-term scenarios analysed by Hera Group may be updated on the basis of the consequences of the Russian military intervention in Ukraine. The uncertainties inherent in the future of this conflict may, in fact, not exclude an acceleration of the transition envisaged by the scenarios, or of the risks and opportunities emerging from the analyses. For an evaluation of the potential effects in terms of impairment tests, specifically in relation to gas consumption, see note 31 of the consolidated financial statements in paragraph 2.02.05 "Commentary notes to the financial statement formats".

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 carbon footprint. Risk assessment activities continue, with the appropriate level of detail, especially with regard to transition risks and their modelling. The Group is developing an analytical framework with the objective of quantifying the individual impacts. Following the results of the first phase of analysis, a series of mitigation and adaptation activities have been identified, and no risks have been determined that – as regards their valuation over the time covered by the Business plan – may cause a need to make write-downs on the Group's assets.

Type	The Group's main initiatives/actions
Mitigation activity	▪ reduction in internal energy needs through efficiency investments, ▪ specific investments for the growing role of renewable energy production, such as those planned in plants for biomethane production and initiatives to build electrolysis plants for producing green hydrogen, ▪ sales of renewable electricity and gas with compensated emissions to customers, ▪ offers of photovoltaic generation systems, ▪ offers of energy efficiency services to retail and institutional customers, ▪ acceleration towards the reuse of raw materials through polymer recovery and regeneration activities with consequent reduction of CO_2 emissions
Adaptation activity	▪ actions aimed at consolidating the resilience of Group infrastructure to climate change, increasing its capacity to adapt to adverse physical conditions. In this regard, Rimini's optimised seawater protection plan will ensure a better response capacity of the integrated water service infrastructures to extreme precipitation events in the area; ▪ development of project hypotheses for the integration and partial replacement of water sources, as well as the construction of interconnections between them, in order to deal with emergency conditions by 2030, ▪ interventions for the districtisation of water networks and monitoring leakage, agreements and investments for the reuse of purified wastewater, reducing pressure on primary water resources and thus water stress on the area served, which will be accentuated by climate change in the coming decades.

As mentioned in paragraph 1.01.02, "Strategic approach and management policies - climate and the environment: sustainable development", Hera implements a risk management policy aimed at achieving carbon neutrality. The main contributions include energy efficiency solutions through the valorisation of multi-business assets, applied both within the Group and to customers, the development of new renewable plants, the sale of green energy to customers and a strong commitment to reduce carbon dioxide emissions from the industrial chain by 37% within 2030 (compared to 2019), calculated according to the Science Based Target method.

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. The provision of 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 (BIA) 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

Centralised network monitoring systems (remote control of fluids and the electricity network) ensure continuous real-time monitoring and supervision and, in some areas, remote management, making it 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.
The Group constantly monitors the level of IT security risk, runs tests to continually assess the level of penetrability of its systems and network security, and carries out training campaigns to raise awareness among all users.
During 2021, work continued on measures aimed at ensuring the confidentiality, integrity and availability of Hera's systems. The main initiatives, a consolidated part of the Group's strategy and its method of action, are described in paragraph 1.01, "Contexts and trends, strategic approach and Group management policies". By way of example, in the context of industrial plants, coordination of cybersecurity improvement initiatives has been boosted, aimed at a single monitoring model for cybersecurity covering both IT (Information Technology) and OT (Operation Technology) areas. In order to block any vulnerabilities in systems or applications that could be exploited by an attacker, vulnerability assessment activities have also been intensified, extending them to industrial plants.
During 2021, the Group received two complaints relating to issues of privacy or data loss from its customers.

Identifying people's safety and development risks

People and their behaviour are the common denominator in the areas of climate, environment, technology and human capital, and they can increasingly influence the effectiveness of corporate strategies. The protection of people thus remains a key element that must be reflected in workplace safety and at the level of social protection. Hazard identification and risk assessment are based on analysing the roles, work activities, processes, workplaces, equipment, vehicles, plants and substances used. The Group continually focuses on the emerging needs and requirements of different categories of employees. With reference to the specific nature of its business and its geographical presence, the Group has established criteria for identifying risk scenarios due to the spread of the Covid-19 virus using an Enterprise risk management rationale. The measures adopted and their implementation are periodically monitored. To this end, a specific checklist has been developed for periodic monitoring, by the managers of the various organisational units. Lastly, with the aim of identifying, measuring and monitoring the risks threatening the Group's assets, and preventing and mitigating threats and impacts caused by fires, regardless of the causes that may cause them (malicious, culpable or accidental), a risk assessment model has been implemented for the physical security of assets.

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 teaching methods chosen for worker training will no longer be solely technical or normative, but will be geared towards developing self-awareness in the perception of risk and in adopting safe and aware behaviour. The prevention measures put in place by the Group aim to lower the probability of an adverse event occurring, and the protection measures act by lowering the severity of the consequences following the event. It is of fundamental importance for the company to develop workers' awareness of the risks associated with their work. Hera is increasingly using training courses that encourage people to develop greater awareness, modifying their own behaviour in terms of risk perception and being a virtuous example for other workers.

Focusing on these aspects is an essential element of operations, in order to maintain a steady decrease in the number of injuries, the accident frequency rate, the severity rate and the number of days of absence due to injury. In this respect, the Group has been granted important awards on occupational health and safety such as ISO 9001 (quality management system), ISO 14001 (environmental management system) and ISO 45001 (health and safety on the workplace). The process of hazard identification and risk assessment and control is carried out in a preventive and proactive (rather than reactive) manner, in order to identify appropriate risk reduction and control measures.

The ongoing commitment shown by people and the integration of safety into processes and training are the cornerstones of the Group's safety culture. This strategic element of risk management is based on the premise that everyone is responsible for their own health and safety, as well as that of the people with whom they interact. This principle has been included in the procedure for managing the process of identifying hazards and assessing risks to the health and safety of workers. This procedure provides that each employee promptly report and halt any risky situation or unsafe behaviour. In addition, in 2021, the heads of the organisational units completed and managed about 7,000 checklists, instrumental in monitoring the measures adopted and the possible need for specific procedures for managing workers. As regards the health emergency caused by Covid-19, in order to promptly interrupt any chains of transmission of the virus in the workplace, under certain conditions, for example, rapid tests were carried out, additional activities accompanying the standard ones in cleaning and sanitising company premises were planned, providing for the use of disinfectants and intensifying their frequency, disinfectant gel dispensers were placed in the entrances and common areas, and surgical masks were distributed to each employee. In shared areas, a logistic management of the spaces was defined that allows an adequate distance between people. Finally, ways of carrying out services in the field were defined, such as reducing travel, eliminating the use of changing rooms or revising work shifts to reduce overlapping between operational teams.

In order to maintain a high level of efficiency in carrying out its activities and guarantee the highest level of safety in the workplace and compliance with environmental standards, and reduce risks related to the continuity of services, Hera has drawn up a technical-management project that:

- guarantees a uniform minimum level of security throughout the Group, through the application of homogeneous, standardised and modular countermeasures;
- applies advanced technological solutions in compliance with regulations, standards and good practices;
- centrally manages contracts (infrastructures, maintenance and services) guaranteeing correct standardisation and optimisation of intervention costs.

For example, to better manage events, the Group's synergies, skills and resources have been made use of by centralising the alarm reception point in a control room with a view of all alarms/alerts concerning assets, and also by managing the global contractor's networks and systems (for installation and maintenance of systems, and activation of surveillance services). Finally, with reference to social wellbeing, with the aim of fostering a positive working environment, Hera has created a welfare system based on attention to people. This system includes interventions which are monetary or linked to the quality of life, such as services relating to the family, education, work-life balance, wellbeing, leisure and health.

1.03 MAIN EVENTS OCCURRED

27.01.2021

For the second consecutive time, the Hera Group is included in the **Bloomberg Gender-Equality Index** among global listed companies committed to fair and inclusive workplaces.

03.03.2021

HEA is founded, a company set up by Herambiente and Eni Rewind to build plants dedicated to the sustainable management of industrial waste, starting with a polyfunctional platform in the Ravenna industrial area.

22.04.2021

The international network of the **Science Based Target initiative (SBTi)** validates the Hera Group's target to **reduce emissions by 2030: -37%** compared to 2019.

20.09.2021

Through AcegasApsAmga, the Hera Group **is awarded the tender for managing the natural gas distribution service** in the Minimal Territorial Areas **(ATEM) Udine 2.**

13.10.2021

Hera successfully launches its first **Sustainability-linked bond,** worth **500 million euro,** with subscriptions approximately four times more than the amount offered. This issue is part of a strategy to reduce emissions and recycle plastics.

28.10.2021

Through Hera Comm, the Hera Group is awarded 4 of the lots put out to tender by Consip for a value of over 580 million euro, relating to the **supply of electricity to Public Administrations in the Province of Rome and in Campania, Calabria and Sicily.**

10.05.2021

Standard & Poor's upgrades Hera's rating to BBB+ with a stable outlook, in recognition of the path of growth implemented over the years and the Group's better-than-expected results.

28.06.2021

The Hera Group acquires 70% of the Friuli-based company Recycla, consolidating its leadership in industrial waste treatment.

09.09.2021

The Hera Group acquires 80% of the Vallortigara Group, consolidating its leadership in industrial waste management and strengthening its presence in the Triveneto region.

05.11.2021

The Emilia-Romagna Territorial Agency for Water and Waste Services (Atersir) **awards the tender for managing the integrated water service in the province of Rimini** (excluding the municipality of Maiolo) to the Hera Group.

11 / 25.11.2021

Atersir awards the management of **municipal and assimilated waste in the Modena and Bologna areas to temporary groups of companies guided by the Hera Group.**

30.11.2021

The Hera Group presents its **new green version of NexMeter,** a smart gas meter 4.0: technologically innovative, safety-oriented and made with a high percentage of recycled plastic, this device is the core of the first trial in Italy on the use of hydrogen in household gas distribution.

Business and financial events

SBTi targets

The Science Based Target initiative (SBTi), an international network resulting from a collaboration between the Carbon Disclosure Project (CDP), the United Nations Global Compact, the World Resources Institute and the WWF, has certified, on a scientific basis, the greenhouse gas reduction targets set by the Group: a 37% reduction by 2030 compared to 2019. Hera's commitment is part of the more general objective "Well below 2°C", aimed at limiting the increase in global temperature to considerably less than 2°C compared to pre-industrial levels, in line with the path set out by the Paris Climate Agreement.
This objective does not only concern the emissions produced by the Group's own activities, but also covers those of its customers, as regards the sale of electricity and gas, and its suppliers. Indeed, Hera has put numerous solutions in place to promote energy efficiency, which are accompanied by broader involvement and awareness initiatives aimed at encouraging reduced consumption. The actions envisaged include a further expansion of district heating, energy requalification for buildings, the launch of initiatives to develop hydrogen as an energy vector, and increasing the use of electricity from renewable sources for internal consumption.
As regards companies, the projects developed partially thanks to the Group companies involved in energy efficiency services, Hera Servizi Energia Srl and AcegasApsAmga Servizi Energetici Spa, range from energy diagnoses to the construction of turnkey plants and targeted redevelopment projects. Through the Hera Business Solution, a multi-service proposal, Hera can also offer companies sustainable and integrated waste, water and energy management. Lastly, retail customers already benefit from 100% energy from renewable sources and have free tools at their disposal, such as the Consumption Log, to better assess their habits and the savings that can be achieved by reducing waste.

ATEM Udine 2 gas tender

The subsidiary AcegasApsAmga Spa, also the outgoing operator, was awarded the Udine 2 ATEM gas tender, thanks to which it will manage the service for the next 12 years, with a bid geared towards sustainability and creating value. The Udine 2 area includes 18 municipalities (including the provincial capital) and over 90,000 users, distributed along a network of over 1,200 km. The contract signed with the Municipality of Udine, as contracting station, is worth approximately 115 million euros.
In order to maintain the management of the service, in a competitive context open to the most qualified gas distribution operators, AcegasApsAmga Spa presented a proposal capable of reconciling management efficiency with high safety standards, asset management solutions and environmental aspects. AcegasApsAmga Spa's project calls for a significant portion of the approximately 80 million euro planned for investments to be used to prevent breakdowns, upgrade the network and further increase its reliability and resilience, thus better guaranteeing service continuity, following above all a rationale based on predictive investment (interventions planned on the basis of potential fragilities detected in the network) rather than emergencies (interventions following major breakdowns).

Sustainability-linked Bond

On 13 October 2021, Hera launched its first sustainability-linked bond with a nominal value of EUR 500 million euro, repayable in 12 and a half years. This listed bond, subscribed as part of the Euro Medium Term Notes programme and reserved for qualified investors, is part of the Group's sustainability strategy, aimed at reducing emissions and recycling plastics, and thus falls within its energy and environmental transition strategies, already integrated into the Business Plan and representing Hera's commitment to achieving the goals on the UN 2030 Agenda. This transaction allows Hera to continue to act as a point of reference for ESG finance nationwide.
The strong demand, with subscriptions equal to four times the supply, and the quality of the orders received, allowed the price to be set at an excellent level. The bond will pay an annual fixed-rate coupon of 1% and, from the interest payment date of 2032, there will be possible step-ups in the event that the company does not achieve the targets for reducing greenhouse gas emissions, in tonnes of CO_2 (rate increase of 0.20%), and/or the quantity of plastic recycled, in thousands of tonnes (rate increase of 0.15%). The bond is therefore linked to achieving the sustainability targets contained in the Sustainability-Linked Financing Framework, in relation to which intermediate Sustainability Performance Targets (SPTs) have also been defined, which will be reported annually with a view to transparency. As illustrated in relation to SBTi certification, the Hera Group aims firstly to reduce greenhouse gas emissions by 37% by 2030 (compared to 2019). As far as the second target is concerned, Hera aims to increase the amount of recycled plastic by 150% by 2030 (compared to 2017), partially thanks to the increase in plant capacity and the extension of the scope of action to the recovery of rigid plastics. The bond issued, whose settlement date was 25 October 2021, has been

listed, since the issue date, on the Euronext Dublin and Luxembourg Stock Exchange regulated markets and, at a later date, on the ExtraMOT PRO multilateral trading system of Borsa Italiana. Finally, the sustainability-linked bond received a rating in line with that of Hera (rating Baa2 with a stable outlook by Moody's and BBB+ with a stable outlook by Standard & Poor's).

Consip tender

In October, Hera Comm Spa, the Group's sales company, was awarded the lots for the Province of Rome, Campania, Calabria and Sicily, which involve approximately 39,000 supply points and the annual supply of over 3.4 TWh of electricity to Public Administrations, worth more than 580 million euro. The agreement will come into effect at the end of the year and have a total duration of up to 24 months, depending on the supply option. Hera Comm won this tender on the basis of an advantageous economic offer, which also includes activation of the Green Option, with 50% of energy supplied from renewable sources.

Rimini water tender

The Emilia-Romagna Territorial Agency for Water and Waste Services (ATERSIR), acting as the contracting authority, awarded Hera the tender for managing the integrated water service in the province of Rimini, with the exception of the Municipality of Maiolo. The tender concerns 24 municipalities in the Rimini area, including the provincial capital, and over 160,000 thousand users, distributed along a network of over 3,000 km. The contract for managing this service will have a duration of 18 years and a value of over 1.7 billion euro.

In order to maintain the management of this service in a competitive context open to the most qualified operators in the water sector, the Hera Group drew up a proposal capable of reconciling the efficiency of the service, and therefore its economic impact, with best practices to promote high safety standards, through asset management and environmental aspects, with the strength of innovative technologies that have already been tested in the field. Indeed, Hera is focusing on innovation for reasons including guaranteed resilience in the management of the water cycle, a service characterised by a high amount of infrastructures and, as such, more than other sectors, subject to the consequences of climate change.
Investments of approximately 250 million euro are planned over the concession period, in order to prevent and contain leaks, upgrade the network and further increase its reliability and resilience, thus better guaranteeing service continuity. The investment plan also includes measures to optimise the sewage system and upgrade the purification plants, as well as solutions for implementing the rainwater plan. In order to increasingly improve the efficiency of networks and plants, the use of more traditional techniques will be complemented by digitalisation and cutting-edge technologies, such as artificial intelligence and big data, already used by Hera in other areas, for example to optimise maintenance or increase energy savings in purification.

Modena and Bologna waste management tenders

In November, the Emilia-Romagna Territorial Agency for Water and Waste Services (ATERSIR), acting as contracting station, awarded to the temporary group of companies (RTI) formed by Hera, Giacomo Brodolini Soc. Coop and Consorzio Stabile Ecobi, the tenders for managing urban and assimilated waste in the "Pianura e Montagna Modenese" area and in the Bologna area.
The first tender awarded concerns 32 municipalities in the Modena area, including the provincial capital, with approximately 490,000 inhabitants. The contract has a total value of more than 880 million euro and covers 15 years. The second tender awarded concerns 50 municipalities in the Bologna area, including the provincial capital, in a catchment area with approximately 1 million inhabitants. The contract has a total value of more than 1.7 billion euro and a duration of 15 years.
Significant investments are planned in both areas, in order to extend collection models to the entire territory, with innovative services and equipment that allow for a specific measurement of waste, with the aim of minimising the amount of unsorted waste delivered and increasing the quantity sent for recycling. The key principles underpinning the bids presented were awareness-raising and the active involvement of citizens and businesses, in order to encourage a reduction in the amount of waste, particularly unsorted waste, and increasingly high-quality sorted waste collection.

Significant corporate transactions

Primagas On 27 April 2021, the company Aresgas Ead, acting through Atlas Utilities, acquired a 96.9% stake in Primagas Ad, a gas distribution company operating in Varna (Bulgaria) that holds licences for natural gas distribution and sales in the area of the municipalities Vladislav Varnenchik, Mladost and Asparuhovo. This transaction allowed the Group to strengthen its presence in Bulgaria.

SEA On 29 April 2021, Herambiente Servizi Industriali Srl acquired 31% of SEA - Servizi Ecologici Ambientali Srl, a company operating in the Marche region and active in special waste management and treatment and remediating polluted sites and disused industrial areas.

Recycla On 28 June 2021, the Hera Group, through its subsidiary Herambiente Servizi Industriali Srl, strengthened its scope of activity in the waste cycle in northern Italy by acquiring 70% of Recycla, a Friuli-based company which manages three platforms for solid and liquid industrial waste, the main one based in Maniago (PN), while the smaller ones are located in Resana (TV) and Savignano sul Rubicone (FC). The main site handles over 40,000 tonnes of industrial waste per year and, in line with the principles of the circular economy, carries out pre-treatment activities to optimise its characteristics and mainly destine it for energy recovery or chemical-physical treatment: in this way, only 3% of the waste entering the platform is disposed of in landfills. With this acquisition, the Group consolidates and expands its set of plants dedicated to businesses, with 15 multifunctional sites dedicated to treating waste produced by companies and 1.2 million tonnes of industrial waste treated each year. The integration of the new platforms with the current set of plants increases the density of nearby solutions in areas served for quite some time, improving efficiency and service quality for companies (to whom Hera will be able to provide its own across-the-board waste treatment solutions).

Ecogas On 27 July 2021, Hera Comm Spa acquired 90% of Eco Gas Srl, a company active in gas and electricity sales to end consumers, with a portfolio of approximately 22 thousand customers concentrated in the province of L'Aquila.

Ascotrade On September 8, 2021, Estenergy Spa's purchase of the remaining 11% interest in Ascotrade Spa was ratified in accordance with the terms and conditions of the public auction. For the latter company, the percentage held increased from 89% to 100%.
The difference between the amount adjusting the minority shareholdings and the fair value of the sum paid was recognised directly as part of equity and attributed to the shareholders of the Parent Company.

Vallortigara On 9 September 2021, Herambiente Servizi Industriali Srl acquired 80% of the Vallortigara Group, based in Torrebelvicino (VI), which, directly or through its subsidiaries Vallortigara Angelo Srl, Hydro Mud Srl and Vegri Scarl, provides services to industries, public administrations and citizens, also managing a multifunctional platform for the treatment of special waste. More specifically, the Torrebelvicino platform consists of three sections: a storage and sorting plant for solid and liquid, hazardous and non-hazardous industrial waste, a stabilisation and solidification plant for industrial sludge and a chemical-physical plant for liquid waste. Currently, the facility processes approximately 75,000 tonnes of waste per year and, thanks to the planned investments, it will be able to increase and streamline its activities, in line with the principles of the circular economy. The acquisition of the Vallortigara Group allows the Hera Group to strengthen its presence in the Triveneto region, while also expanding its services to neighbouring areas, and creating significant synergies with the industrial centres in the provinces of Pisa and Ravenna, which have already been operational for some time.

Other corporate transactions

HEA On 3 March 2021, following the partnership agreement between Hera and Eni signed in November 2020, Herambiente Servizi Industriali Srl and Eni Rewind Spa set up HEA Spa, equally owned by the two partners, for the construction of a new environmental platform for solid and liquid, hazardous and non-hazardous waste located in the Ponticelle area (RA). This NewCo brings together the know-how of both companies to build plants for the management of industrial waste, in line with the principles of the circular economy. A multi-purpose platform for the pre-treatment and treatment of special waste will be built, which will manage up to 60,000 tonnes per year of waste produced by environmental and production activities, including local ones, in a circular perspective and in line with the European directives of the "Circular Economy Package". Hera will manage the facility operationally, while Eni will be responsible for the procurement process of solid and liquid waste treatment services.

Tre Monti

On July 14, 2021, Herambiente Servizi Industriali Srl acquired 31% of Tremonti Srl, a company established by Edison Spa for the purpose of directly managing and carrying out the environmental remediation and recovery of the Tre Monti area located in the municipality of Bussi sul Tirino. This special-purpose company represents a paradigmatic model for the management and successful resolution of cases of land contaminated by Italy's historical industries, such as the former Montedison sites that Edison has taken over in their entirety. The chosen technology for the intervention is thermal desorption, which uses a system of heating the soil with pipes placed deep underground, to evaporate and draw up the volatile and semi-volatile organic substances present underground. Waste mixed with surface soil will be removed and transferred to sites designated for its treatment and, where possible, recovered. This NewCo will gradually extend its operations to the Piano d'Orta and industrial plant areas. Work is already underway to remove waste from surface soil in the southern area of Tre Monti.

Significant events occurred after the reporting period

Hera Comm Marche

In January 2022, the Group company Hera Comm Spa finalised the purchase of the remaining 16% of Hera Comm Marche Srl for a value of 10.6 million euro, thus coming to hold the entire amount of the share capital.

Russia – Ukraine conflict

The rapid escalation that led to Russia's decision to invade Ukraine on 24 February, after several weeks of steadily rising tensions, triggered a series of economic and financial consequences, having a special impact on the energy markets in which the Group operates, whose evolution is currently uncertain and unpredictable.
The price of commodities, both gas and electricity, already very high, has increased with extremely elevated daily growth rates.
In this scenario, two systemic risks, from which the Group may be indirectly impacted, are becoming increasingly important:

- a further rise in inflation due to energy commodities, with effects extending to consumer products (agri-food and industrial production) and a consequent impact on GDP growth and energy demand;
- the unavailability of gas supplies from Russia, as a sanction decided by the European Union or as a retaliatory measure by Russia, which would entail the unavailability of more than 100 billion cubic metres across Europe and about 25 billion for Italy, equal to about 35% of national demand.

In this respect, the Group is also directly exposed to the risk of unavailability of gas supplies from Russia, which constitute, on the basis of existing contracts, about 5% of its sources of supply of this commodity. As stated above, however, it is believed that the occurrence of such a scenario would also lead to wider systemic impacts, to which the Group could be indirectly exposed.

The Hera Group is monitoring the evolution of this situation on a day-to-day basis, translating the previous systemic risks into possible risk scenarios for its activities and identifying, where possible, mitigation actions. In a situation characterised by absolute uncertainty and thus extreme market volatility, the Group will continue to constantly assess risks and direct consequences on its operations, in order to act promptly with the most appropriate actions when the situation becomes less uncertain.

As regards financial reporting, the Group's management has maintained that the conflict between Russia and Ukraine, which broke out on 24 February 2022, constitutes a not-adjusting event according to the provisions of IAS 10. It has not therefore been taken into account in the valuation processes relating to the items included in the Group's consolidated financial statements at 31 December 2021.

1.04 OVERVIEW OF OPERATING AND FINANCIAL TRENDS AND DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures (APMs)

The Hera Group uses alternative performance measures (APMs) to convey as effectively as possible information concerning trends in the profitability of the businesses in which it operates, as well as its equity and financial situation. In accordance with the guidelines published on 4 March 2021 by the European securities and markets authority and in keeping with the provisions of Consob communication no. 5/21 of 29 April 2021, the content of and the criteria used in defining the APMs used in this financial statement, if present, are explained below. Any operating, financial and fiscal special items, if present, are described below.

The Hera Group determines its operating indicators for the reporting period by reclassifying, within the result from special items, any significant components of income that (i) derive from non-recurring events or transactions, or any transactions or events that are not frequently repeated during the usual course of business; (ii) derive from events or transactions that do not represent normal business activities.

The indicators illustrated below are used as financial targets in internal presentations (business plans) and in external presentations (for analysts and investors). They provide useful measures for assessing the Group's operating performance (as a whole and within each business unit), including comparisons between the reporting period in question and previous periods as regards operating profitability.

Operating APMs and investments

Ebitda is calculated as the sum of the operating income shown in the balance sheets and depreciation, amortization and write-downs.

Ebit is calculated by subtracting operating costs from operating revenues. Among operating costs, special operating items, which if present are described in the detailed table at the end of this paragraph, are deducted from amortisations and provisions.

Pre-tax results are calculated by subtracting the financial operations shown in the balance sheets from Ebit, as described above, net of special financial items which, if present, are described in the detailed table at the end of this paragraph.

Net results are calculated by subtracting from pre-tax results, as described above, the taxes shown in the balance sheets minus special fiscal items which, if present, are described in the detailed table at the end of this paragraph.

Results from special items (if present in the current report) are aimed at drawing attention to the result of the special item entries which, if present, are described in the detailed table at the end of this paragraph. In the Directors' report, this measure is placed between net results and net income for the period in question, thus allowing the performance of the Group's characteristic management to be read more clearly.

Ebitda on revenues, Ebit on revenues and net income on revenues measure the Group's operating performance through a proportion, expressed as a percentage, of Ebitda, Ebit and net income divided by the value of revenues.

Net investments are the sum of investments in tangible fixed assets, intangible assets and equity investments net of capital grants. For the data used in calculating investments, see the content of paragraph 1.03.01 and notes 13, 15, 16 and 17 of paragraph 2.02.05 "Commentary notes to the financial statement formats", if present.

Operating-financial APMs

Net non-current assets are calculated as the sum of tangible fixed assets; intangible assets and goodwill; equity investments; deferred tax assets and liabilities.

Net working capital is made up of the sum of inventories; trade receivables and payables; current tax receivables and payables; other assets and other current liabilities; the current portion of assets and liabilities for financial derivatives on commodities.

Provisions includes the sum of the items "employee severance indemnities and other benefits" and "provisions for risks and charges".

Net invested capital is defined by calculating the sum of "net fixed assets", "net working capital" and "provisions".

Net financial debt (at times referred to below as Net debt) is a measure of the company's financial structure determined in accordance with ESMA guidelines 32-382-1138, adding the value of non-current financial assets. This measure is therefore calculated by adding together the following items: current and non-current financial assets; cash and cash equivalents; current and non-current financial liabilities; current and non-current portions of assets and liabilities for derivative financial instruments on interest and exchange rates.

Sources of financing are obtained by adding "net financial debt" and "net equity".

Financial APMs

The Net debt to Ebitda ratio, expressed as a multiple of Ebitda, is a measure of the operating management's ability to pay back its net financial debt.

Funds from operations (FFO) are calculated beginning with Ebitda, subtracting provisions for doubtful accounts, financial charges, uses of provisions for risks (net of releases from provisions and increases due to changes in assumptions on future outlays following revised estimates on current landfills) and severance pay and taxes, net of the special items which, if present, are described in the detailed table at the end of this paragraph.

The FFO/Net debt indicator, expressed as a percentage, represents an indicator of the operating management's ability to pay back its net financial debt.

ROI, return on net invested capital, is defined as the ratio between Ebit, as described above, and net invested capital. It is intended to indicate the ability to produce wealth through operating management, thus remunerating equity and capital pertaining to third parties.

ROE, return on equity, is defined as the ratio between net profits and net equity. It is intended to indicate the profitability obtained by investors, recompensing risk.

Cash flow is defined as operating cash flow, net of dividends paid. Operating cash flow is calculated as Ebit (as previously described and net of special items, if present), to which the following are added:

- amortisation, depreciation and provisions for the period, not including provisions for doubtful debts;
- changes in net working capital (*);
- provisions for the risk fund (net of releases from provisions) (**);
- use of severance pay reserves;
- the difference between changes in taxes paid in advance and deferred taxes;
- operating and financial investments;
- financial charges and financial income (***);
- divestitures;
- current taxes.

(*) net of the effects of the different accounting policy used for financial derivatives on commodities traded on the EEX platform, whose differential is regulated on a daily basis; minus any changes in NWC deriving from an enlarged entire scope of operations.
(**) minus releases from provisions and increases caused by modifications in estimated future expenses following revised appraisals for operating landfills.
(***) minus the effects of discounting deriving from the application of accounting standards IAS 37 and IAS 19 and the profits coming from associated companies and joint ventures, plus the dividends received from the latter, and gains/losses from transferred shareholding (excluding special items, if present).

The Hera Group's APMs are provided in the following table:

Operating APMs and investments (mn€)	Dec 21	Dec 20	Abs. change	% change
Revenues	**10,555.3**	**7,079.0**	**3,476.3**	**+49.1%**
Ebitda	**1,223.9**	**1,123.0**	**100.9**	**+9.0%**
Ebitda/revenues	11.6%	15.9%	(4.3) pp	+0.0%
Ebit	**611.7**	**551.3**	**60.4**	**+11.0%**
Ebit /revenues	5.8%	7.8%	(2.0) pp	+0.0%
Net profit	**372.7**	**322.8**	**49.9**	**+15.5%**
Net profit/revenues	3.5%	4.6%	(1.1) pp	+0.0%
Net investments	**570.3**	**528.5**	**41.8**	**+7.9%**

Financial APMs (mn€)	Dec 21	Dec 20	Abs. change	% change
Net non-current assets	7,308.0	6,983.6	324.4	+4.6%
Net working capital	3.5	53.6	(50.1)	(93.5)%
Provisions	(633.4)	(654.9)	(21.5)	(3.3)%
Net invested capital	6.678.1	6.382.3	295.8	+4.6%
Net debt	**(3,261.3)**	**(3,227.0)**	**34.3**	**+1.1%**

Operating-financial APMs	Dec 21	Dec 20	Abs. change
Net debt/Ebitda	**2.66**	**2.87**	**2.66**
FFO/Net debt	**26.7%**	**25.2%**	**+26.7 p.p.**
ROI	9.2%	8.6%	+9.2 p.p.
ROE	10.5%	10.2%	+10.5 p.p.
Cash flow	181.2	159.6	181.2

Special item / balance sheet reconciliation

The following table provides a reconciliation between the income statement referred to in the remarks on operations and the published consolidated income statement.

	2021			2020		
mn€	**Operations statement**	**Special items**	**Published statement**	**Operations statement**	**Special items**	**Published statement**
Revenues	**10,555.3**		**10,555.3**	**7,079.0**		**7,079.0**
Other operating revenues	400.1		400.1	467.8		467.8
Raw and other materials	(6,668.5)		(6,668.5)	(3,410.6)		(3,410.6)
Service costs	(2,464.6)		(2,464.6)	(2,424.9)		(2,424.9)
Personnel costs	(592.8)		(592.8)	(572.7)		(572.7)
Other operating expenses	(66.5)		(66.5)	(58.9)		(58.9)
Capitalised costs	60.8		60.8	43.3		43.3
Ebitda	**1,223.9**		**1,223.9**	**1,123.0**		**1,123.0**
Amortization, depreciation and provisions	(612.1)		(612.1)	(571.7)		(571.7)
Operating profit (Ebit)	**611.7**		**611.7**	**551.3**		**551.3**
Financial operations	(119.8)	(85.0)	(204.8)	(116.7)	-	(116.7)
Other non-operating revenues (costs)	-		-	-	-	-
Pre-tax profit (Pre-tax result)	**491.9**	**(85.0)**	**406.9**	**434.6**	**-**	**434.6**
Taxes	**(131.8)**	**97.6**	**(34.2)**	**(111.8)**	**-**	**(111.8)**
Net result	360.1	12.6	372.7	322.8	-	322.8
Result from special items	12.6	(12.6)	-	-	-	-
Net profit for the period	**372.7**	**-**	**372.7**	**322.8**	**-**	**322.8**
Attributable to:						
Parent company shareholders	333.5	-	333.5	302.7	-	302.7
non-controlling interests	39.2	-	39.2	20.1	-	20.1

Events occurred in late 2021 that qualify as special items, within both financial and fiscal management, while no such events were present in 2020.

The amounts stated as special items relate to the following two transactions:

- a tax realignment of certain goodwill amounts stated at 31 December 2019, pursuant to Article 1, paragraph 83 of Law 178/2020. This operation determined a tax recognition of these amounts, resulting in the recognition of a tax benefit of 87.0 million euro, against the payment of a 3% substitute tax, coming to 9.2 million euro;
- a partial repurchase of five bonds, with a total stated value of 1,780 million euro, which resulted in the recognition of expenses coming to 82.6 million euro due to a repurchase price higher than the book value. The related tax effect, coming to 19.8 million euro, was also taken into account, adjusting the tax burden for the period;
- a write-down of the equity investment and non-current financial receivable relating to the company H.E.P.T. Co. Ltd, coming to a total of 2.4 million euro, due to the current conditions of the Chinese reference market.

1.04.01 Operating results and investments

Growth reflects strategy

The Hera Group ended the 2021 financial year with growth in operating-financial results compared to the previous year. The Group's financial solidity, its pursuit of sustainable development and creating shared value for local areas and the communities served were confirmed as strong points.

The results for 2021 are part of an uninterrupted path of growth, firmly based on Hera's consolidated multi-business industrial strategy, which relies equally on internal growth and development through external lines. A balanced combination of regulated and freely competitive activities, along with attention towards external opportunities and a commitment to sustainable development, in line with European strategies and the UN's 2030 Agenda, continue to represent the founding elements of the Group's growth.

With respect to 2020, two companies were integrated into the Hera Group's waste management area, thus making a contribution towards increasing its commercial presence in the Central-Northern Italy: the acquisition of 70% of Recycla Spa, a Friuli-based company that manages three industrial waste platforms; and the purchase of 80% of the Vallortigara Group, which provides services to industries, public administrations and citizens and manages a multifunctional platform for the treatment of special waste. The energy areas benefited from AresGas Ead's acquisition of 100% of the Bulgarian company Atlas Utilities, which holds 96.9% of Primagas, and the acquisition of 90% of Eco Gas Srl by Hera Comm Spa. For further information, see paragraph 1.03, "Main events occurred".

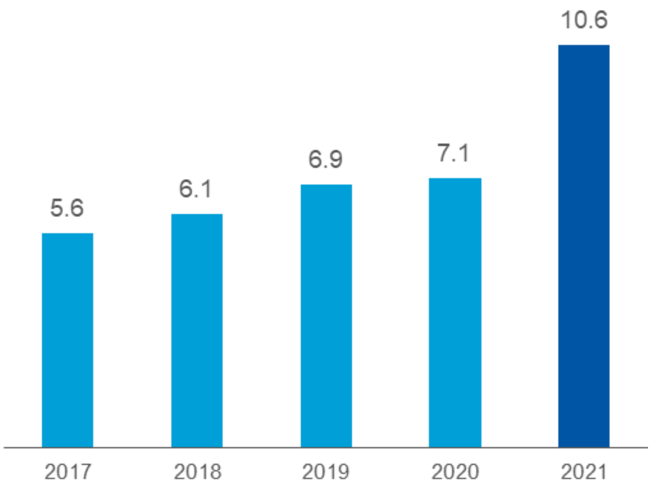
Also note that Hera Comm Spa was awarded the gradual protection service for electricity supply to SMEs in 9 Italian regions. Detailed information on this issue is provided in paragraph 1.07.02.

Lastly, growth in value-added services offered to customers was recorded thanks to the development of the company Wolmann Spa. which operates in the photovoltaic panel installation sector.

The following table shows operating results at 31 December 2021 and 2020:

Income statement (mn€)	Dec 21	% inc.	Dec 20	% inc.	Abs. change	% change
Revenues	10,555.3		7,079.0		3,476.3	49.1%
Other operating revenues	400.1	3.8%	467.8	6.6%	(67.7)	(14.5)%
Raw and other materials	(6,668.5)	(63.2)%	(3,410.6)	(48.2)%	3,257.9	95.5%
Service costs	(2,464.6)	(23.3)%	(2,424.9)	(34.3)%	39.7	1.6%
Other operating expenses	(66.5)	(0.6)%	(58.9)	(0.8)%	7.6	12.9%
Personnel costs	(592.8)	(5.6)%	(572.7)	(8.1)%	20.1	3.5%
Capitalised costs	60.8	0.6%	43.3	0.6%	17.5	40.5%
Ebitda	**1,223.9**	**11.6%**	**1.123.0**	**15.9%**	**100.9**	**9.0%**
Amortization, depreciation and provisions	(612.1)	(5.8)%	(571.7)	(8.1)%	40.4	7.1%
Ebit	**611.7**	**5.8%**	**551.3**	**7.8%**	**60.4**	**11.0%**
Financial operations	(119.8)	(1.1)%	(116.7)	(1.6)%	3.1	2.7%
Pre-tax result	**491.9**	**4.7%**	**434.6**	**6.1%**	**57.3**	**13.2%**
Taxes	(131.8)	(1.2)%	(111.8)	(1.6)%	20.0	17.9%
Net result	**360.1**	**3.4%**	**322.8**	**4.6%**	**37.3**	**11.6%**
Result from special items	12.6	0.1%	-	0.0%	12.6	100.0%
Net profit for the period	**372.7**	**3.5%**	**322.8**	**4.6%**	**49.9**	**15.5%**
Attributable to:						
Parent company shareholders	333.5	3.2%	302.7	4.3%	30.8	10.2%
Non-controlling interests	39.1	0.4%	20.1	0.3%	19.0	94.6%

REVENUES (bn€)



10.6
billion euro
revenues
(+49.1%)

Revenues up in all areas

Revenues increased by 3,476.3 million euro, or 49.1%, compared to 2020. The energy sectors showed significant growth, amounting to 3,007 million euro overall, due to increased brokerage, coming to 2,068 million euro, and higher gas sales totalling 554 million euro due to higher volumes sold and the increase in the price of gas as a raw material. Electricity sales activities were also up, coming to 385 million euro overall, due to the higher price of raw materials, higher revenues from electricity generation, achieved despite a drop in volumes sold, and lower revenues from off-grid transmission and system charges.
Also note the growth in energy services related to energy efficiency works on residential buildings (insulation bonus and 110% super-bonus) and the increase in value-added services for customers, with an overall contribution coming to roughly 243.0 million euro.
Revenues from the waste management sector also increased by approximately 134 million euro, due to energy production, higher plastics sales and acquisitions in the industrial market. Revenues from network services, both regulated and subcontracted, came to roughly 74 million euro and revenues from the public lighting service for the resumption of activities and telecommunications amounted to approximately 18 million euro.

For further details, see the analysis of the individual business areas in paragraph 1.07.

Other operating income decreased by 67.7 million euro, or 14.5%, compared with the previous year. This trend is mainly due to lower energy efficiency contributions coming to approximately 129 million euro, as a result of the ministerial decree of 21 May 2021 redetermining the obligations of energy efficiency certificates (for further information, see paragraph 1.07.01). These amounts were offset by higher revenues from contracts for assets under concession, coming to roughly 50 million euro. Lastly, higher other revenues were mainly related to higher value-added services, innovative solutions and increased incentives supporting the circular economy, the reduction of urban waste production and sorted waste collection.

Costs for raw materials linked to trends in revenues

The cost of raw and other materials increased by 3,257.9 million euro compared to December 2020. This increase mirrors the trend in revenues from energy activities. In addition, purchasing costs for plastic materials also increased, due to the higher volumes sold. This trend was partially offset by lower purchasing costs for energy efficiency certificates, following the ministerial decree mentioned above.

Other operating costs increased by a total of 47.3 million euro (39.7 million euro in higher service costs and 7.6 million euro in higher operating expenses). Also note the higher costs in energy services for energy efficiency works coming to approximately 192 million euro, higher costs for incremental improvements to assets under concession and works on behalf of third parties amounting to approximately 60 million euro, higher costs for waste collection and treatment coming to approximately 43 million euro and higher costs for value-added services totalling approximately 6.0 million euro. The

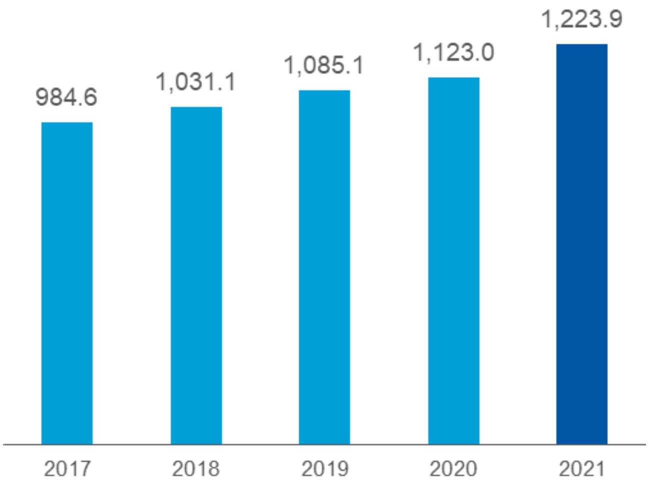
growth indicated above was partially offset by lower costs for off-grid transmission and system charges coming to approximately 258 million euro.
In addition, compared to the previous year, there was a resumption of work and site activities that had been blocked due to the lockdown following the Covid-19 pandemic.

+3.5% growth in personnel costs

Personnel costs increased by 20.1 million euro, or 3.5%. This increase is linked to the salary increases provided for in the national collective bargaining agreement, the lower benefits due to the large-scale holiday plan adopted by the Group last year in conjunction with the national lockdown and changes in the scope of consolidation compared to December 2020. These effects were only partially contained by a lower average presence.

Capitalised costs increased by 17.5 million euro due to higher capital expenditure on assets owned by the Group and between the companies themselves.

EBITDA (mn€)



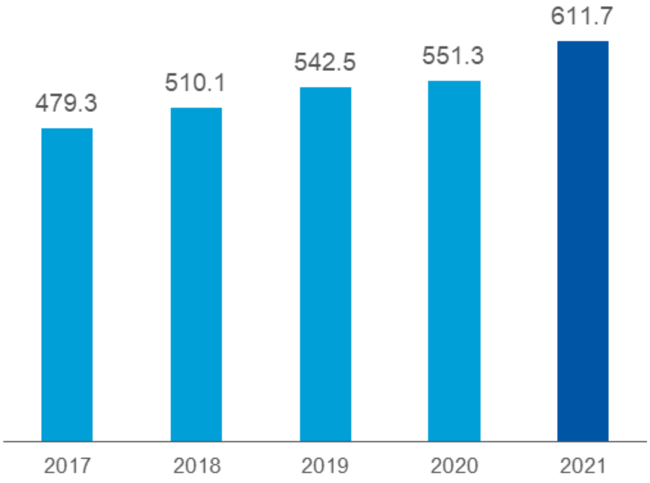
1,223.9
million euro
Ebitda
(+9.0%)

Ebitda increased by 100.9 million euro, or 9.0%. This growth was due to the performance of the energy areas, which together rose by 69.7 million euro, accounting for approximately 52% of Group results. The waste management area grew by 33.8 million euro, while the other services area increased by 0.7 million euro. Lastly, the water cycle area showed a decrease of 3.3 million euro.

For further details, see the analysis of the individual business areas.

Depreciation, amortisation and provisions at 31 December 2021 increased by 40.4 million euro, or 7.1%, on the previous year. The increase in depreciation and amortisation was mainly due to new investments in the operating sectors, an increase in commissions in the sales companies and changes in the scope of consolidation resulting from the entry of companies involved in sales of gas, electricity and other energy products, as well as companies specialising in industrial waste management and environmental services. An overall increase was also seen in provisions for doubtful debts, in particular in Hera Comm Spa, due to the award of gradual protection service lots.

EBIT (mn€)



Ebit increased by 60.4 million euro, or 11.0%; the increase resulting from the growth in Ebitda was reduced by higher depreciation and amortisation, as described above.

Financial operations increase

The result of financial operations at 31 December 2021, which came to 119.8 million euro, worsened by 3.1 million euro, or 2.7%, compared to 31 December 2020. This change is due to higher charges amounting to approximately 25.7 million euro related to the sale of tax credits due to Hera Group companies, Hera Servizi Energia and AcegasApsAmga Servizi Energetici, as part of the eco-bonus incentive operating activities, largely offset by the benefits coming from lower interest on bonds and loans coming to 4.2 million euro, obtained thanks to debt optimisation operations that saw a partial repurchase of some bonds, by 4.2 million euro for lower charges deriving from the closure of a litigation, by 5.7 million euro for lower notional charges deriving mainly from discounting post-mortem costs of landfills, and by 5.0 million euro due to higher profits from associates and joint ventures.

Pre-tax profit increased by 57.3 million euro, or 13.2%; the increase coming from higher Ebit was further boosted by the reasons described above.

Tax rate rises

Taxes for the year increased from 111.8 million euro in 2020 to 131.8 million euro in 2021. The tax rate came to 26.8%, compared to 25.7% one year earlier. In this comparison, note that both tax rates take into account the benefits accounted for following the redemption of some higher values, originating from an equal number of acquisition transactions carried out in the respective years. On this matter, and for further details, see note 12 on taxes in paragraph 2.02.05 "Commentary notes to the financial statement formats". Without taking into account these effects, the tax rate for the year 2021 would have been slightly lower than in the previous year. This positive result was mainly due to the benefits received in terms of large and extremely large amortisations, involving the significant investments made by the Group in relation to the technological, digital and environmental transformation.

+11.6% net result

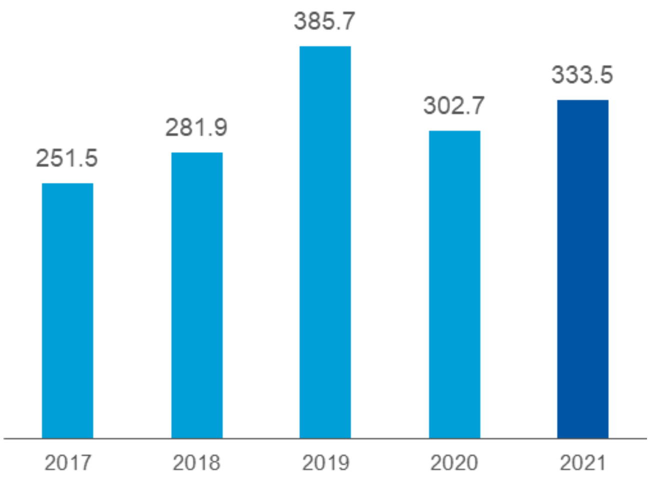
The net result rose by 11.6%, reaching 37.3 million euro; the increase coming from the pre-tax profits was reduced by higher taxes.

In 2021, there was a result from special items with a total value of 12.6 million euro. A detailed description of its contents is provided at the beginning of paragraph 1.07, "Overview of operating and financial trends and definition of APMs".

+15.5% net profit

Net profit therefore increased by 15.5%, or 49.9 million euro, due to the sum of all the events described above.

NET PROFIT POST MINORITIES (mn€)



333.5
million euro
net profit post minorities (+10.2%)

Profits pertaining to the Group rose by 30.8 million euro, or 10.2%, compared to 2020.

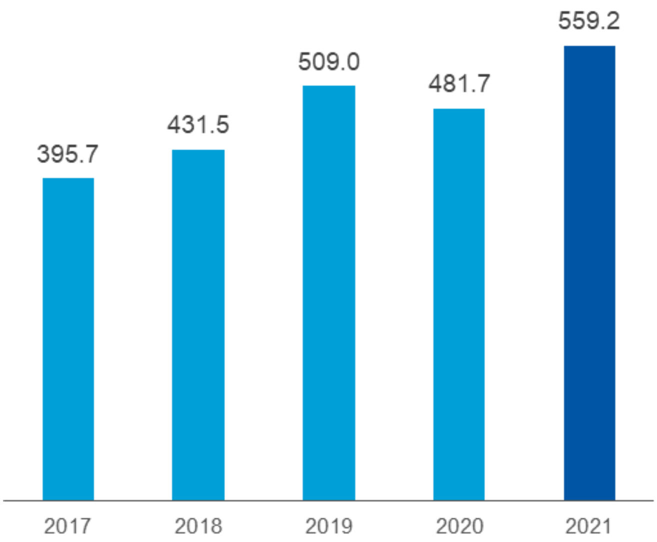
Net investments rise to 570.3 million euro

In 2021, the Group's net investments came to 570.3 million euro, up 41.8 million euro on the previous year. This includes financial investments amounting to 11.0 million euro, mainly involving the equity investment in the company SEA - Servizi Ecologici Ambientali Spa, down 35.9 million euro compared to the financial investments made during the previous year, which included the equity investment in Ascopiave Spa.
Capital grants amounted to 29.4 million euro, of which 16.8 million euro in FoNI investments, as provided for by the tariff method for the integrated water service. Net operating investments amounted to 559.2 million euro, up by 77.5 million euro compared to the previous year.

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

Total investments (mn€)	Dec 21	Dec 20	Abs. change	% change
Gas area	141.3	135.3	6.0	+4.4%
Electricity area	55.3	47.7	7.6	+15.9%
Integrated water cycle area	194.6	166.2	28.4	+17.1%
Waste management area	98.2	68.3	29.9	+43.8%
Other services area	14.6	11.1	3.5	+31.5%
Headquarters	84.8	77.9	6.9	+8.9%
Total gross operating investments	**588.7**	**506.4**	**82.3**	**+16.3%**
Capital grants	29.4	24.8	4.6	+18.5%
of which FoNi (New Investments Fund)	16.8	13.6	3.2	+23.5%
Total net operating investments	**559.2**	**481.7**	**77.5**	**+16.1%**
Financial investments	11.0	46.9	(35.9)	(76.5)%
Total net investments	**570.3**	**528.5**	**41.8**	**+7.9%**

TOTAL NET OPERATING INVESTMENTS (mn€)



559.2
million euro
net operating investments (+77.5 mn€)

Including capital grants, the Group's operating investments amounted to 588.7 million euro, up 82.3 million euro on the previous year, and mainly related to works on plants, networks and infrastructures. In addition, regulatory upgrading was done, especially in the gas distribution sector for the large-scale metre replacement, and in the purification and sewage sector.
Comments on investments in the individual areas are provided 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 increased by 6.9 million euro compared to the previous year, mainly due to work on corporate buildings and the vehicle fleet.

1.04.02 Financial structure and adjusted net debt

What follows in an analysis of trends in the Group's net invested capital and sources of financing at 31 December 2021.

Invested capital and sources of financing (mn€)	Dec 21	% inc.	Dec 20	% inc.	Abs. change	% change
Net non-current assets	7,308.0	+109.4%	6,983.6	+109.4%	324.4	+4.6%
Net working capital	3.5	+0.1%	53.6	+0.8%	(50.1)	(93.5)%
(Provisions)	(633.4)	(9.5)%	(654.9)	(10.3)%	21.5	+3.3%
Net invested capital	**6,678.1**	**+100.0%**	**6,382.3**	**+100.0%**	**295.8**	**+4.6%**
Equity	(3,416.8)	+51.2%	(3,155.3)	+49.4%	(261.5)	(8.3)%
Long-term borrowings	(3,633.1)	+54.4%	(3,617.1)	+56.7%	(16.0)	(0.4)%
Net current financial debt	371.8	(5.6)%	390.1	(6.1)%	(18.3)	(4.7)%
Net debt	(3,261.3)	+48.8%	(3,227.0)	+50.6%	(34.3)	(1.1)%
Total sources of financing	**(6,678.1)**	**(100.0)%**	**(6,382.3)**	**(100.0)%**	**(295.8)**	**(4.6)%**

3.5 million euro net working capital

The year 2021 closed with net working capital coming to 3.5 million euro, down from 53.6 million euro at the end of 2020, thus showing no particular impact from the health crisis. This decrease is mainly due to the good performance of trade receivables, thanks to the continuous and attentive control of credit management processes, and the increase in payables for invoices to be received due to the increase in raw material prices.

633.4 million euro provisions

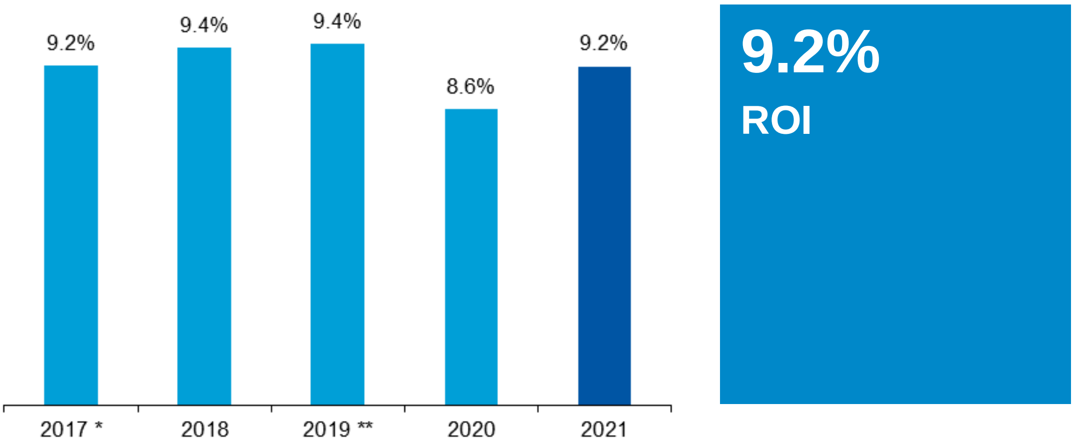
In 2021, provisions amounted to 633.4 million euro, down from 654.9 million euro seen at the end of the previous year. This change is mainly due to the reclassification of the provision for restoration of third-party assets, coming to 39.3 million euro, among current financial payables, following the awarding of the new tender for managing the water service in the province of Rimini. For details on changes in provisions, see the information contained in paragraph 2.02.05, "Commentary notes to the financial statement formats".

3.4 billion euro equity

Equity increased from 3,155.3 million euro in 2020 to 3,416.8 million euro in 2021. Equity increased the Group's solidity, thanks to the positive net result of management in 2021, coming to 372.7 million euro, and the effect of cash flow hedge reserves, offset by the impact of dividend payments.

Return on net invested capital (ROI) settled at 9.2% in 2021, up from 2020 ROI by 8.6%, due to the positive result from operations (Ebit), which increased more than proportionally with respect to the increase in net invested capital (NIC).

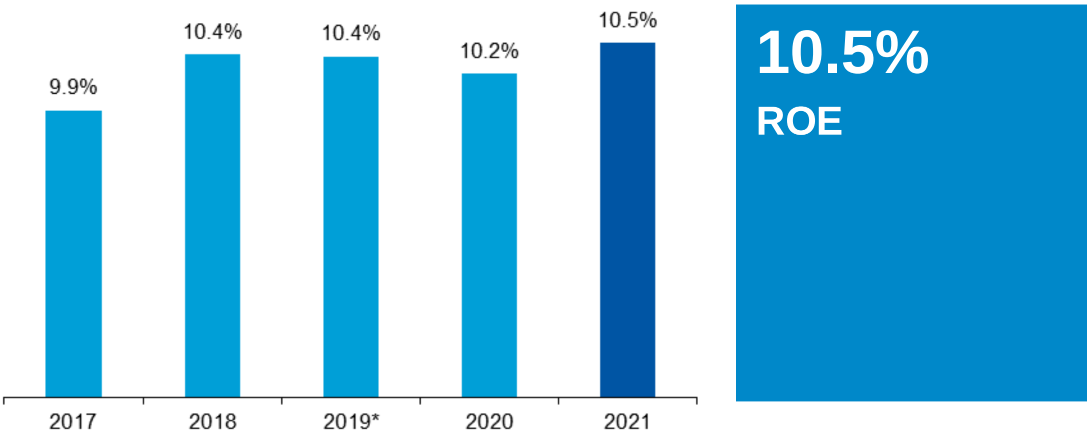
ROI (%)



* adjusted for non-recurring entries
** adjusted for non-recurring entries and the Ascopiave transaction

The positive operating result led to a return on equity (ROE) coming to 10.5%, up from 2020.

ROE (%)



* adjusted for non-recurring entries and the Ascopiave transaction

An analysis of adjusted net financial debt is shown in the following table:

mn€		31 Dec 21	31 Dec 20
A	Cash	885.6	987.1
B	Cash equivalents	-	-
C	Other current financial assets	29.3	32.8
D	**Liquidity (A+B+C)**	**914.9**	**1,019.9**
E	Current financial debt	(443.6)	(302.6)
F	Current portion of non-current financial debt	(99.5)	(327.2)
G	**Current financial indebtedness (E+F)**	**(543.1)**	**(629.8)**
H	**Net current financial indebtedness (G-D)**	**371.8**	**390.1**
I	Non-current financial debt	(461.0)	(594.2)
J	Debt instruments	(2,702.0)	(2,554.3)
K	Non-current trade and other payables	-	-
L	**Non-current financial indebtedness (I+J+K)**	**(3,163.0)**	**(3,148.5)**
M	**Total financial indebtedness (H+L)**	**(2,791.2)**	**(2,758.4)**
	Non-current financial receivables	142.7	140.8
	Net financial debt (excluding put option)	**(2,648.5)**	**(2,617.6)**
	Nominal amount - fair value put option	(474.2)	(456.4)
	Net financial debt with adjusted put option	**(3,122.7)**	**(3,074.0)**
	Portion of future dividends - fair value put option	(138.6)	(153.0)
	Net financial debt (Net debt)	**(3,261.3)**	**(3,227.0)**

The total amount of net financial debt came to 3,261.3 million euro, up approximately 34.3 million euro compared to the previous year.

The financial structure shows a current financial indebtedness coming to 543.1 million euro, of which 99.5 million euro refers to the current portion of non-current financial debt, which includes 56.1 million euro as the portion of medium-term bank loans falling due within one year and 43.4 million euro in leasing debts falling due. The portion of current debt due to other financial institutions amounted to 378.7 million euro, including 266.5 million euro for cash advances from commodity derivatives and 39.3 million euro for payables related to the provision for the restoration of third-party assets, to be paid following the award of the new tender for managing the water service in the province of Rimini. Bank payables included in current financial indebtedness refer to 41.5 million euro in interest expense on loans and 23.3 million euro in utilisations of current account lines.

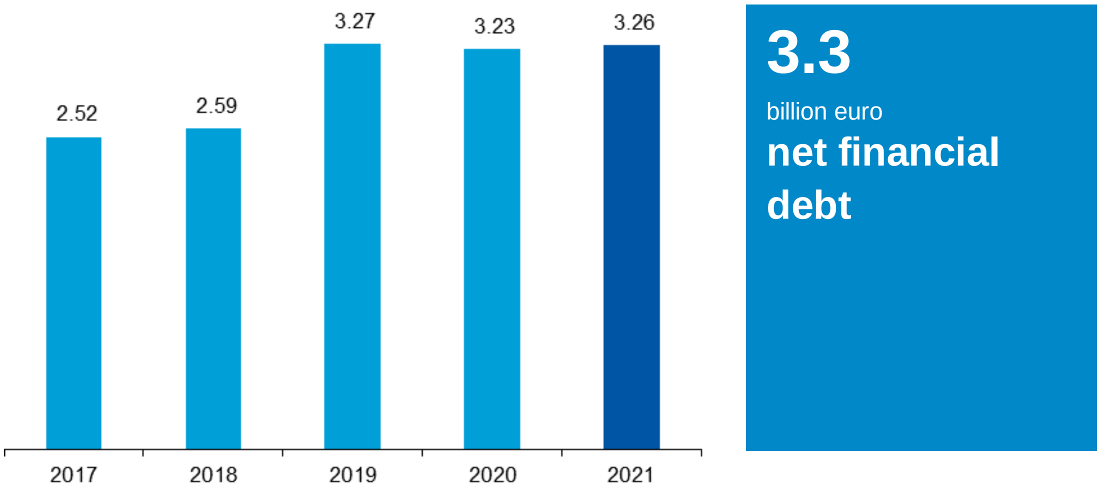
The amount related to non-current payables and bonds issued increased mainly due to the total net effect of the issue of the first Sustainability-linked bond (under the Euro Medium Term Notes Programme), amounting to 500 million euro, and the partial repurchase of five bonds, for a total nominal value of 405 million euro, as well as repayments and adjustments in the current portion of other residual loans. The bond, which is part of the Group's sustainability strategy aimed at reducing emissions and recycling plastics, is linked to achieving the sustainability targets set out in the Sustainability-linked financing framework and has a term of 12.5 years with an annual fixed-rate coupon of 1%. Starting from the 2032 interest payment date, a possible increase in the interest rate is foreseen, in the event that the Group does not achieve the targets for reducing greenhouse gas emissions in tonnes of CO_2 (rate increase of 0.20%) and/or the quantity of recycled plastic in thousands of tonnes (rate increase of 0.15%). More details on the new bond can be found in section 1.03, "Main events occurred" of the Directors' Report.

Cash decreased, going from 987.1 million euro in 2020 to 885.6 million euro in 2021.

At 31 December 2021, 85.8% of medium- and long-term debt consisted in bonds with repayment at maturity. Total debt showed an average time to maturity of approximately seven years, with 65.8% maturing after over five years.

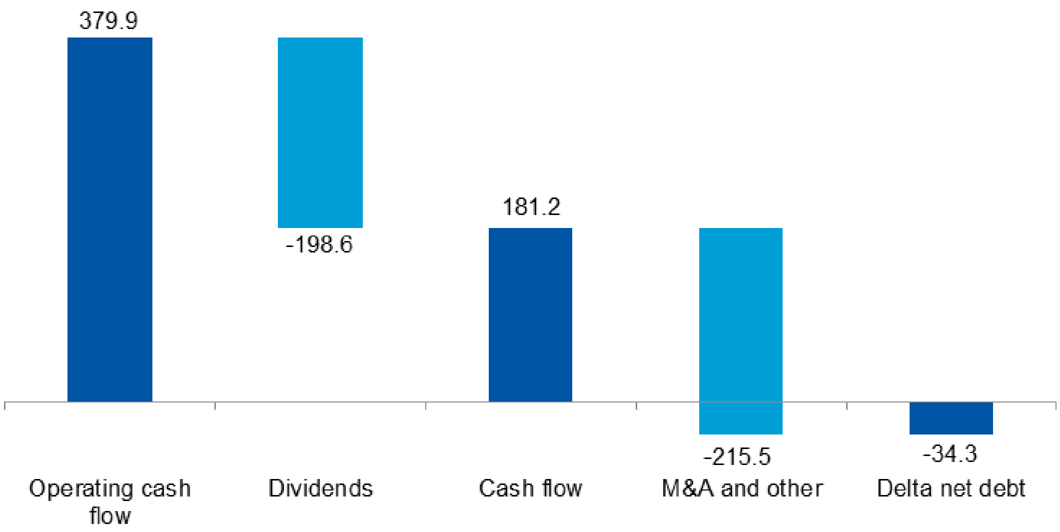
Net financial debt rose by 34.3 million euro, going from 3,227.0 million euro in 2020 to 3,261.3 million euro in 2021.

NET FINANCIAL DEBT (bn€)



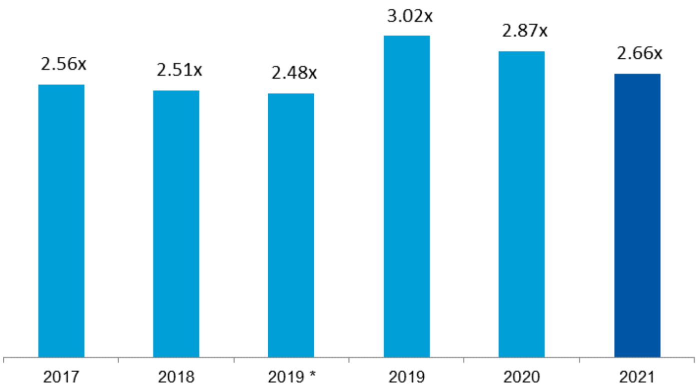
The Group's characteristic management generated positive operating cash flows coming to 379.9 million euro, which entirely financed dividend payments and contributed to financing almost all of the shareholding acquisitions. Among the latter, note the purchase of 70% of Recycla Spa and 80% of the Group by Herambiente Servizi Industriali Srl, 90% of Eco Gas Srl by Hera Comm Spa and, furthermore, 11% of Ascotrade Spa by EstEnergy Spa.

CASH FLOW (mn€)



The Net debt/Ebitda ratio for 2021 fell to 2.66x, compared to 2.87x in 2020.

NET DEBT/EBITDA



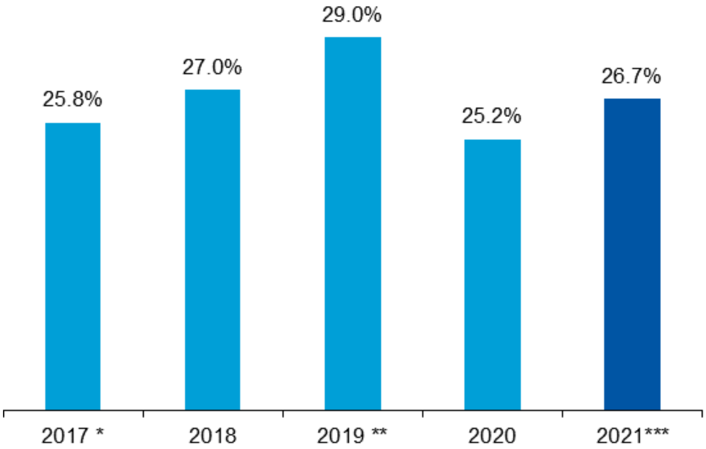
2.66x

Net debt/ Ebitda

* adjusted for non-recurring entries and the Ascopiave transaction

The Funds from operations (FFO)/Net debt ratio settled at 26.7%, confirming the Group's financial solidity and its ability to meet its financial obligations, thanks to the positive trend in operating cash flow.

FFO/NETDEBT (%)



26.7%

FFO/ Net debt

* adjusted for non-recurring entries
** adjusted for non-recurring entries and the Ascopiave transaction
*** amount net of special items

1.04.03 Parent company management report

The following table provides the main indicators of operating performance for the year, pursuant to article 2428 of the Italian Civil Code:

(mn€)	2021	2020	Abs. change	% change
Revenues	1,508.6	1,344.5	164.1	12.2%
Ebitda	286.6	252.1	34.5	13.7%
Operating profit	132.2	105.8	26.4	24.9%
Net profit	223.8	217.0	6.7	3.1%

To understand this performance and the changes with respect to the previous year, the current structure of the Parent Company must be taken into account. This company directly manages certain businesses (municipal waste collection, the integrated water service, cogeneration and district heating) and has shareholdings in Group companies, in addition to carrying out the main corporate governance functions on their behalf.

The increase in operating profit compared to the previous year is mainly due to the ability, shown by the Parent Company as well, to grasp the opportunities ensuing from the economic recovery, in waste management services in particular. For further details, see paragraph 1.07, "Analysis by business area".

A summary of the adjusted financial information at 31 December 2021 compared to the 31 December 2020 data, is provided below:

Analysis of invested capital and sources of financing (mn€)	31 Dec 21	%	31 Dec 20	%	Abs. change	% change
Net fixed assets	3,750.9	107.3%	3,650.9	109.3%	99.9	2.7%
Net working capital	(107.3)	(4.3)%	(128.5)	(5.3)%	21.2	(16.5)%
Gross invested capital	**3,643.6**	**104.2%**	**3,522.4**	**105.5%**	**121.2**	**3.4%**
Other provisions	(147.3)	(4.2)%	(182.4)	(5.5)%	35.1	(19.3)%
Net invested capital	**3,496.3**	**100.0%**	**3,340.0**	**100.0%**	**156.3**	**4.7%**
Total equity	2,469.9	70.6%	2,411.8	72.2%	58.1	2.4%
Net financial debt	1,026.4	29.4%	928.2	27.8%	98.2	10.6%
Sources of financing	**3,496.3**	**100.0%**	**3,340.0**	**100.0%**	**156.3**	**4.7%**

Regarding the other information required by article 2428 of the Civil Code, note the following:

- Research and development activities:
  - see paragraph 1.06 of the Directors' report, "Sustainability Results".
- Relations with subsidiaries, associates, parent companies and companies controlled by the latter:
  - as required by article 2428, paragraph 3, point 2 of the Italian Civil Code, see the financial statements contained in paragraph 3.04, prepared in accordance with Consob resolution 15519/2006, relating to the separate financial statements of Hera Spa; lastly, note that these financial statements do not contain atypical or unusual transactions.
- Treasury shares:
  - regarding the information required by article 2428, paragraph 3, points 3 and 4 of the Italian Civil Code, the number and nominal value of the shares comprising the share capital of Hera Spa, the number and nominal value of the treasury shares in its portfolio at 31 December 2021, in addition to changes in these that occurred in 2021, see note 25 of paragraph 3.02.05 and the statement of changes in equity, paragraph 3.01.05, concerning the separate financial statements of Hera Spa.
- Foreseeable changes in management:

    - regarding the performance of the businesses units that make up the current structure of the Parent Company, please refer to paragraph 1.01.02 of the Directors' report, "Strategic approach and management policies"
- The Company's use of financial instruments:
    - regarding the Company's objectives and policies on financial risk management, including its hedging policies for each main category of transactions foreseen and the Company's exposure to price risk, credit risk, liquidity risk and the risk of changes in cash flows, see the description provided in paragraph 1.02.03 of the Directors' report, "Risk areas: identification and management of risk factors".
- Secondary offices:
    - the Company does not have secondary offices.
- Significant events occurred after the reporting period:
    - see paragraph 1.03 "Main events occurred".

1.05 SHARE PERFORMANCE AND INVESTOR RELATIONS

Market confidence returns, supported by vaccines, fiscal and monetary policies

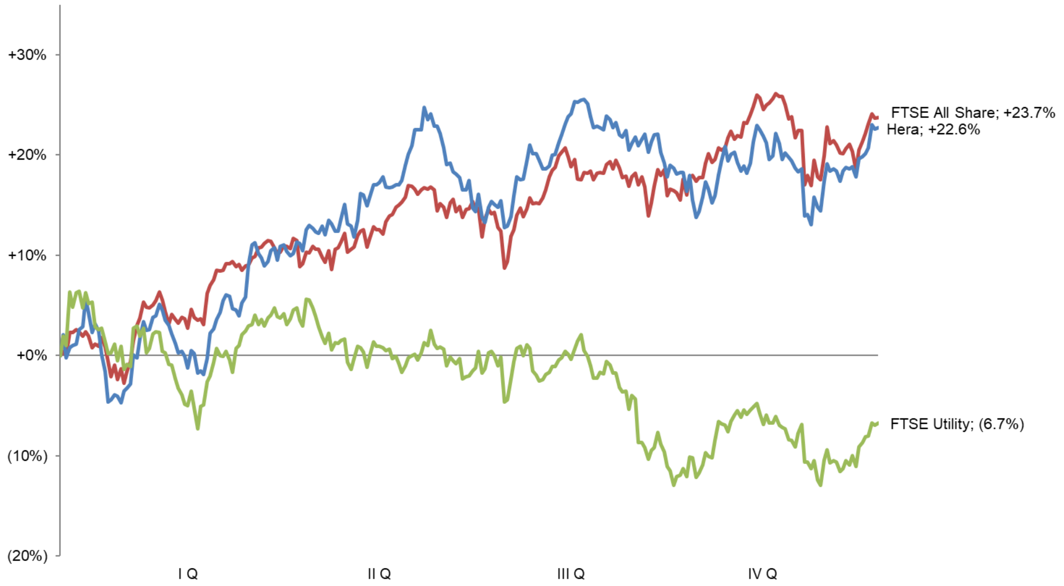
Over the course of 2021, global stock markets performed well as economic activity gradually normalised, thanks to vaccination campaigns and the expansionary fiscal policies implemented on both sides of the Atlantic Ocean. Despite this return to growth, central banks maintained a cautious approach, maintaining their accommodative monetary policies and describing inflationary pressure, due to rising commodity prices, as transitory.

In this context of overall recovery, the Italian FTSE All Share index rose by 23.7% over the period, showing the second-best performance among all main European stock exchanges, thanks to the positive contribution coming from sectors considered to be cyclical, particularly the banking and industrial sectors. On the other hand, sectoral rotation did not reward the more defensive sectors, such as utilities, whose index fell by 6.7%.

Hera stock rises by 22.6%

With an official price of 3.670 euro on 31 December, Hera stock rose by 22.6%, in line with market performance and countering the trend in the Italian utility index. This rise was supported by the positive response to the publication of quarterly results, which showed solid fundamentals, with profitability growing strongly and exceeding expectations.

2021 HERA STOCK, LOCAL UTILITY SECTOR AND ITALIAN MARKET PERFORMANCE COMPARISON



11 cent dividend paid, higher than expectations

On 5 July 2021, Hera's 19th dividend was paid. The coupon, amounting to 11 cents per share, increased by 10% compared to the previous year, more than the indications contained in the Business Plan, which already incorporated an increase compared to the previous Plan. Hera thus confirms its ability to remunerate shareholders thanks to the resilience of its business portfolio, which has allowed it to distribute steady and growing dividends since its listing.

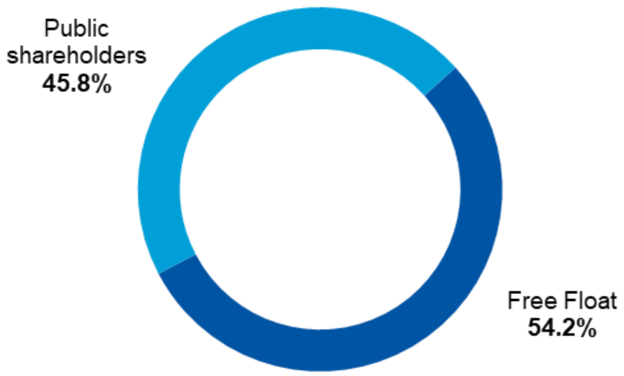
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Dps	0.035	0.053	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095	0.10	0.10	0.11

+317% total shareholders return since the IPO

The joint effect of continuously remunerating shareholders through dividends and a rise in the price of the stock over the years led the total shareholders return accumulated since the IPO to remain consistently positive and to settle, at the end of the period in question, at over +316.7%.

The financial analysts covering the company (Mediobanca, Stifel, Intermonte, Intesa Sanpaolo, Kepler Cheuvreux and Equita Sim) almost unanimously expressed positive opinions. At the end of the year, the consensus target price came to 4.25 euro, higher than the 3.93 euro recommended at the end of 2020, with a potential increase of 15.8%.

SHAREHOLDER BREAKDOWN AT 31 DECEMBER 2021



45.8% share capital pertaining to the public stockholders agreement

At 31 December 2021, the shareholder breakdown showed its usual stability and balance, with 45.8% of shares belonging to 111 public shareholders located across the areas served and brought together by a stockholders agreement, renewed for three further years and effective from 1 July 2021 to 30 June 2024, and a 54.2% free float. The shareholding structure includes high number of public shareholders (111 municipalities, the largest of which holds shares amounting to less than 10% of the total) and a high number of private institutional and retail shareholders.

web

Treasury share plan approved

Since 2006, Hera has adopted a share buyback program, most recently renewed by the Shareholders Meeting held on 28 April 2021 for 18 further months, for an overall maximum amount of 240 million euro. This plan is aimed at financing M&A opportunities involving smaller companies and smoothing out any anomalous market price fluctuations vis-à-vis those of the main comparable Italian companies. At the end of 2021, Hera Spa held 29.2 million treasury shares.

Constant communication with the market in 2021 as well

The Group continued to engage in intense communications with investors in 2021, during virtual meetings. After Hera's new 2020-2024 Business Plan was published, the Executive Chairman and the CEO took part in meetings with investors in the main financial centres, to update them on trends in activities and future prospects. Further occasions for contact came about by participating in the sector conferences organised by Borsa Italiana Spa and the brokers covering Hera stock, and organising single meetings requested by institutional investors (video calls and company visits). The intense dedication shown by the Group towards dialoguing with investors and financial analysts, in addition to a selected number of ESG analysts, contributed to reinforcing its market reputation and represents an intangible asset benefiting Hera stock and stakeholders.

As regards the information required by article 2428, paragraph 3, subparagraphs 3 and 4 of the Italian Civil Code, concerning the number and nominal value of the shares constituting the share capital of Hera Spa, the number and nominal value of the treasury shares held as at 31 December 2021, as well as the changes in these shares during 2021, see note 25 of paragraph 3.02.04 and the statement of changes in equity in paragraph 3.01.05 of the Parent Company's separate financial statements.

1.06 SUSTAINABILITY RESULTS

The Group's commitment to reporting to stakeholders as to the results achieved in the areas of creating shared value (CSV) and sustainability was confirmed once again this year by its Sustainability Report, available at bs.gruppohera.it and on the Group's website in the sustainability section.
The Sustainability Report contains the Hera Group's consolidated non-financial statement prepared pursuant to legislative decree 254/16 and constitutes a separate report from this Directors' report, as provided for in Article 5, paragraph 3, letter b) of legislative decree 254/16. The Sustainability Report also includes indicators and information relating to the environment, personnel and research and development activities.
What follows is a summary of the main results reported in the 2021 Sustainability Report.

During 2021, further progress was made in CSV areas and as regards sustainability, both in terms of results achieved and new projects launched, and in terms of measurement and reporting. With regard to the latter aspects, several elements enriched the Group's sustainability and accountability profile:

- the concept of "corporate purpose" was introduced into Hera Spa's Articles of Association (among the first companies in Italy to do so), with a focus on creating shared value, in order to make explicit the purpose that the Group aims to achieve in carrying out its business activities and thus reaffirm its commitment towards sustainability, in particular the energy transition and the circular economy, through innovation and digitalisation, as well as to the promotion of social fairness;
- the Group's commitment to the "Just Transition" was clarified, by way of an additional key to interpreting the results achieved in the direction of a transition capable of combining actions for the climate and benefits for all stakeholders, with particular attention to social inclusion, which at any rate already falls within CSV factors;
- Hera stock was included, for the second consecutive year, in the Dow Jones Sustainability Index World and Europe, with a score that confirms the Group as the best in the "Multi and Water Utilities" sector, and the achievement of 5th place internationally among Utility Networks in the ESG Evaluation, carried out by the Sustainable Finance analysts at S&P Global Ratings;
- the Science Based Targets initiative (SBTi) validated the objectives that will lead to a 37% reduction in the Group's greenhouse gas emissions by 2030 (Scope 1+2+3 from the sale of electricity and downstream methane gas) compared to 2019, for which the 2021 Sustainability Report provides the second balance.

Creating shared value: CSV Ebitda rises to 570.6 million euro (46.6% of total Ebitda); CSV investments come to 452.7 million euro (68% of total investments)

The 2021 Sustainability Report consolidates its representation of content focused on creating shared value. The results achieved and the objectives set for the future are accompanied by a summary of the scenario relating to the three drivers for creating shared value:

- Energy - pursue carbon neutrality,
- Environment - regenerate resources and close the circle,
- Local areas (and Businesses) - enabling resilience and innovating.

An equal number of chapters are dedicated to these three areas, representing the most significant part of the report.
One of the strengths of the Group's reporting is its quantification of shared value Ebitda (CSV Ebitda), i.e. the portion of Ebitda that derives from business activities capable of meeting the objectives on the Global Agenda, which refers to calls to action for sustainable growth (relevant to the Group's activities) summarised in the three drivers mentioned above.
In 2021, CSV Ebitda came to 570.6 million euro, corresponding to 46.6% of the Group's total Ebitda, with a 25.4% increase compared to the amount seen in 2020, in line with the new calculation criteria, defined in order to take into account the European Taxonomy of eco-sustainable activities. CSV Ebitda for 2021 is thus in line with the path set out by the 2021-2025 Business Plan, which was designed to ensure that approximately 55% of 2025 Ebitda will come from business activities that meet the priorities on the Global Agenda. The Group's contribution to creating shared value also involves making investments in the three CSV drivers, which in 2021 amounted to 452.7 million euro, approximately 68% of the total.

This quantification of shared value Ebitda and investments for 2021 has been submitted, for the third consecutive year, to an audit, with the aim of confirming these distinctive aspects of the Group's reporting to all stakeholders.

Pursuing carbon neutrality: -6.8% in energy consumption; 23% of contracts with energy efficiency services; -11.6% greenhousse gas emissions

Hera pursues the carbon neutrality of its own activities and those of its customers by promoting energy efficiency and projects in the area of the energy transition and renewable energy.
With regard to energy efficiency, note that:

- the initiatives identified by Hera Spa, Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa, included in their own ISO 50001 energy improvement plans and already implemented at the end of 2021, have made it possible to reduce energy consumption by 15,036 TOE, equivalent to 6.8% of the amount recorded in 2013, coming closer to the target set for 2024;
- at the end of 2021, gas and electricity contracts with energy efficiency solutions accounted for 23% of total contracts, up 3 percentage points on the previous year;
- initiatives to promote energy efficiency among residential customers include the Consumption Log, a free report to raise customers' awareness of energy savings based on the principles of behavioural economics, in addition to the numerous offers with energy efficiency solutions that were further enhanced in 2021.

With regard to the energy transition and renewable energies, Hera continued to promote its carbon-neutral commercial offer in 2021, achieving at the end of the year:

- an amount of electricity from renewable sources sold equal to 40.1% of the total (excluding the quantities sold in protected and safeguarded markets), up 7 percentage points compared to 2020;
- an amount of methane gas with CO_2 offsetting equal to 9.1% of total volumes sold, compared to 4.4% in 2020 (excluding volumes sold to wholesalers, for the default service and last resort supply).

For the fourth consecutive year, Hera also continued to guarantee electricity 100% of which derives from renewable sources to all its residential customers in the free market, and in 2021 it enhanced its commercial proposition with the Hera Photovoltaic offer.
Internally, in 2021 Hera produced 8 million cubic metres of biomethane from the organic portion of waste (slightly more than in 2020) and covered 82% of its own consumption with electricity from renewable sources. In 2021, numerous initiatives were launched to develop hydrogen as an energy vector, aimed using it in hard-to-abate sectors, to introduce it into gas distribution networks and to construct a power-to-gas plant closely integrated with the wastewater treatment process.
Lastly, on the basis of the second report carried out in accordance with the SBTi methodology referred to above, the Group's greenhouse gas emissions (Scope 1+2+3 from the sale of electricity and downstream natural gas) recorded an 11.6% reduction in 2021, compared with the 2019 base year, which is in line with the 2030 target validated by SBTi. More specifically, 2021 saw a reduction in Scope 1+2 (market-based) emissions and carbon intensity of electricity sales (Scope 3 upstream) coming to 9.1% and 27.7% respectively.

SUSTAINABLE PRESENT AND FUTURE

WHAT WE SAID WE WOULD DO...	WHAT WE DID...	WHAT WE WILL DO...
Promoting energy efficiency		
42% CUSTOMERS IN 2024 with energy efficiency offers or the Consumption Log (excluding EstEnergy and subsidiaries)	**23%** CUSTOMERS IN 2021 with energy efficiency offers or the Consumption Log, vs 20.2% in 2020 (including EstEnergy and subsidiaries)	**28%** CUSTOMERS IN 2025 and 34% in 2030 with energy efficiency offers or the Consumption Log (including EstEnergy and subsidiaries)
Energy transition and renewables		
>15 MILLION M3 biomethane produced by 2024 and over 30 million by 2030, through new anaerobic digestion plants for the organic portion of sorted waste collected. Launch initiatives to develop hydrogen as an energy vector	**8 MILLION M3** biomethane produced in 2021. Authorisation procedures for the construction of two new plants concluded and eight initiatives launched to develop of hydrogen as an energy vector	**17 MILLION M3** of biomethane produced by 2025 and over 30 million by 2030. Continue with hydrogen development initiatives. Internal and external development of photovoltaics
Offsetting climate change		
-37% GREENHOUSE GAS EMISSIONS (scopes 1, 2 and 3, downstream electricity and gas sales) by 2030 with SBTi method, compared to 2019 figures	**-11.6%** GREENHOUSE GAS EMISSIONS in 2021 compared to 2019	**-37%** GREENHOUSE GAS EMISSIONS (scopes 1, 2 and 3 downstream electricity and gas sales) by 2030 with SBTi method, compared to 2019 figures
Transition towards a circular economy		
>75% OF PACKAGING RECYCLED by 2024 and 67% of overall municipal waste recycled by 2030 (higher than the EU's 2035 goals)	**73%** OF PACKAGING RECYCLED in 2020 (72% in 2019). Overall recycling rate: 55% in 2020. The 2021 data will be reported in "Tracking waste"	**76%** OF PACKAGING RECYCLED by 2025 and >80% by 2030 (higher than the EU's 2030 goals)
-17% INTERNAL WATER CONSUMPTION by 2024 and -25% by 2030 compared to 2017 consumption	**-17%** INTERNAL WATER CONSUMPTION in 2021 compared to 2017 consumption, due to specific activities in water saving	**-20%** INTERNAL WATER CONSUMPTION by 2025 and -25% by 2030 compared to 2017 consumption

Regenerating resources and closing the circle: sorted waste at 65.3%; +17.5% of packaging recycled; -16.6% in water consumption

Hera regenerates resources and closes the circle through initiatives and projects in three areas: (i) transition towards a circular economy, (ii) sustainable management of water resources, (iii) protection of air, soil and biodiversity.

With regard to the transition to a circular economy, 2021 saw sorted waste collection come to 65.3% (Italian 2020 average: 63%) and use of landfills for the disposal of urban waste at 3.5% (European 2020 average: 23%). In this respect, Hera is almost 20 years ahead of the EU target for the circular economy and ranks among the most virtuous European countries. In October 2021, Hera published the eleventh edition of its "Tracking Waste" report, verified by DNV, thus providing citizens with a guarantee of the effective recovery of separate waste collection, which came to 90.5%. This report contains indications as to how the area served by Hera positions with respect to the recycling targets set by the EU as part of the circular economy package: the overall recycling rate, where Hera with 55% has already achieved the target set for 2025, and the packaging recycling rate, where the Group with 73% exceeds by three percentage points the target set for 2030.

Once again as regards the circular economy, 2021 saw an 80.8% material and energy recovery rate in Herambiente Spa's sorting plants, and quantities of plastic recycled by the Aliplast Group coming to approximately 81 thousand tonnes, showing a 17.5% increase compared to 2020 and 36% compared to 2017, the baseline of the commitments made in the New Plastics Economy Global Commitment promoted by the Ellen MacArthur Foundation.

Concerning the sustainable management of water resources, in 2021 the Group's commitment in the sewage sector continued with a multi-year plan to bring urban agglomerations into line with regulations. At the end of 2021, thanks to the expansion of the Borgheria (PU) purification plant, 99.6% of agglomerations were adequate in terms of population equivalent (97.6% in 2020). Initiatives to preserve water resources were also important, including the internal water management project, which enabled a 16.6% reduction in consumption in 2021 (compared to the 2017 baseline), agreements with local authorities that make 6% of the water leaving the purification plants reusable, and the aforementioned Consumption Log, which has been sent to around 27% of household water service customers.

As far as air protection is concerned, positive results were confirmed in relation to the environmental performance of the Group's waste to energy plants, which in 2021 again recorded very low levels of atmospheric emissions, on average 86% lower than the legal limits, and the Imola cogeneration plant, with average PM10 concentrations 99% lower than the limits. Lastly, with regard to soil protection, note that from 2018 to 2021, the construction of infrastructures has led to a 78% reuse of soil.

Enabling resilience and innovating: 82 million euro invested in innovation and digitisation; 2.2 billion euro in economic value distributed to local areas; local suppliers account for 67% of the total

In 2021, the Group achieved significant results in the CSV areas related to economic and employment growth in local areas, innovation and digitalisation; it also carried out important initiatives and projects aimed at ensuring the resilience of its operations and therefore of the areas served.

The total economic value distributed to the territory amounted to 2,224 million euro, equivalent to 75% of overall economic value. The amount distributed to local suppliers came to 67% of the total and reached 807 million (+9% compared to the previous year), while induced employment is estimated at approximately 9,300 people; these figures confirm the Group's primary role in the development of the local area. With regard to induced employment, the employment of disadvantaged people (882) is reported as a result of supplies from social cooperatives amounting to 72.3 million euros in 2021.

In the area of innovation, investments amounted to more than 82 million euro and were related to initiatives in three areas: energy transition, circular economy and digital transformation. With regard to digital transformation, the 2021 Sustainability Report confirms reporting for 24 projects, introduced for the first time in the 2020 report, concerning objectives, results and impacts based on the framework of Corporate digital responsibility, defined as the set of practices and behaviours that help an organisation use data and digital technologies in an ethical and responsible manner, from a social, environmental, economic and technological point of view. In addition to digital transformation projects aimed at further optimising operating processes for the benefit of service quality, safety and continuity, work quality and internal efficiency, efforts continued in 2021 to develop digital channels for customer relations. The apps L'Acquologo and Il Rifiutologo reached 775,000 downloads by the end of 2021 and exceeded

140,000 photo-reports sent by citizens. The digitalisation of customer relations was also characterised by a constant increase in the number of practices managed online: in 2021, customers registered for online services rose to 27.1%, while those who requested an electronic bill reached 30.9%. The Group's commitment in this area, combined with its focus on local communities, continued in 2021 with the fourth edition of the campaign to promote electronic bills and customers' digital behaviour, called Digi e Lode, through which the Group from 2017 to 2021 donated 375 thousand euros for the digitalisation of 150 schools.
Once again as regards digitalisation, the experience gained by the Group since 2017 has made it possible to continue to manage the emergency situation in a resilient manner in 2021. The number of workers permanently involved in the remote working project in 2021 came to almost 4,200, 77% of the total number of permanent employees, excluding only blue collar workers.

The results achieved in 2021 in terms of shared value generated are complementary to those relating to the following areas, which complete the Group's sustainability profile and are reported in the "Alongside the actors of change" section of the Sustainability Report:

- awareness programmes and the adoption of ISO 45001 certification, which covers 87% of the Group's workers, led to a further decrease in the accident frequency index, which settled at 10.3 (12.6 in 2020). The Hextra welfare system, to which 99% of workers have adhered, has paid employees over 5.3 million euros. A high level of training is still available, partially thanks to digitally redesigning initiatives: in 2021, 30.3 hours of training per capita were given, 60% of which were provided remotely. The incidence of sustainability objectives in the balanced scorecard system linked to the incentives involving all management further increased: in 2021, 38% (35% in 2020) of the variable remuneration of Group executives and middle managers was linked to sustainability projects-objectives oriented towards creating shared value equal to 24%;
- high quality levels of customer contact channels, despite the ongoing health emergency: the average call centre waiting time remained just over 30 seconds for residential customers and 34 seconds for business customers, with a further increase in contacts coming to 16% and 17% respectively compared to the previous year. The average waiting time at help desks stood at 5.7 minutes, only slightly higher than the previous year, despite a 22% increase in contacts. The survey carried out in 2021 on the quality of services provided by the Group (more than 9,000 interviews with residential customers) confirmed a high customer satisfaction rate (73/100), unchanged compared to the previous two years;
- During 2021, in selecting suppliers, the Group used the economically most advantageous offer method in 79% of public tenders and in 65% of overall contracts (in terms of economic value). In both cases, the average score reserved for social and environmental aspects came to around 38/100. Supplier monitoring focused on social responsibility towards workers continued in 2021, as did monitoring of accidents, which involved 84% (in terms of value commissioned) of service and works suppliers. 2021 also saw the continuation of the "circular purchasing" project, with the application of the relevant guidelines and the identification of technical award criteria to be used in tenders: eco-efficiency, dematerialisation, renewability and recyclability. Continuing along the same lines as in previous years, in 2021 circularity criteria were included in over 90% of the tenders awarded with the economically most advantageous offer, with an average score of 8.3;
- communication with local communities continued in 2021, which saw the conclusion of the work of the Modena and Forlì-Cesena LABs. HeraLAB is the tool that Hera makes available to the areas in which it operates, with the aim of activating a structured channel for listening and dialogue with local communities. Each LAB is made up of representatives of local stakeholders appointed by Hera's Board of Directors. There are 8 initiatives co-designed by the Modena and Forlì-Cesena LABs, to be implemented in the two-year period 2022-23.

Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

During 2020, a path was designed to come into line with the recommendations of the Task Force on climate-related financial disclosures (TCFD), which involved the entire corporate organisation, across the board, and continued in 2021. This Task Force came into being as a result of the 2015 Paris Agreement, in which the member states of the United Nations committed to keeping the increase in the average global temperature below 2°C compared to pre-industrial levels, and possibly limiting the increase to 1.5°C by the end of the 21st century. In the same year, the G20 Financial Stability Board established the TCFD, with the aim of facilitating greater transparency on the financial opportunities and risks associated with climate change. In 2017, the TCFD published the reporting recommendations mentioned above, which are now an international reference for corporate climate change disclosure. The TCFD's recommendations are applicable to organisations across all sectors and are classified into four areas: governance, strategy, risk management and metrics & targets.

The path along which the Group has set out was defined according to three main steps:

- the establishment of a dedicated cross-functional working group;
- an in-depth analysis of the gaps in the reporting system and the way the Hera Group manages climate opportunities and risks with respect to the recommendations;
- the definition of a working plan to increase the Group's alignment with the TCFD's recommendations, the results of which can be seen in these consolidated financial statements and in the 2021 Sustainability Report (in particular, the section dedicated to "Hera for the climate"), which can be consulted for a comprehensive illustration of the four reporting areas, by topic.

BS

RS

The European taxonomy of environmentally sustainable activities

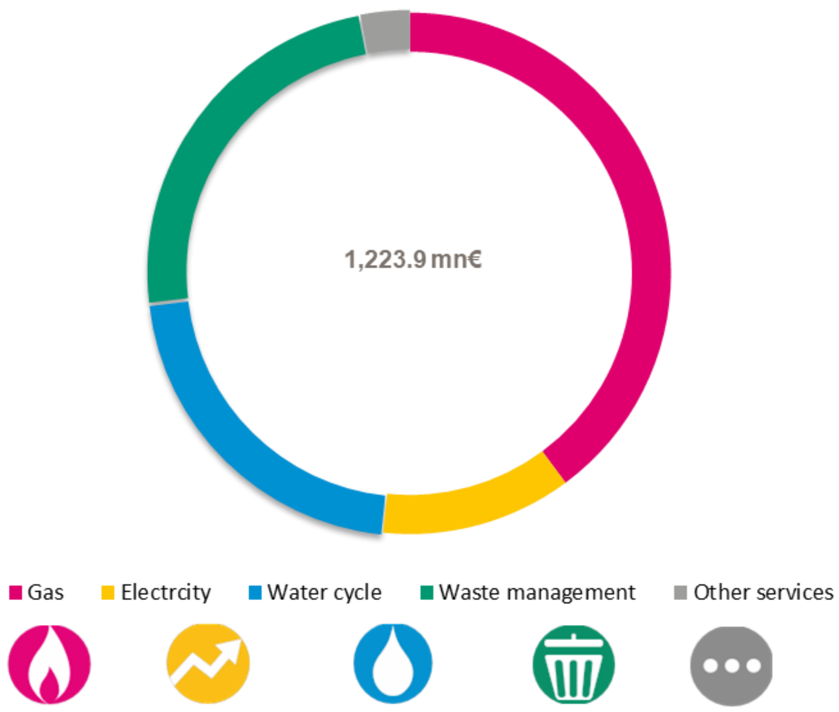
The EU taxonomy is a unique European classification system introduced by Regulation 2021/852, which establishes a list of environmentally sustainable economic activities. It is a classification tool provided for in the Action plan on sustainable finance, aimed at supporting the European Union in increasing sustainable investments and carrying out the Green Deal.
Following the recommendations of Delegated Regulation 2021/2178, which introduces obligations to disclose information about the taxonomy in NFD, a multi-step process was developed in 2021 to analyse the taxonomy's applicability along the entire value chain, taking into account all of the Group's consolidated companies.
This process exclusively concerned the climate change mitigation and adaptation objectives for which Delegated Regulation 2021/2139 introduces a list of activities that contribute substantially to these objectives, and the list of technical screening criteria that these activities must meet in order to be classified as environmentally sustainable.
In compliance with the disclosure requirements set out for 2021 NFD, this process has allowed for quantification of and reporting on the economic KPIs (turnover, opex and capex) of the activities managed by the Hera Group that are eligible for the taxonomy, i.e. those activities included in the list provided for in Regulation 2139, regardless of whether they meet the technical screening criteria.
Despite the fact that the Taxonomy Regulation establishes the obligation to report in 2023 the amount of turnover, opex and capex of the activities aligned with the taxonomy, i.e. those activities that meet the technical screening criteria, the Hera Group has committed to disclose, regarding the mitigation objective, already in its 2021 non-financial reporting. In addition, it has decided to include, alongside the economic KPIs, the amount of Ebitda deriving from the activities aligned with the taxonomy (flanking and complementing CSV Ebitda) and to introduce in its 2021-2025 Business Plan the amount of investments in these activities.
See the Sustainability Report for a comprehensive discussion of this topic.

1.07 ANALYSIS BY BUSINESS AREA

A multi-business strategy

An analysis of the operating results achieved in the Group's business areas is provided below, including: the gas area, which covers services in natural gas distribution and sales, district heating and heat management; the electricity area, which covers services in generation, distribution and sales; the integrated water cycle area, which covers aqueduct, purification and sewerage services; the waste management area, which covers services in waste collection, treatment and recovery; the other services area, which covers services in public lighting and telecommunications, as well as other minor services.

EBITDA DECEMBER 2021



The contribution to Ebitda coming from the Group's various business areas shows a balanced mix, resilient and consistent with a multi-business strategy

The Group's income statements include corporate headquarter costs and account for intercompany transactions at arm's length.

The following analyses of each single business area take into account all increased revenues and costs, having no impact on Ebitda, related to the application of IFRIC 12. The business areas affected by this accounting standard are natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

1.07.01 Gas

Ebitda rises

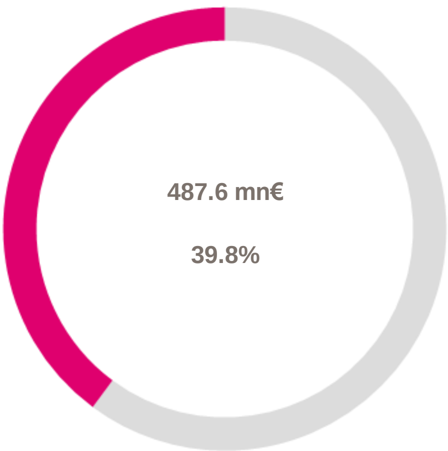
Significant growth was seen in 2021 compared to 2020, both in terms of margins and volumes sold, thanks to the opportunities provided in the Energy Services segment by energy efficiency incentives, the 110% super-bonus and insulation bonus, as well as the recovery in consumption and production, which had slowed down considerably in 2020 due to the Covid-19 pandemic. In addition, benefits were related to energy efficiency certificates, district heating and sales markets in all areas served. In particular, in last resort markets, Hera Comm Spa was awarded the following lots nationwide through tenders:

- six of the nine lots of the last resort gas service (for customers involved in public services or without a supplier) for the period from 1 October 2021 - 30 September 2023 in: Valle d'Aosta, Piedmont, Liguria, Trentino A.A., Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Tuscany, Umbria, Marche, Lazio and Campania. In the previous tender, Hera Comm was awarded eight out of nine lots.

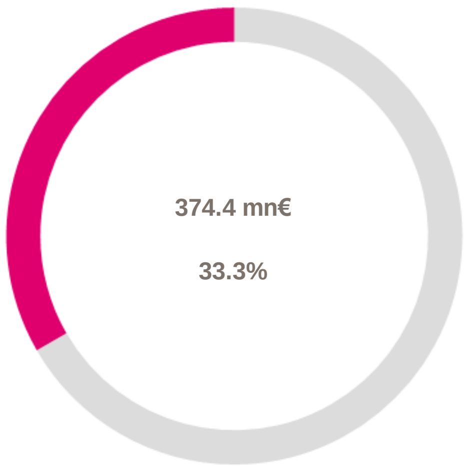
- all nine lots of the default gas distribution service (for customers in arrears), for the period 1 October 2021 - 30 September 2023 in: Valle d'Aosta, Piedmont, Liguria, Lombardy, Trentino A.A., Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Tuscany, Umbria, Marche, Abruzzo, Molise, Basilicata, Puglia, Lazio, Campania, Sicily and Calabria. In the previous tender, Hera Comm was awarded five out of nine lots.

- nine of the twelve lots of the Consip GAS13 tender for supplying natural gas to public administrations in 2021: Valle d'Aosta, Piedmont, Liguria, Friuli-Venezia Giulia, Emilia-Romagna, Lombardy, Lazio, Campania, Calabria, Sicily, Basilicata and Puglia.

EBITDA GAS AREA 2021



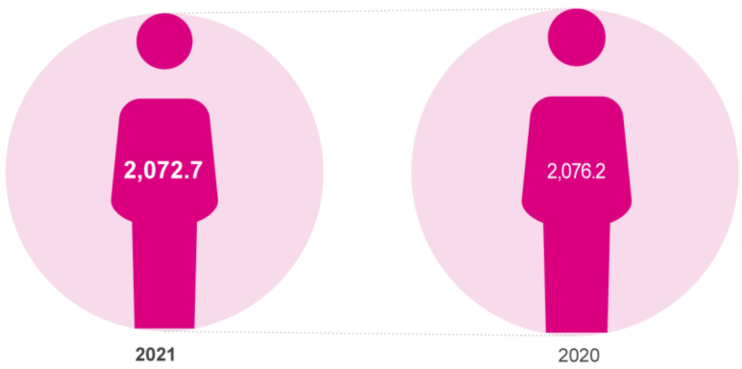
EBITDA GAS AREA 2020



The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 21	Dec 20	Abs. change	% change
Area Ebitda	**487.6**	**374.4**	**113.2**	**+30.2%**
Group Ebitda	1,223.9	1,123.0	100.9	+9.0%
Percentage weight	39.8%	33.3%	+6.5 p.p.	

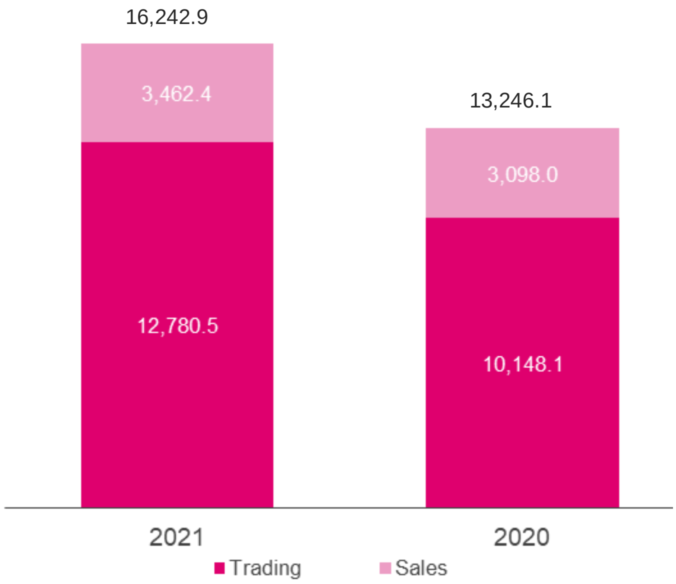
CUSTOMERS (k)



2.1
million
gas customers
(-0.2%)

The number of gas customers decreased slightly by 3.6 thousand, or 0.2%, compared to the previous year. On traditional markets, the customer base was stable, while customers in the last resort markets, after the significant increase recorded in the last quarter of 2020 owing to tenders for the period 2020-2021, decreased by 4 thousand.

VOLUMES SOLD (mn m^3)



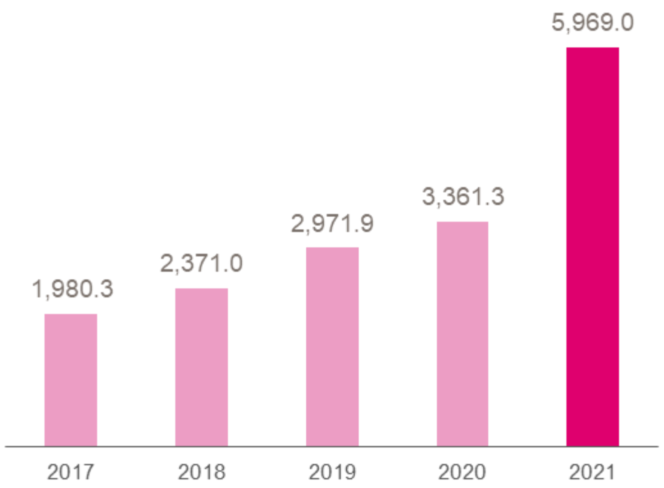
16.2
billion m^3
sold
(+25.6%)

Total volumes of gas sold increased by 2,996.8 million m^3, or 22.6%. Brokerage volumes were up by 2,632.4 million m^3, or 19.9% of the total. Trading increased, in order to satisfy internal procurement and take advantage of market opportunities. Volumes sold to end customers increased by 11.8%, reaching 364.4 million m^3, reflecting the aforementioned post-Covid-19 recovery. Traditional markets grew by 272.3 million m^3 (+9.1%, or +8.8% of total volumes sold) and last resort markets by 92.1 million m^3 (+96%, or +3.0% of total volumes sold).

The following table summarises operating results for the gas area:

Income statement (mn€)	Dec 21	% inc.	Dec 20	% inc.	Abs. change	% change
Revenues	5,969.0		3,361.3		2,607.7	+77.6%
Operating costs	(5,373.1)	(90.0)%	(2,883.4)	(85.8)%	2.489.7	+86.3%
Personnel costs	(126.9)	(2.1)%	(116.5)	(3.5)%	10.4	+8.9%
Capitalised costs	18.6	+0.3%	13.0	0.4%	5.6	+43.0%
Ebitda	**487.6**	**8.2%**	**374.4**	**11.1%**	**113.2**	**+30.2%**

REVENUES (mn€)



5,969.0
million euro revenues (+77.6%)

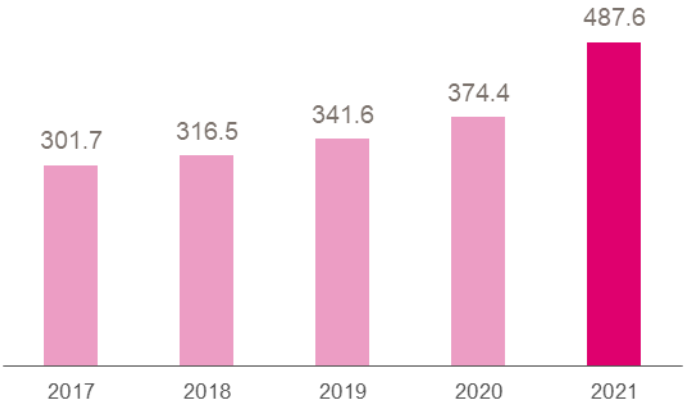
Revenues increased by 2,607.7 million euro, or 77.6%, compared to the previous year. The reasons for this are mainly to be found in brokerage, which generated higher revenues coming to 1,870 million euro, and higher volumes sold, coming to 120 million euro.
The increase in the price of gas as a raw material accounted for 441 million euro, with a sharp rise beginning in October 2021. The CMEM tariff component, which in the protected market represents trends in the cost of raw materials, increased by 75% between December and September and by 245% compared to December 2020.
The higher revenues of the energy services business, due to activities linked to energy efficiency, the insulation bonus and the 110% super-bonus, were up by approximately 238 million euro. In addition, higher revenues came from district heating, totalling 28 million euro, due to higher prices and volumes sold, and for activities in Bulgaria, coming to 13 million euro.

This growth was limited by a drop in revenues from energy efficiency certificates, amounting to roughly 121 million euro, as a result of the 21 May 2021 Ministerial Decree. This decree, which regulates the determination of the national quantitative energy saving objectives for electricity and gas distribution companies for 2021-2024, operated retroactively, reducing the number of certificates allowed for the 2020 obligation year by 60%, as well as defining a significantly lower number of certificates for the 2021 obligation than in the past.

Regulated revenues increased by 2 million euro. From a regulatory point of view, since 2021 is the second year of the new regulatory period, there are no regulatory changes to mention. Therefore, the growth was essentially related to a natural update of the constraints, mainly involving the capex update.

This increase in revenues was proportionally reflected by growth in operating expenses, which increased by 2,489.7 million euro overall. This trend was mainly due to the increased activity in energy services and brokerage, higher volumes sold and lower costs for purchasing energy efficiency certificates.

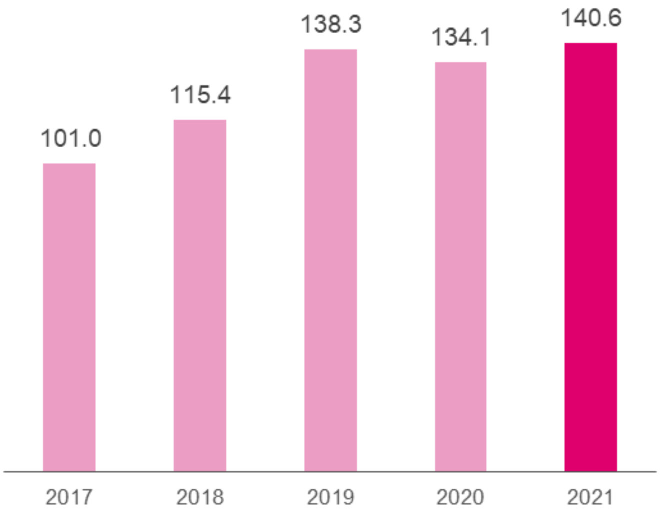
EBITDA (mn€)



487.6
million euro
Ebitda
(+30.2%)

Ebitda increased by 113.2 million euro, or 30.2%, due to growth in incentivised energy efficiency activities coming to approximately 42 million euro, increased margins in the district heating business amounting to 4 million euro and white certificates totalling 6.6 million euro, due to the reduction in energy efficiency obligations described above. The remaining growth was related to sales activities, due to the recovery in consumption and the enlargement of the area served, in addition to brokerage on international markets. Also note the growth in margins of the gas business in Bulgaria, up 11%, with a corresponding increase of 4 thousand customers, or 17%.

NET INVESTMENTS GAS (mn€)



140.6
million euro
net investments gas

Net investments in the gas area amounted to 140.6 million euro in 2021, up 6.5 million euro compared to the previous year. In gas distribution, the overall increase came to 4.0 million euro, mainly due to non-recurring maintenance on networks and plants, which was up compared to the previous year, even considering the lower effect of the large-scale meter replacement pursuant to Resolution 554/15, relating to the commissioning of smart gas meters. In gas sales, investments coming to 10.2 million euro were recorded for activities related to the acquisition of new customers, up by 1.2 million euro compared to the previous year. Investments increased by 0.8 million euro overall in district heating and heat management services, including an increase in district heating by Hera Spa and a decrease in energy services in the activities of the companies Hera Servizi Energia Srl and AcegasApsAmga Servizi Energetici Spa. On the whole, requests for new connections were slightly down compared to the previous year.

Details of operating investments in the gas area are as follows:

Gas (mn€)	Dec 21	Dec 20	Abs. change	% change
Networks and plants	103.9	99.9	4.0	+4.0%
Acquisition gas customers	10.2	9.0	1.2	+13.3%
DH/heat management	27.1	26.3	0.8	+3.0%
Total gas gross	**141.3**	**135.3**	**6.0**	**+4.4%**
Capital grants	0.7	1.2	(0.5)	(41.7)%
Total gas net	**140.6**	**134.1**	**6.5**	**+4.8%**

The Regulatory asset base (RAB) for assets owned, which defines the value of the assets recognised by the Authority as regards return on invested capital, increased compared to 2020.

RAB (bn€)

1.041

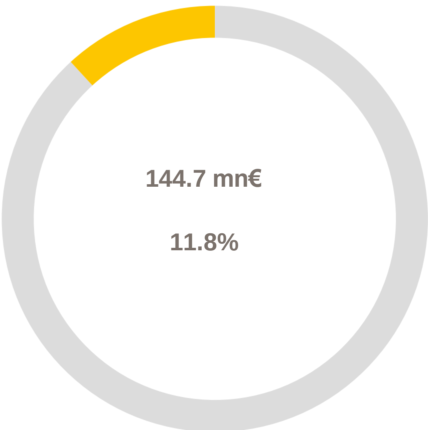
billion euro

2021 RAB

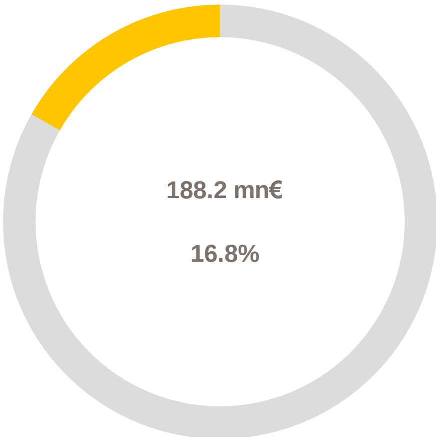
1.07.02 Electricity

At the end of 2021, Ebitda for the electricity area showed a decrease compared to the previous year. The reasons for this drop involve the safeguarded market, due to a different scope of operations, and lower electricity generation activity, particularly in the dispatching services market, which recorded excellent performance the previous year during the period of closures due to the Covid-19 pandemic.
In the safeguarded market, the Hera Group will manage the lot of customers in Campania, Abruzzo and Umbria in 2021, compared to seven lots in the previous two years.
Also note the positive result coming from commercial development in free market customers, supported by innovative offers, value-added services and an increasing improvement in customer experience for each type of customer. In addition to this, Hera Comm Spa was awarded through a tender, for the period from 1 July 2021 to 30 June 2024, the gradual protection service for the supply of electricity to SMEs in nine Italian regions: Campania, Marche, Umbria, Abruzzo, Molise, Basilicata, Calabria, Sicily and Sardinia, corresponding to three lots allocated in the national tender called by the Single Purchaser.

EBITDA ELECTRICITY AREA 2021



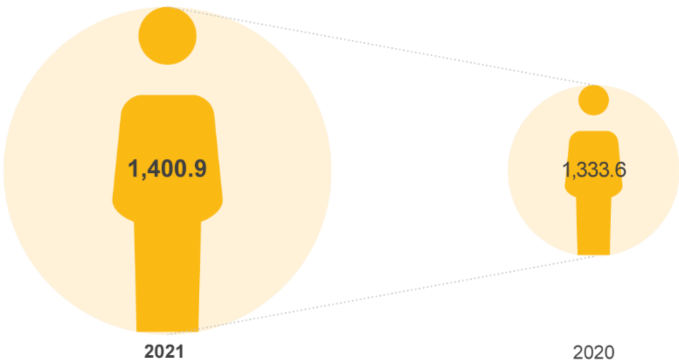
EBITDA ELECTRICITY AREA 2020



The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 21	Dec 20	Abs. change	% change
Area Ebitda	**144.7**	**188.2**	**(43.5)**	**(23.1)%**
Group Ebitda	1,223.9	1,123.0	100.9	9.0%
Percentage weight	11.8%	16.8%	(5.0) pp	

CUSTOMERS (k)

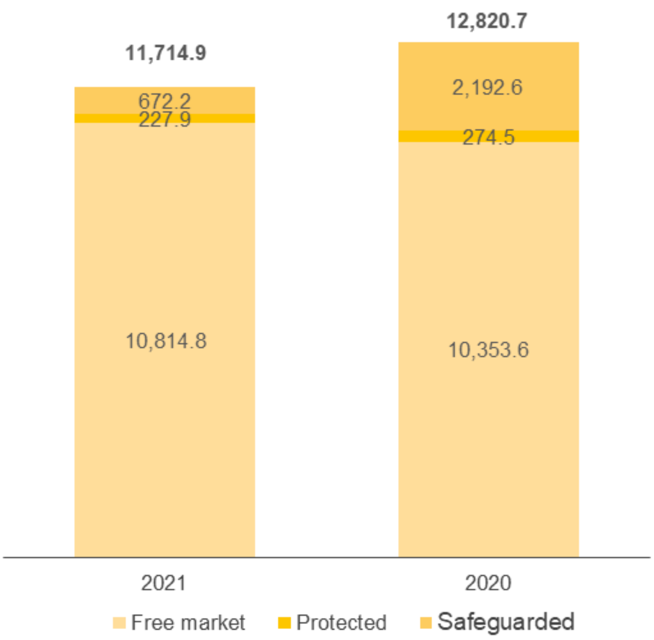


1.4 million **electricity customers (+5.0%)**

The number of electricity customers increased by 5.0% (up 67.3 thousand) compared to 2020. This growth occurred on the free market, accounting for 9.5% of the total, due to both the reinforced commercial action implemented, resulting in approximately 60 thousand customers, and the award of

the Gradual Protection Service, concerning roughly 51 thousand customers. This increase was able to offset the decrease in both 17 thousand greater protection customers and 27 thousand safeguarded customers, due to the different scope of the lots managed.
Alongside the above-mentioned trend, there was an increase in the number of customers subscribing to value-added services, with around 80 thousand customers requesting these services, an increase of 30% compared to the previous year, demonstrating the increasing loyalty of the customer base.

VOLUMES SOLD (GWh)



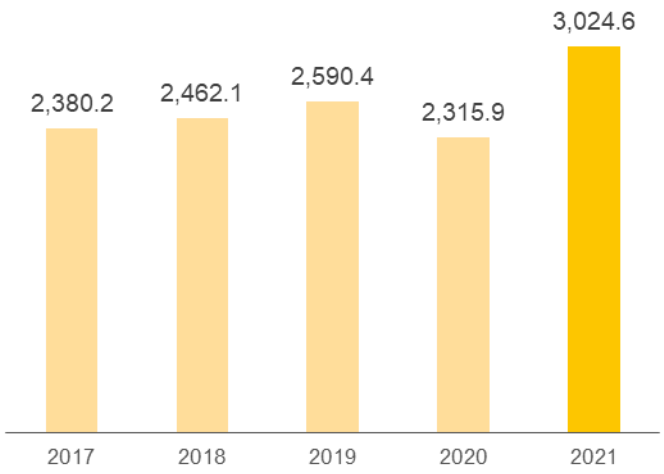
11.7
TWh
Sold
(-8.6%)

Volumes of electricity sold decreased by 1,105.8 GWh, or 8.6%, compared to 2020. This trend was mainly due to the decrease in volumes in the safeguarded segment, amounting to 1,520.4 GWh, or 11.9% of the total, due to the different scope served, while on traditional markets there was a 414.6 GWh increase, equivalent to 3.3% of the total, thanks to the new gradual protection service mentioned above.

The following table summarises operating results for the electricity area:

Income statement (mn€)	Dec 21	% inc.	Dec 20	% inc.	Abs. change	% change
Revenues	3,024.6		2,315.9		708.7	30.6%
Operating costs	(2,846.8)	(94.1)%	(2,090.3)	(90.3)%	756.5	36.2%
Personnel costs	(47.0)	(1.6)%	(48.7)	(2.1)%	(1.7)	(3.5)%
Capitalised costs	13.8	0.5%	11.3	0.5%	2.5	22.2%
Ebitda	**144.7**	**4.8%**	**188.2**	**8.1%**	**(43.5)**	**(23.1)%**

REVENUES (mn€)

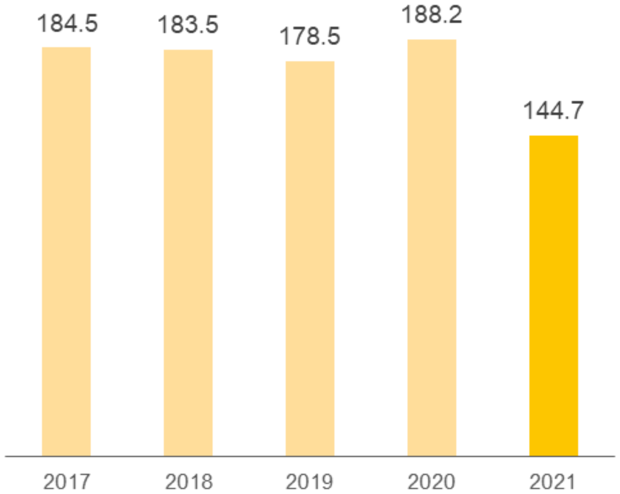


3.0
billion euro
revenues
(+30.6%)

Revenues increased by 708.7 million euro, or 30.6%, compared to 2020. This performance is mainly due to higher revenues from brokerage coming to 243 million euro, higher raw material prices amounting to roughly 679 million euro, higher revenues from generation totalling around 116 million euro and higher revenues from value-added services for customers coming to roughly 15 million euro. Revenues from the electricity business were affected by an increase in the average annual value of the PUN, which was up by 222% compared to the previous year.
The aforementioned increases were only partially offset by a decrease in volumes sold, which led to lower revenues coming to roughly 90 million euro, and lower revenues from off-grid transmission and system charges, totalling 252 million euro, with an equal effect on costs.
Regulated revenues increased by 2 million euro compared with 2020, due to the capex-related tariff increase.

The increase in revenue was reflected more than proportionally by operating costs, which rose by 756.5 million euro. This trend was due to the sharp increase in raw material prices, which had an impact on sales, brokerage and generation, despite the lower volumes sold and lower costs for purchasing energy efficiency certificates.

EBITDA (mn€)

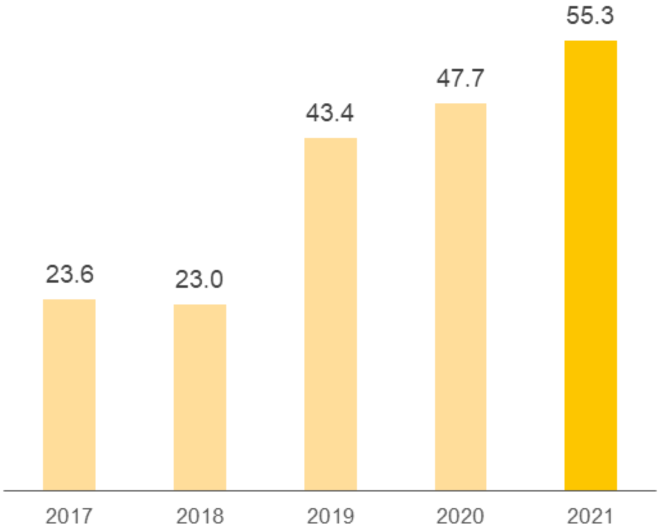


144.7
million euro
Ebitda
(-23.1%)

Ebitda decreased by 43.5 million euro, or 23.1%, mainly due to the reduction in the scope of areas served in the safeguard market, amounting to 29 million euro, and lower calls for dispatching services market, coming to around 15 million euro, as mentioned above. Free market activities increased, as did new value-added services, optimisation of plant production and distribution services, which offset the lower margins on brokerage.

In the electricity area, 2021 investments amounted to 55.3 million euro, up 7.6 million euro compared with the previous year.
The interventions carried out mainly concerned non-recurring maintenance on distribution plants and networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the previous year, a 4.7 million euro increase was seen in electricity distribution for some new constructions, such as the primary cabin in Modena Est, as well as extraordinary maintenance of networks and plants and meter replacement activities, while 2.8 million euro was recorded in energy sales, for activities linked to acquiring new customers. Requests for new connections were also up compared to the previous year.

NET INVESTMENTS ELECTRICITY (mn€)



55.3
million euro
net investments electricity

Operating investments in the electricity area were as follows:

Electricity (mn€)	Dec 21	Dec 20	Abs. change	% change
Networks and plants	36.1	31.4	4.7	+15.0%
Acquisition electricity customers	19.2	16.4	2.8	+17.1%
Total electricity gross	**55.3**	**47.7**	**7.6**	**+15.9%**
Capital grants	-	-	-	+0.0%
Total electricity net	**55.3**	**47.7**	**7.6**	**+15.9%**

RAB, which defines the value of the assets recognised by the Authority as regards return on invested capital, increased compared to 2020.

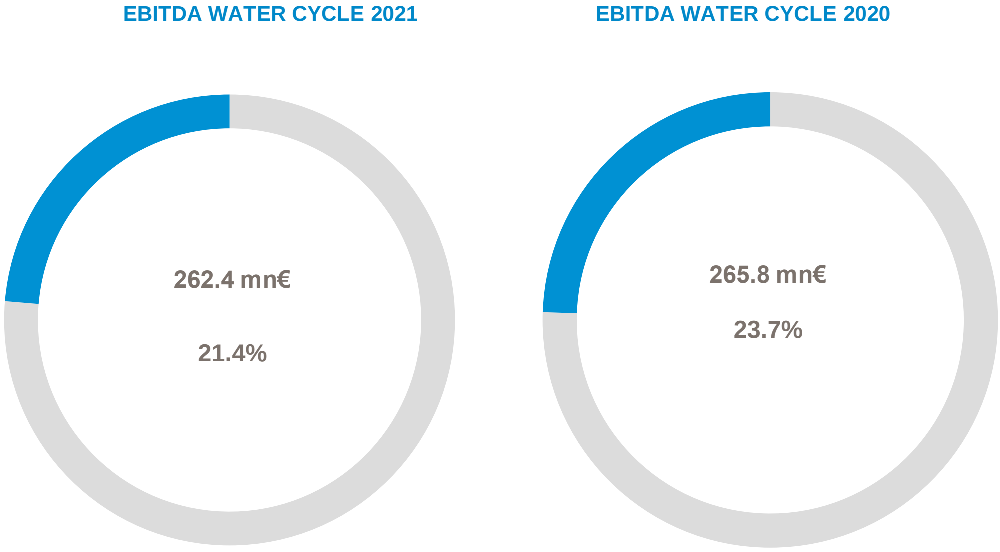
RAB (bn€)

0.371
billion euro
2021 RAB

1.07.03 Integrated water cycle

Slight drop in results in 2021

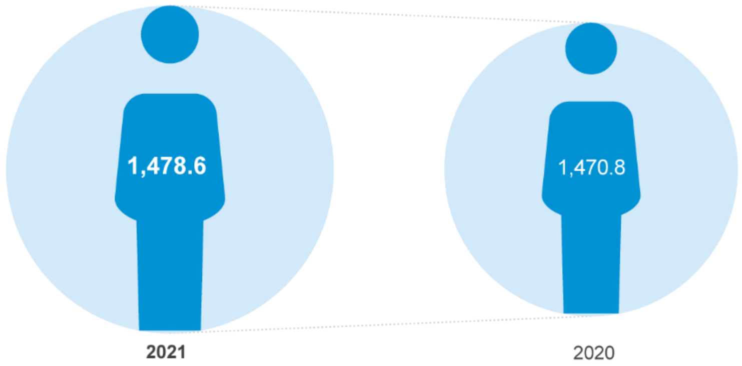
In 2021, the integrated water cycle area showed a slight decrease in results compared to the previous year, with Ebitda falling by 1.3%. As regards regulations, note that 2021 was the second year in which the tariff method defined by the Authority for the third regulatory period (Mti-3), 2020-2023 (resolution 580/2019), was applied. A revenue (VRG) is assigned to each operator, defined on the basis of operating costs and capital costs, according to the investments made, with a view to increasing efficiency in costs, in addition to measures intended to promote and valorise interventions for sustainability and resilience.
In late 2021, ATERSIR definitively awarded Hera the tender for the integrated water service in the Province of Rimini, excluding the Municipality of Maiolo. The new agreement, signed on 23/12/2021, regulates the new concessionary relationship from 01/01/2022 until its scheduled expiry on 31/12/2039. Thanks to the award of this tender, one of the first in Italy, the new water service in the Rimini area will be based on sustainability and innovation, and the Hera Group, also the outgoing manager for the 24 municipalities, will be responsible for the service for the next 18 years.



The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 21	Dec 20	Abs. change	% change
Area Ebitda	**262.4**	**265.8**	**(3.4)**	**(1.3)%**
Group Ebitda	1,223.9	1,123.0	100.9	+9.0%
Percentage weight	21.4%	23.7%	(2.3) pp	

CUSTOMERS (k)



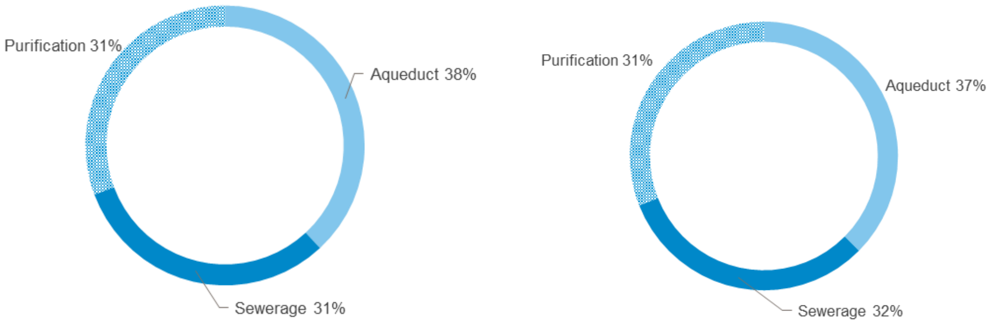
1.5
million
integrated water cycle customers (+0.5%)

The number of water customers increased by 7.8 thousand, or 0.5%, compared to the previous year, confirming the moderate trend of internal growth in the Group's reference areas. The Emilia-Romagna area managed by Hera Spa accounted for 72.3% of this growth, while the area served by AcegasApsAmga Spa accounted for 14.3% and the remainder involved the area served by the Marche Multiservizi Spa Group.

The main indicators for the area are as follows:

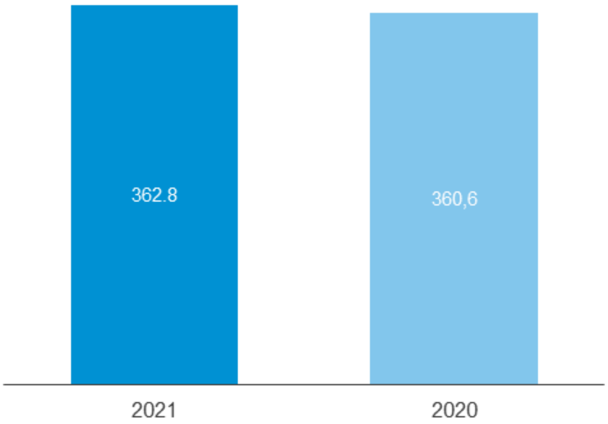
QUANTITY MANAGED 2021 (mn m^3) **QUANTITY MANAGED 2020** (mn m^3)

291.5 million m^3: amount managed in the aqueduct



The volumes supplied through the aqueduct, which amounted to 291.5 million m^3, increased by 2.0% compared to December 2020, or 5.7 million m^3. In December 2021, the quantities managed relating to sewerage amounted to 238.6 million m^3, with a slight decrease coming to 0.9% compared to the previous year, while purification volumes amounted to 234.9 million m^3, down 0.7% compared to 2020. The volumes supplied, following the Authority's resolution 580/2019, are an indicator of the activity of the areas in which the Group operates and are subject to equalisation, owing to legislation that provides for a regulated revenue, recognised independently from volumes distributed.

ELECTRICITY CONSUMED (GWh)



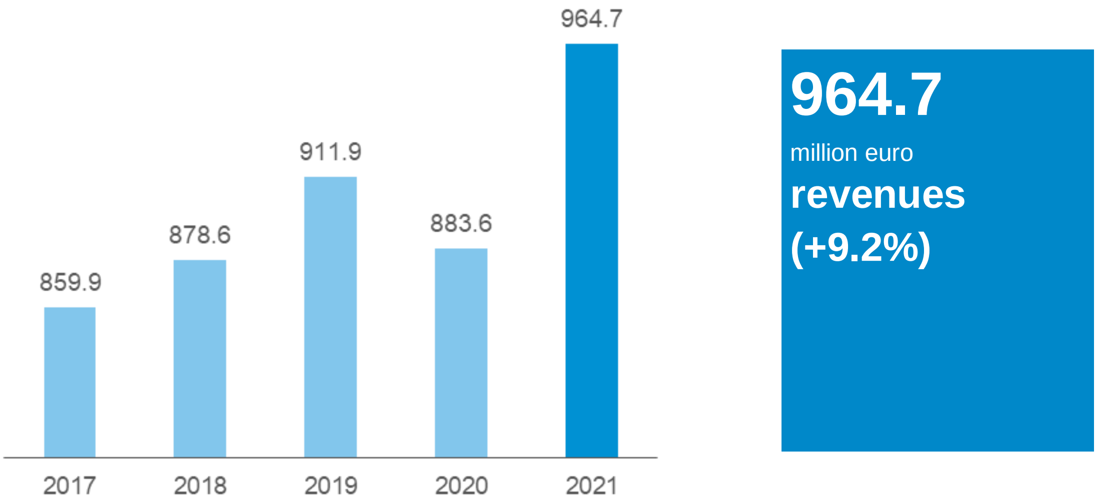
362.8
GWh
electricity consumed in plants (+0.6%)

Electricity consumed in plants increased by 2.2 GWh. This increase is mainly linked to the higher volumes supplied in 2021, as described above.

An overview of operating results for the water area is provided in the table below:

Income statement (mn€)	Dec 21	% inc.	Dec 20	% inc.	Abs. change	% change
Revenues	964.7		883.6		81.1	+9.2%
Operating costs	(521.3)	(54.0)%	(439.8)	(49.8)%	81.5	+18.5%
Personnel costs	(185.9)	(19.3)%	(183.7)	(20.8)%	2.2	+1.2%
Capitalised costs	4.9	0.5%	5.8	0.7%	(0.9)	(15.6)%
Ebitda	**262.4**	**27.2%**	**265.8**	**30.1%**	**(3.4)**	**(1.3)%**

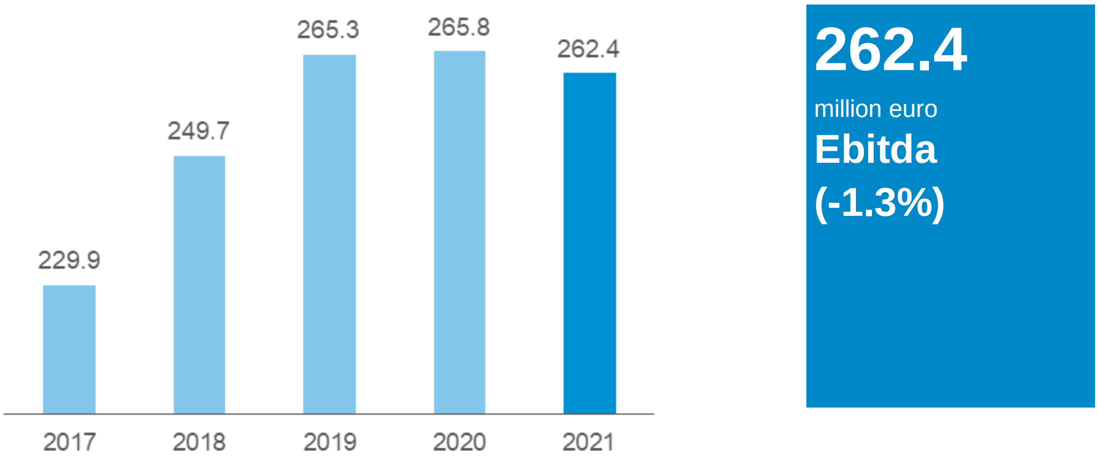
REVENUES (mn€)



Higher revenue from contracts and works on behalf of third parties carried out in 2021 accounted for 42.0 million euro of this growth in revenues. Revenues from supply showed an increase coming to 33.1 million euro, mainly due to a rise in the equalisation costs for electricity and the raw material water, and the tariff adjustment of the new MTI-3 method. Lastly, the increase in new connection revenues came to 3.0 million euro.

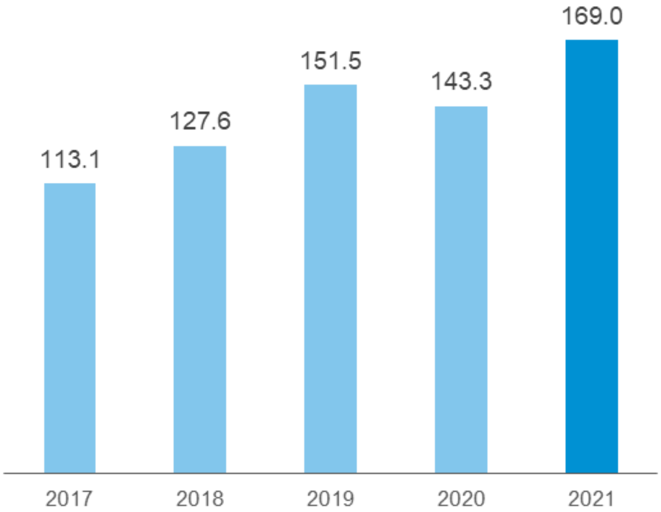
The increase in operating costs in 2021 was mainly due to the higher costs related to the works described above relating to revenues, amounting to 42.0 million euro overall, in addition to higher costs for raw materials including water and electricity, coming to approximately 32.5 million euro. Lastly, higher operating costs were seen for managing networks and plants, the latter related to the different state of progress of works compared to December 2020 due to the Covid-19 pandemic.

EBITDA (mn€)



Ebitda decreased by 1.3%. Higher revenues for new connections only partially offset the increase in operating costs for networks and plants, due to the different state of progress of works compared to December 2020.
In 2021, net investments in the integrated water cycle area amounted to 169.0 million euro, up 25.7 million euro compared to the previous year. Including the capital grants received, investments totalled 194.6 million euro, up 28.4 million euro.
These investments mainly involved extensions, reclamations and improvements to networks and plants, as well as regulatory upgrading, especially in the water and sewerage area.
Investments amounted to 113.5 million euro in the aqueduct, 45.0 million euro in sewerage and 36.1 million euro in purification.

NET INVESTMENTS WATER CYCLE (mn€)



169.0
million euro
net investments water cycle (+25.7)

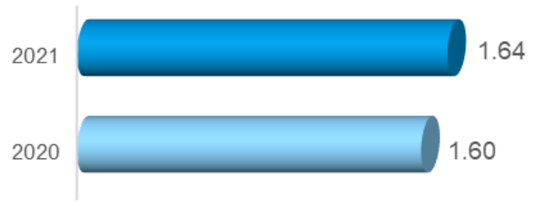
The main interventions included, in the aqueduct, ongoing increases in reclamation activities on networks and connections, linked to Arera resolution 917/2017 on the regulation of the technical quality of the integrated water service; earthquake adaptation and requalification of the hanging tank areas; significant maintenance on the intake works at the Setta stream, serving the Sasso Marconi drinking water plant; reclamation works on the adduction network in the Municipality of Bentivoglio, as well as upgrading water networks in other served areas. In the sewerage sector, progress continues to be made on the Rimini seawater protection plan, with new sewerage separation areas in the northern area, even though Hera's 2021 interventions are expected to have a lower impact than in the previous year. Maintenance work to upgrade the sewerage network in other areas also continued, as did works to adapt drains to Dgr 201/2016, a type of work that increased in 2021. In purification, note the upgrades to the Lido di Classe purification plant, as well as revamping on the sand collectors at the IDAR purification plant in Bologna and the Gramicia purification plant in Ferrara.
Requests for new water and sewerage connections increased compared to the previous year, partially driven by the economic recovery, predominantly in the construction sector.
Capital grants, amounting to 25.6 million euro, included 16.8 million euro linked to the tariff component of the method for the New Investment Fund (FoNI), and were up by 2.7 million euro compared to the previous year.

Details of operating investments in the integrated water cycle area are as follows:

Integrated water cycle (mn€)	Dec 21	Dec 20	Abs. change	% change
Aqueduct	113.5	98.8	14.7	+14.9%
Purification	36.1	28.2	7.9	+28.0%
Sewerage	45.0	39.1	5.9	+15.1%
Total integrated water cycle gross	**194.6**	**166.2**	**28.4**	**+17.1%**
Capital grants	25.6	22.9	2.7	+11.8%
of which FoNI (New Investments Fund)	16.8	13.6	3.2	+23.5%
Total integrated water cycle net	**169.0**	**143.3**	**25.7**	**+17.9%**

RAB, which defines the value of the assets recognised by the Authority as regards return on invested capital, increased compared to 2020.

RAB (bn€)



1.64

billion euro

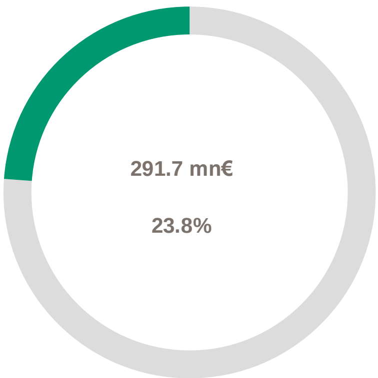
2021 RAB

1.07.04 Waste management

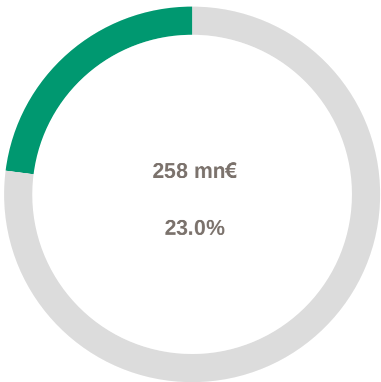
Ebitda rises

In 2021, the waste management area accounted for 23.8% of the Hera Group's overall Ebitda, with this area's Ebitda up by 33.7 million euro compared to 2020. Recovery occurred in industrial and waste production in Italy in 2021, albeit far from pre-pandemic amounts, as did a general increase in competition. In this context, the Group proved able to seize opportunities for growth, partially thanks to its set of plants, which continues to be a strategic and distinctive asset on the market. In particular, note the commercial growth of Aliplast Spa and the Group's expansion in the industrial waste and environmental remediation and restoration market, due to various partnerships and company acquisitions that enabled it to consolidate its leadership. In the fourth quarter, the continuation of the pandemic and the onset of high energy prices caused a temporary slowdown in the activities of some economic sectors, with repercussions on the markets in which the Group is active.
Note that in late 2021, Atersir definitively awarded the tenders for managing urban and assimilated waste in the Modena and Bologna areas temporary associations of companies led by the Hera Group, for the next 15 years.
Thanks to the outstanding operational skills possessed by the Group and the other companies in the winning consortium, the areas covered by the service contracts will be equipped with collection models featuring innovative services and equipment, with a strong focus on sustainability, waste reduction and an increase in recycled materials.

EBITDA WASTE MANAGEMENT AREA 2021



EBITDA WASTE MANAGEMENT AREA 2020



The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 21	Dec 20	Abs. change	% change
Area Ebitda	**291.7**	**258.0**	**33.7**	**+13.1%**
Group Ebitda	1,223.9	1,123.0	100.9	+9.0%
Percentage weight	23.8%	23.0%	+0.8 p.p.	

Volumes marketed and treated by the Group in 20201are as follows:

Quantity (k tons)	Dec 21	Dec 20	Abs. change	% change
Municipal waste	2,241.8	2,219.1	22.7	+1.0%
Market waste	2,334.3	2,187.6	146.7	+6.7%
Waste commercialised	**4,576.1**	**4,406.7**	**169.4**	**+3.8%**
Plant by-products	2,200.5	2,203.2	(2.7)	(0.1)%
Waste treated by type	**6,776.7**	**6,609.9**	**166.8**	**+2.5%**

An analysis of this data shows a rise in waste commercialised, due to increases in both municipal waste and market waste. As regards municipal waste, 2021 saw growth coming to 1.0% compared to the previous year.
Market volumes increased compared to 2020 by 6.7%, due to the consolidation of previously existing commercial relations and growth in the customer portfolio.

Lastly, plant by-products remained similar to the previous year, mainly due to lower rainfall, offset by higher volumes following acquisitions.

SORTED WASTE (%)

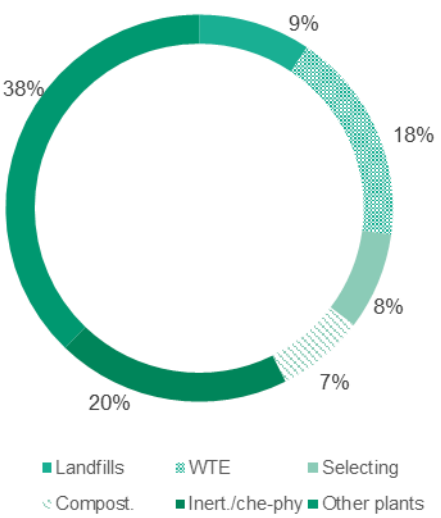
+1.1
percentage points
sorted waste
(if recalculated using uniform criteria)

* figure calculated according to Legislative Decree 116/2020

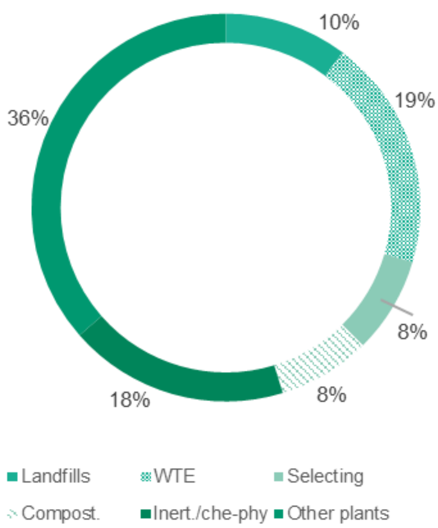
Sorted municipal waste collection was in line with the previous year, but if recalculated using uniform criteria, growth came to +1.1 percentage points. As of July 2021, in fact, Legislative Decree 116/2020 was applied, which excludes construction and demolition waste from the percentage calculation of sorted waste collection.

The Hera Group operates in the entire waste cycle, with 97 plants for treating municipal and special waste and regenerating plastic materials. This number increased by seven compared to 2020, thanks to new corporate acquisitions. The main plants include: nine waste-to-energy plants, 12 composting/digestion plants and 15 selecting plants.
The close attention paid to the set of plants has always been a distinctive element of the Group's propensity for excellence: operations are indeed ongoing to further improve safety and align plants with the best available technologies.

WASTE TREATED BY TYPE OF PLANT 2021



WASTE TREATED BY TYPE OF PLANT 2020



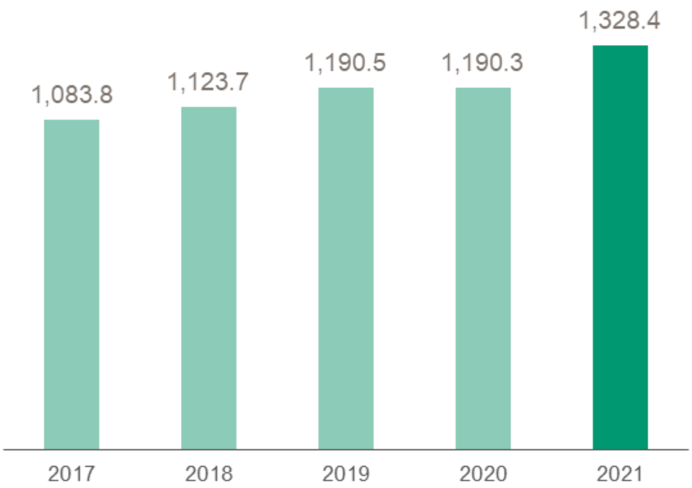
Quantity (k tons)	Dec 21	Dec 20	Abs. change	% change
Landfills	636.4	677.4	(41.0)	(6.1)%
WTE	1,205.2	1,275.4	(70.2)	(5.5)%
Selecting plants and other	550.8	530.7	20.1	+3.8%
Composting and stabilisation plants	498.1	509.4	(11.3)	(2.2)%
Inertisation and chemical-physical plants	1,322.4	1,208.4	114.0	+9.4%
Other plants	2,563.8	2,408.7	155.1	+6.4%
Waste treated by plant	**6,776.7**	**6,609.9**	**166.8**	**+2.5%**
Plastic recycled by Aliplast Spa	**80.9**	**68.8**	**12.1**	**+17.6%**

Waste treatment showed an overall growth coming to 2.5% compared to December 2020, partially due to the increase in the number of plants managed. Analysing the individual sectors, a decrease was seen in the quantity disposed of in landfills, mainly due to the exhaustion of the Sommacampagna and Ravenna plants. As regards waste-to-energy plants, the decrease was mainly due to revamping on the Trieste plant and the shutdown for scheduled maintenance at the Modena waste-to-energy plant. The increased quantity in sorting plants was due to the greater quantities treated in all plants, thanks to the rise in sorted waste collection. In composting and stabilisation plants, volumes decreased slightly, while in inertisation and chemical-physical plants, the increased quantity was mainly due to the higher volumes at the purification plants in Tuscany, at the Pozzilli plant, which was not operating in early 2020, and increased volumes for new acquisitions. Lastly, note the increase in the other plants sector.

The table below summarises the area's operating results:

Income statement (mn€)	Dec 21	% inc.	Dec 20	% inc.	Abs. change	% change
Revenues	1,328.4		1,190.3		138.1	+11.6%
Operating costs	(846.5)	(63.7)%	(740.2)	(62.2)%	106.3	+14.4%
Personnel costs	(211.8)	(15.9)%	(203.6)	(17.1)%	8.2	+4.0%
Capitalised costs	21.7	1.6%	11.4	1.0%	10.3	+90.4%
Ebitda	**291.7**	**22.0%**	**258.0**	**21.7%**	**33.7**	**+13.1%**

REVENUES (mn€)



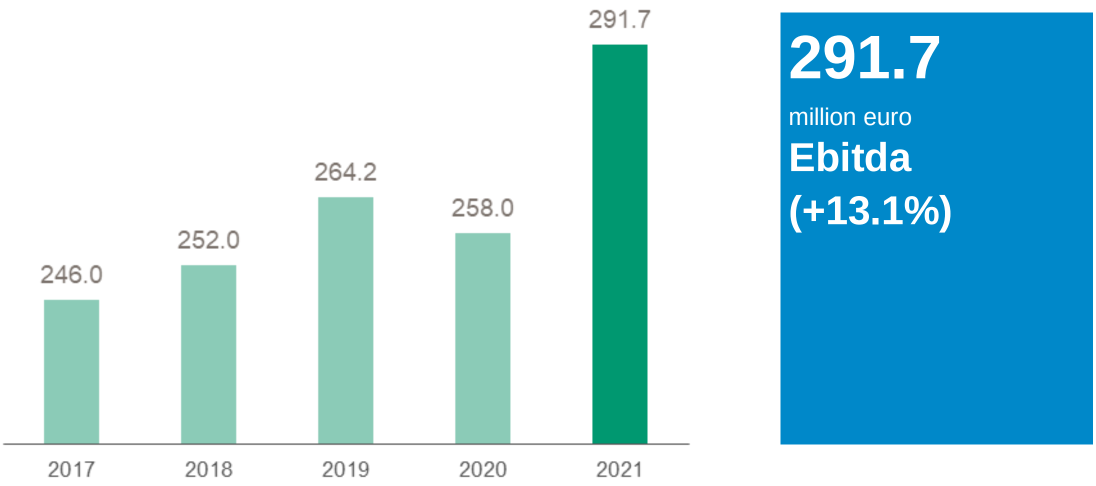
1,328.4
million euro
revenues
(+11.6%)

Revenues increased by 11.6% compared to the previous year. Revenues from energy production were up by 20.3 million euro, mainly due to the increase in the prices of GRIN certificates, as well as market and thermal energy and biomethane production prices, despite a 70.2 thousand ton reduction in

volumes in WTEs. A higher contribution also came from Aliplast Spa, up +55.2 million euro compared to 2020, or +53%, as a result of the increase in prices and higher products sold, mainly Film PE and Granulo PET.
Also note the 37 million euro increase in revenues related to new acquisitions in the industry market, and the higher value of materials due to an increase in prices, especially concerning paper, glass and iron.

Operating costs for 2021 grew by 14.4%. In the treatment market, an increase occurred in costs for purchasing raw materials, new acquisitions and scheduled maintenance on Group plants. This rise was offset by efficiencies in operating costs. In the recovery market, there is an increase was seen in the purchasing costs for raw materials sustained by Aliplast Spa, related to the trend in revenues mentioned above. As far as municipal waste collection is concerned, the increased activities were related to developing new sorted waste collection projects.

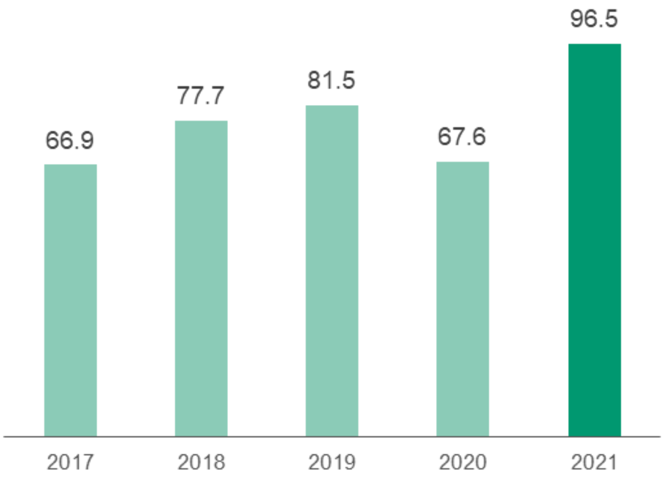
EBITDA (mn€)



The rise in Ebitda was mainly due to increased activities in plastics recovery, coming to 20.7 million euro, expansion in the industrial waste market with new acquisitions, accounting for approximately 9 million euro, and an increase in waste income due to higher prices. These positive factors were only partly offset by higher raw material purchasing prices and higher maintenance costs for Group plants.

Net investments in the waste management area were related to maintenance and upgrading on waste treatment plants and amounted to 96.5 million euro, up 28.9 million euro compared to the previous year.
The composting/digester plants sector showed an increase of 2.8 million euro, mainly due to the start of work on NewCo Biorg Srl, partially offset by lower work on the plants in Voltana, Sant'Agata, Rimini and Cesena, which underwent major work during the previous year. In the same sector, the activities of Green Factory Srl in the Marche region are also worth mentioning.
Investments in landfills decreased by 2.5 million euro, due to work carried out during the previous year on the 5th lot of the Pago plant.
The WTE sector showed a 10.6 million euro increase, mainly due revamping on line two of the Trieste plant, as well as non-recurring maintenance carried out at the Modena plant.
Investments in the industrial waste plants sector increased by 10.7 million euro compared to the previous year, and were mainly related to revamping on the F3 plant in Ravenna.
Investments in the collection area and equipment sector increased by 2.2 million euro compared to the previous year and included the work carried out on underground collection areas. The 6.1 million euro increase seen in the sorting and recovery plants sector was due to higher investments for the work on the new PE regenerator belonging to Aliplast Spa, as well as the change in the scope of operations of the companies Recycla Spa and Vallortigara Group.

NET INVESTMENTS WASTE MANAGEMENT (mn€)



96.5
million euro
net investments waste management

Details of operating investments in the waste management area are as follows:

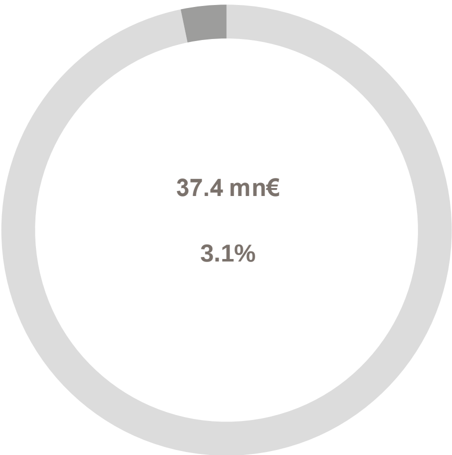
Waste management (mn€)	Dec 21	Dec 20	Abs. change	% change
Composters/digesters	7.5	4.7	2.8	+59.6%
Landfills	8.3	10.8	(2.5)	(23.1)%
WTE	24.6	14.0	10.6	+75.7%
RS plants	17.3	6.6	10.7	+162.1%
Collection areas and equipment	16.6	14.4	2.2	+15.3%
Transshipment, selecting and other plants	24.0	17.9	6.1	+34.1%
Total waste management gross	**98.2**	**68.3**	**29.9**	**+43.8%**
Capital grants	1.7	0.7	1.0	+142.9%
Total waste management net	**96.5**	**67.6**	**28.9**	**+42.8%**

1.07.05 Other services

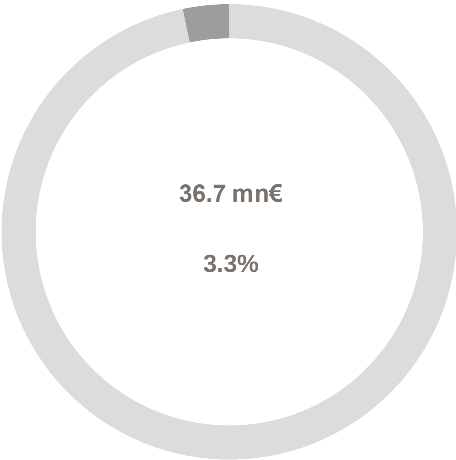
Ebitda rises

The other services area covers all minor businesses managed by the Group, including public lighting, in which the Hera Group's efforts go towards planning, constructing and maintaining lighting structures, contributing to safety across the areas served through avant-garde technologies and constant attention towards the circular economy and sustainability; telecommunications, in which the Group offers connectivity for private customers and companies, telephone and Data Centre services through its own digital company; and, lastly, cemetery services. In 2021, results in this area stood at 37.4 million euro, up 0.7 million euro over the previous year.

OTHER SERVICES EBITDA 2021



OTHER SERVICES EBITDA 2020



The changes occurred in terms of Ebitda are as follows:

(mn€)	Dec 21	Dec 20	Abs. change	% change
Area Ebitda	**37.4**	**36.7**	**0.7**	**+1.9%**
Group Ebitda	1,223.9	1,123.0	100.9	+9.0%
Percentage weight	3.1%	3.3%	(0.2) pp	

The following table shows the area's main indicators as regards public lighting services:

Quantity	Dec 21	Dec 20	Abs. change	% change
Public lighting				
Lighting points (k)	563.2	571.3	(8.1)	(1.4)%
of which LED	35.2%	35.1%	+0.1	+0.0%
Municipalities served	184.0	188.0	(4.0)	(2.1)%

In 2021, the Hera Group acquired approximately 13.7 thousand lighting points in 10 new municipalities. The most significant acquisitions were: approximately 8.9 thousand lighting points in Lombardy, approximately 2.3 thousand lighting points in Lazio, approximately 1.5 thousand lighting points in Sardinia and other regions of central Italy, and one thousand lighting points in Friuli-Venezia Giulia. The year's increases only partially offset the loss of about 21.8 thousand lighting points and 14 municipalities, mainly in Friuli-Venezia Giulia and Veneto.

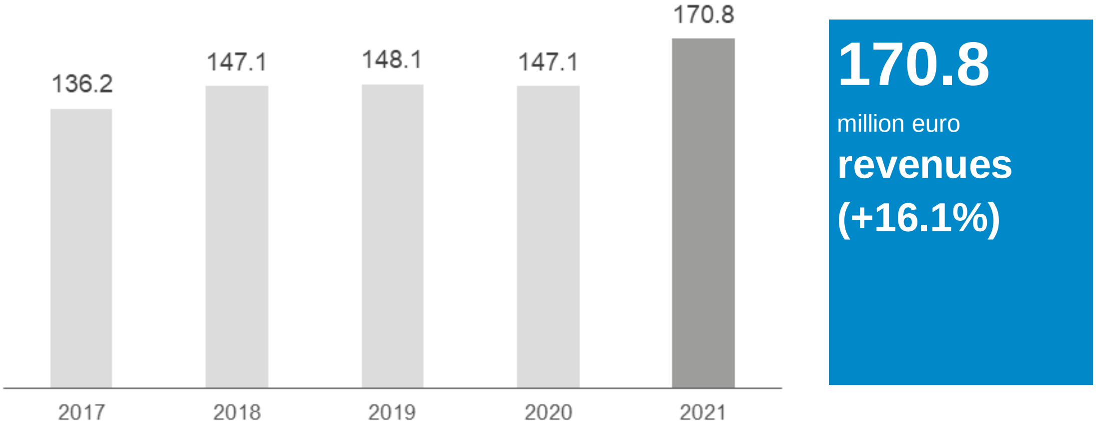
The percentage of lighting points that use LED bulbs stands at 35.2%, and provides evidence of the Group's constant focus on an increasingly efficient and sustainable management of public lighting.

Quantitative indicators in the other services area also include the 4,440 km of proprietary ultra-wideband fibre optic network that the Hera Group owns through its digital company, Acantho Spa. This network serves the main cities in Emilia-Romagna, along with Padua and Trieste, and provides companies and individuals with high-performance connectivity, high reliability and maximum security for systems, data and service continuity.

The area's operating results are provided in the table below:

Income statement (mn€)	Dec 21	% inc.	Dec 20	% inc.	Abs. change	% change
Revenues	170.8		147.1		23.7	+16.1%
Operating costs	(114.1)	(66.8)%	(92.0)	(62.5)%	22.1	+24.0%
Personnel costs	(21.2)	(12.4)%	(20.3)	(13.8)%	0.9	+4.4%
Capitalised costs	1.9	1.1%	1.8	1.2%	0.1	+5.5%
Ebitda	**37.4**	**21.9%**	**36.7**	**24.9%**	**0.7**	**+1.9%**

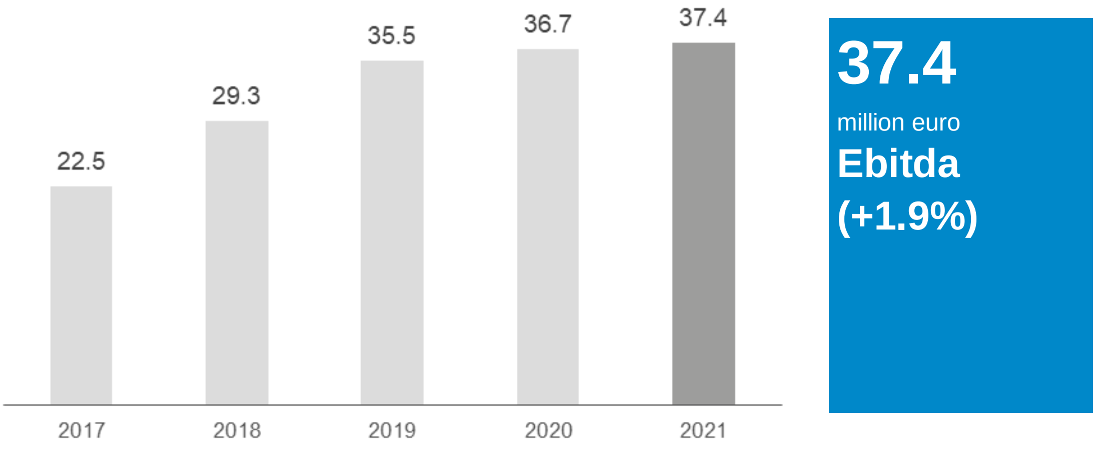
REVENUES (mn€)



The growth in revenues was mainly due to public lighting, with 50% related to progress on the energy requalification works carried out and 50% to energy adjustments on public lighting fees. The telecommunications business concentrated its main activities on telephone and connectivity services for the Group as well.

The increase in operating costs was related to the trends seen in both public lighting and telecommunications revenues.

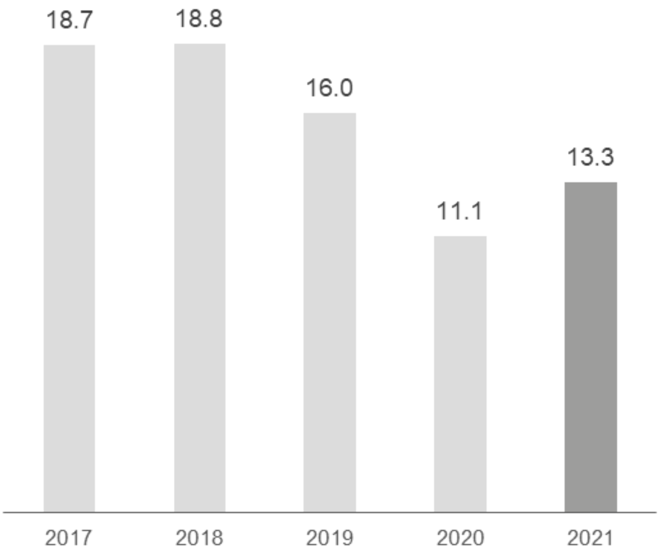
EBITDA (mn€)



Ebitda for the other services business increased by 1.9% overall, or 0.7 million euro.

Net investments in the other services business amounted to 13.3 million euro, up 2.2 million euro on the previous year.
In telecommunications, 8.6 million euro in investments were made in network and TLC services, up 0.5 million euro compared to the previous year. In public lighting, investments were related to maintenance, upgrading and modernisation for lighting systems in the areas managed and amounted to 5.9 million euro, up 2.9 million euro compared to the previous year, and did not include public lighting contracts subject to different accounting under IFRIC 12.

NET INVESTMENTS OTHER SERVICES (mn€)



13.3
million euro
net investments other services

Details of operating investments in the other services area are as follows:

Other services (mn€)	Dec 21	Dec 20	Abs. change	% change
TLC	8.6	8.1	0.5	+6.2%
Public lighting and traffic lights	5.9	3.0	2.9	+96.7%
Total other services gross	**14.6**	**11.1**	**3.5**	**+31.5%**
Capital grants	1.3	-	1.3	+100.0%
Total other services net	**13.3**	**11.1**	**2.2**	**+19.8%**

1.08 SHAREHOLDERS MEETING RESOLUTIONS

The Hera Spa Shareholders Meeting:

- having acknowledged the Board of Directors' report on management;
- having acknowledged the Board of Statutory Auditors' report;
- having acknowledged the Independent Auditors' report;
- having examined the financial statements at 31 December 2021, which close with profits totalling 223,760,995.71 euro;

resolves:

- to approve Hera Spa's financial statements at 31 December 2021 and the report on management prepared by the Board of Directors;
- to allocate profits for the 1 January 2021 – 31 December 2021 financial year, for a total of 223,760,995.71 euro as follows:
  - 11,188,049.79 euro to the legal reserve; and
  - a dividend amounting to 0.120 euro gross paid to each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio) on the day of payment for said dividend; and
  - 33,828,296.52 euro to the extraordinary reserve.

The total dividend paid out therefore amounts to 178,744,649.40 euro, corresponding to 0.120 euro for each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio);

- to establish 22 June 2022 as the initial date for dividend payment, and 20 June 2022 as ex-dividend date for coupon no. 20, dividends being paid to shares recorded at 21 June 2022;
- to grant a mandate to the Board of Directors, and its Chairman, to ascertain in due time, in accordance with the definitive number of shares outstanding, the exact amount of profits to be distributed, and therefore the exact amount of the extraordinary reserve.

1.09 NOTICE CONVENING THE SHAREHOLDERS MEETING

HERA S.p.A.
Holding Energia Risorse Ambiente
Viale Carlo Berti Pichat no. 2/4 40127 Bologna
tel. 051.287.111 fax 051.287.525
www.gruppohera.it

Shareholders are asked to attend the Extraordinary and Ordinary Shareholders' Meeting at the head office of *Hera S.p.A. - Viale C. Berti Pichat no. 2/4, Bologna* - **on 28 April 2022 at 10.00 am on a single call** to discuss and decide on the following agenda:

Agenda

Extraordinary Part of the Shareholders' Meeting

1. Amendment of article 17 of the Articles of Association in compliance with the new provisions contained in the Corporate Governance Code: related and consequent resolutions.

Ordinary Part of the Shareholders' Meeting

1. Financial statements as at 31 December 2021 of Hera S.p.A.: related and consequent resolutions. Presentation of the consolidated financial statements as at 31 December 2021 Reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors.

   Presentation of the Sustainability Report – the Non-Financial Consolidated Statement prepared pursuant to Legislative Decree no. 254/2016.
2. Proposed allocation of profit for the period: related and consequent resolutions.
3. Report on the remuneration policy and fees paid: resolutions relating to Section I – Remuneration policy.
4. Report on the remuneration policy and fees paid: resolutions relating to Section II – Fees paid.
5. Conferral of the mandate for the independent audit of the accounts for the financial years 2024 – 2032: related and consequent resolutions.
6. Renewal of the authorisation to purchase treasury shares and disposal procedure thereof: related and consequent resolutions.

It should be noted that, in light of the continuing need for caution related to the need to avoid risk situations deriving from the spread of the COVID-19 epidemic, and therefore in compliance with fundamental principles of health protection, pursuant to the provisions of art. 106 paragraph 4 of Decree Law no. 18 of 17 March 2020 converted into Law no. 27 of 27 April 2020, whose applicability was last extended by Decree Law no. 228 of 30 December 2021 converted into Law no. 15 of 25 February 2022, the **participation of the entitled persons in the Shareholders' Meeting will be through the Designated Representative exclusively** (in this case Computershare S.p.A.) pursuant to art. 135-*undecies* of Legislative Decree no. 58 of 24 February 1998 ("Consolidated Law on Financial Intermediation"), in the manner set out below.
Proxies or sub-proxies may also be granted to the above Designated Representative, pursuant to article 135-*novies* of the Consolidated Law on Financial Intermediation, in waiver of article *135-undecies*, subsection 4, of the Consolidated Law on Financial Intermediation.
Only the Designated Representative will physically attend the Meeting, excluding the presence of the

Tax Code / Register of Companies no. 04245520376
"Hera Group" VAT Group no. 03819031208
Fully paid up Share Capital € 1,489,538,745.00

shareholders or the proxy-holders thereof.

Entitlement to speak and vote at the Shareholders' Meeting

Anyone who holds voting rights at the end of the accounting day of 19 April 2022 (*record date*) and for whom the related notices from the authorised intermediaries have been received by the end of the third day of trading prior to the date established for the Shareholders' Meeting, namely on 25 April 2022, shall be entitled to attend the Shareholders' Meeting without entering the place of the meeting and exclusively in the manner specified below. Attendees shall in any case have the right to speak and vote even if the above communications have been received beyond said term, provided they are received before the start of the shareholders' meetings. Anyone who has become a shareholder after 19 April 2022 will not have the right to attend and vote at the Shareholders' Meeting.

Anyone else who has the right to attend the shareholders' meeting in person (members of the Board of Directors and Board of Statutory Auditors, the Designated Representative and Secretary) may also attend remotely through the use of telecommunications devices that allow them to be identified, as provided by article 106, subsection 2, of the abovementioned Decree Law no. 18 of 17 March 2020.

Instructions for issuing Proxies and Voting Instructions for the Designated Representative

The proxy with voting instructions should be conferred, free of charge, by the person with voting rights, authorised as set out in law, to Computershare S.p.A., as Designated Representative, by filling in and signing the form, which is available as a download from the Company's website www.gruppohera.it in the Corporate Governance section, Shareholders' Meeting or at the head office of the Company and should be sent, in the manner specified on the form, within the end of the second day of trading prior to the date of the single call of the Shareholders' Meeting (i.e. by 26 April 2022). The proxy to the Designated Representative may be sent, by noon on 27 April 2022, through the specific web application prepared and managed directly by Computershare S.p.A. A guide for completing the proxy form and voting instructions are available on this application.

The proxy conferred as above shall be valid for proposals for which voting instructions have been given.

The proxy and voting instructions may be revoked within the above term (i.e. by 12 pm on 27 April 2022).

Voting will not be possible by correspondence or electronically, the only applicable method being through the designated representative to whom voting instructions will be given.

Addition of items to the agenda and resolution proposals by Shareholders on items on the agenda

Shareholders who, even jointly, represent at least one fortieth of the share capital may request, within 10 days of the publication of the call notice, that items be added to the agenda, specifying the additional topics proposed in their request, or may submit proposed resolutions for items already on the agenda.

Given that the Shareholders' Meeting will be attended exclusively through the Designated Representative, in order to allow Shareholders to provide full voting instructions, shareholders with voting rights may submit to the Company, in writing, resolution proposals and/or their votes on the items on the agenda of the Shareholders' Meeting no later than 3 pm on 12 April 2022 by forwarding a certified e-mail to heraspa@pec.gruppohera.it. Each resolution proposal should indicate the item on the agenda to which it refers and should also specify the resolution proposal. A shareholder who submits a proposal should specify its shareholding and the reference details of the intermediary's communication confirming that it is authorised to attend the meeting. No later than 13 April 2022, the Company will publish on its website the resolution proposals of the Shareholders, if applicable.

Other rights of Shareholders
Shareholders may raise questions on the items on the agenda before the Shareholders' Meeting, provided they do so no later than 19 April 2022, following the procedure indicated on the Company's website (www.gruppohera.it).
Requests received within the above deadline will be answered by 12 noon on 26 April 2022, following verification of their relevance and the legitimacy of the applicant, via publication in the section of the aforementioned website dedicated to the Shareholders' Meeting.

Resolution proposals of the Board of Directors, reports and documents
The full text of the proposed resolutions, together with the explanatory reports, and the documents that are to be submitted to the Shareholders' Meeting will be made available to the public at the Company's registered office and on the Company's website (www.gruppohera.it), as well as on the authorised storage web site 1Info (www.1info.it) within the term set out in law for each of the items on the agenda.

Additional instructions
Given the current COVID-19 epidemiological emergency and the fact that it is currently impossible to predict how it will develop, the Company reserves the right, when this is permitted or required by law or regulatory provisions that may be issued, and in accordance with the limits provided therein, to communicate any changes or additions to the above information and consequently to introduce any provision in accordance with any law and/or regulatory provision that may be issued even after the publication of this call notice or, in any case, in the interest of the Company and the Shareholders.

Bologna, 28 March 2022

The Executive Chairman of the Board of Directors
(Mr. Tomaso Tommasi di Vignano)

GRUPPO HERA

2

CONSOLIDATED FINANCIAL STATEMENTS

2.01 FINANCIAL STATEMENT FORMATS

2.01.01 Income statement

mn€	notes	2021	2020
Revenues	1	10,555.3	7,079.0
Other operating revenues	2	400.1	467.8
Raw and other materials	3	(6,668.5)	(3,410.6)
Service costs	4	(2,464.6)	(2,424.9)
Personnel costs	5	(592.8)	(572.7)
Other operating costs	6	(66.5)	(58.9)
Capitalised costs	7	60.8	43.3
Amortisation, provisions and depreciation	8	(612.1)	(571.7)
Operating revenues		**611.7**	**551.3**
Share of profits (losses) pertaining to joint ventures and associated companies	9	13.2	8.2
Financial income	10	82.3	73.4
Financial expenses	10	(300.3)	(198.3)
Financial management		**(204.8)**	**(116.7)**
Pre-tax profit		**406.9**	**434.6**
Taxes	12	(34.2)	(111.8)
Net profit for the period		**372.7**	**322.8**
Attributable to:			
parent company shareholders		333.5	302.7
minority shareholders		39.2	20.1
Earnings per share			
basic	12	0.228	0.206
diluted	12	0.228	0.206

Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate income statement outlined in paragraph 2.04.01 of this consolidated financial statement.

2.01.02 Statement of comprehensive income

mn€	notes	2021	2020
Net profit (loss) for the period		**372.7**	**322.8**
Items reclassifiable to the income statement			
Fair value of derivatives, change for the period	20	124.7	60.8
Tax effect related to reclassifiable items		(35.3)	(17.5)
Items not reclassifiable to the income statement			
Actuarial income (losses) employee and post-employment benefits	27	1.6	(1.9)
Shareholdings valued at fair value	17	(2.1)	(3.5)
Tax effect related to not reclassifiable items		(0.2)	0.4
Total comprehensive profit (loss) for the period		**461.4**	**361.1**
Attributable to:			
parent company shareholders		420.5	341.7
minority shareholders		40.9	19.4

2.01.03 Statement of financial position

mn€	notes	31 Dec 21	31 Dec 20
ASSETS			
Non-current assets			
Tangible assets	13.31	1,941.0	1,926.5
Rights of use	14.31	101.6	95.9
Intangible assets	15.31	4,126.7	3,924.4
Goodwill	16.31	842.9	812.8
Shareholdings	17.31	198.5	187.9
Non-current financial assets	18.35	142.7	140.8
Deferred tax assets	19	229.4	156.6
Derivative instruments	20	6.9	14.4
Total non-current assets		**7,589.7**	**7,259.3**
Current assets			
Inventories	21	368.0	171.7
Trade receivables	22.35	2,918.0	1,971.6
Current financial assets	18.35	29.3	32.8
Current tax assets	23.35	21.2	11.7
Other current assets	24.35	422.3	487.5
Derivative instruments	20	1,797.4	113.1
Cash and cash equivalents	18	885.6	987.1
Total current assets		**6,441.8**	**3,775.5**
TOTAL ASSETS		**14,031.5**	**11,034.8**

Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.04.02 of this consolidated financial statement.

mn€	notes	31 Dec 21	31 Dec 20
NET EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	25	1,459.6	1,460.0
Reserves	25	1,407.1	1,198.1
Profit (loss) for the period		333.5	302.7
Group net equity		**3,200.2**	**2,960.8**
Non-controlling interests	25	216.6	194.5
Total net equity		**3,416.8**	**3,155.3**
Non-current liabilities			
Non-current financial liabilities	26.35	3,716.0	3,678.7
Non-current lease liabilities	14.35	53.2	73.5
Post-employment and other benefits	27	105.4	116.7
Provisions for risks and charges	28	528.0	538.2
Deferred tax liabilities	19	132.1	120.5
Derivative instruments	20	13.5	20.1
Total non-current liabilities		**4,548.2**	**4,547.7**
Current liabilities			
Current financial liabilities	26.35	499.7	616.9
Current lease liabilities	14.35	43.4	20.1
Trade payables	29.35	2,356.6	1,497.5
Current tax liabilities	23.35	27.9	25.4
Other current liabilities	30.35	1,435.6	1,056.2
Derivative instruments	20	1,703.3	115.7
Total current liabilities		**6,066.5**	**3,331.8**
TOTAL LIABILITIES		**10,614.7**	**7,879.5**
TOTAL NET EQUITY AND LIABILITIES		**14,031.5**	**11,034.8**

Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.04.02 of this consolidated financial statement.

2.01.04 Cash flow statement

mn€	notes	31 Dec 21	31 Dec 20
Earnings before taxes		**406.9**	**434.6**
Adjustments to reconcile net profit to the cashflow from operating activities			
Amortisation and impairment of assets	8	469.9	457.1
Allocation to provisions	8	142.2	114.6
Effects from valuation using the net equity method	9	(13.2)	(8.2)
Financial (income) expenses	10	218.0	124.9
(Capital gains) losses and other non-monetary elements		25.5	(6.7)
Change in provision for risks and charges	28	(31.2)	(30.2)
Change in provision for employee and post-employment benefits	27	(12.6)	(13.5)
Total cash flow before changes in net working capital		**1,205.5**	**1,072.6**
(Increase) decrease in inventories	32	(196.7)	(3.8)
(Increase) decrease in trade receivables	32	(893.8)	4.8
Increase (decrease) in trade payables	32	858.5	101.9
Increase/decrease in other current assets/liabilities	32	279.8	(65.1)
Changes in working capital		**47.8**	**37.8**
Dividends collected	32	12.0	10.1
Interest income and other financial income collected	32	32.6	37.4
Interest expenses, net charges on derivatives and other paid financial charges	32	(96.2)	(81.9)
Taxes paid	32	(156.3)	(184.6)
Cash flow from operating activities (a)		**1,045.4**	**891.4**
Investments in tangible assets	13	(171.9)	(140.6)
Investments in intangible assets	15	(416.8)	(365.8)
Investments in subsidiary companies and business units net of cash holdings	33	(64.1)	(1.8)
Other equity investments	33	(11.0)	(46.8)
Sale price of tangible and intangible assets	33	2.5	3.6
Divestments of shareholdings and contingent consideration	33	0.2	2.0
(Increase) decrease in other investment activities	33	(1.5)	30.8
Cash flow from (for) investing activities (b)		**(662.6)**	**(518.6)**
New issue of long-term binds	34	525.1	512.6
Repayments of non-current financial liabilities	34	(519.8)	(2.0)
Repayments and other net changes in financial liabilities	34	(252.9)	(18.9)
Lease payments	34	(22.5)	(22.1)
Acquisition of interests in consolidated companies	34	(21.0)	(1.2)
Dividends paid out to Hera shareholders and non-controlling interests	34	(193.0)	(163.3)
Changes in treasury share	25	(0.2)	(54.8)
Cash flow from (for) financing activities (c)		**(484.3)**	**250.3**
Increase (decrease) in cash holdings (a+b+c)		**(101.5)**	**623.1**
Cash and cash equivalents at the beginning of the year	18	987.1	364.0
Cash and cash equivalents at year end	18	885.6	987.1

Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate cash flow statement outlined in paragraph 2.04.03 of this consolidated financial statement.

2.01.05 Statement of changes in net equity

mn€	Share capital	Reserves	Reserves derivatives valued at fair value	Reserves actuarial income (losses) employee and post-employment benefits	Reserves shares valued at fair value	Profit for the period	Net equity	Non-controlling interests	Total
Balance at 1 Jan 20	**1,474.8**	**1,019.7**	**(37.9)**	**(33.8)**	**-**	**385.7**	**2.808.5**	**201.5**	**3,010.0**
Profit for the period						302.7	302.7	20.1	322.8
Other components of comprehensive income:									
fair value of derivatives, change for the period			43.8				43.8	(0.5)	43.3
Actuarial income (losses) employee and post-employment benefits				(1.3)			(1.3)	(0.2)	(1.5)
fair value shareholdings, change for the period					(3.5)		(3.5)		(3.5)
Overall profit for the period	**-**	**-**	**43.8**	**(1.3)**	**(3.5)**	**302.7**	**341.7**	**19.4**	**361.1**
change in treasury shares	(14.8)	(29.9)					(44.7)		(44.7)
change in equity investments							-	(11.3)	(11.3)
other movements		2.4					2.4	0.9	3.3
Allocation of revenues:									
dividends paid out						(147.1)	(147.1)	(16.0)	(163.1)
allocation to reserves		238.6				(238.6)	-		-
Balance at 31 Dec 20	**1,460.0**	**1,230.8**	**5.9**	**(35.1)**	**(3.5)**	**302.7**	**2,960.8**	**194.5**	**3,155.3**
Balance at 1 Jan 21	**1,460.0**	**1,230.8**	**5.9**	**(35.1)**	**(3.5)**	**302.7**	**2,960.8**	**194.5**	**3,155.3**
Profit for the period						333.5	333.5	39.2	372.7
Other components of comprehensive income:									
fair value of derivatives, change for the period			87.7				87.7	1.7	89.4
Actuarial income (losses) employee and post-employment benefits				1.4			1.4		1.4
fair value shareholdings, change for the period					(2.1)		(2.1)		(2.1)
Overall profit for the period	**-**	**-**	**87.7**	**1.4**	**(2.1)**	**333.5**	**420.5**	**40.9**	**461.4**
change in treasury shares	(0.4)	0.2					(0.2)		(0.2)
change in equity investments		(19.8)					(19.8)	(1.2)	(21.0)
Allocation of revenues:									
dividends paid out						(161.1)	(161.1)	(17.6)	(178.7)
allocation to reserves		141.6				(141.6)	-		-
Balance at 31 Dec 21	**1,459.6**	**1,352.8**	**93.6**	**(33.7)**	**(5.6)**	**333.5**	**3,200.2**	**216.6**	**3,416.8**

2.02 EXPLANATORY NOTES

2.02.01 Accounting policies

Hera S.p.A. is a joint-stock company established in Italy, listed on the Milan Stock Exchange and with registered office in Bologna, Viale Berti Pichat 2/4. Hera Spa and its subsidiaries (the Hera Group) operate mainly in Italy in the waste management (waste management and treatment), water (aqueduct, sewage and purification) and energy (distribution and sale of electricity, gas and energy services) sectors; it also offers services for public lighting and telecommunications.

The consolidated financial statement at 31 December 2021 was prepared in compliance with Regulation (EC) No. 1606/2002 of 19 July 2002, observing the International Accounting Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, as well as the provisions enacted in implementing Article 9 of Italian Legislative Decree no. 38/2005. IFRSs also include the International Accounting Standards (IAS) currently in force, the interpretative documents issued by the International Financial Reporting Standards Interpretation Committee (IFRSIC) and the previous Standing Interpretation Committee (SIC).

The directors considered the applicability of the assumed going concern in drafting the consolidated financial statement and decided that such assumption is appropriate in that there are no doubts about the going concern. This assessment took into account the current pandemic context, as well as the context induced by the outbreak of the conflict between Russia and Ukraine.

Sufficient obligatory information to present a true and fair view of the Group's capital-financial conditions as well as its economic performance has been provided. Information on the Group's activities and on significant events after year end is provided in the Directors' report, in paragraph 1.03 "Main events occurred".

The general principle adopted in preparing these consolidated financial statements is the cost principle, except for the financial assets and liabilities (including the derivative instruments), which were measured at fair value. In drawing up the consolidated financial statement, management was required to use estimates; the major areas characterised by valuations and assumptions of particular significance together with those having notable effects on the situations presented are provided in the section "Significant estimates and valuations" of paragraph 2.02.03 "Accounting policies and consolidation principles".

These consolidated financial statements at 31 December 2021 were drawn up by the Board of Directors and approved by the same at the meeting held on 23 March 2022. These financial statements underwent limited auditing by Deloitte & Touche Spa.

Financial statement content and format

These consolidated financial statements comprise:

- primary reporting formats; they are the same as those used for the consolidated financial statements for the year ended 31 December 2020 and have the following features:
  - the income statement includes individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results;
  - the statement of comprehensive income is presented in a separate document and distinguishing items that may and may not be reclassified subsequently to profit and loss.
  - the statement of changes in net equity reports separately the other items of the comprehensive income statement;
  - the statement of financial position makes the distinction between current and non-current assets and liabilities.
  - the cash-flow statement has been prepared using the indirect method;
- explanatory notes

In the financial statements any non-recurring costs and revenues are indicated separately. Moreover, with reference to Consob resolution 15519 of 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, highlighting the most significant balances with related parties, in order to avoid altering the overall clarity of the financial statements.

The financial statement formats and the information included in the explanatory notes are expressed in millions of euro, unless otherwise indicated.

2.02.02 Scope of consolidation

The consolidated financial statements at 31 December 2021 include the financial statements of the parent company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Equity investments in joint ventures in which the Hera Group exercises joint control with other companies as well as the companies over which the Group exercises significant control are consolidated with the equity method. Small-scale subsidiaries and associated companies are excluded from overall consolidation and valued at fair value. These companies are reported in note 17, item "Other shareholdings".

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2021 financial year as compared to the consolidated financial statements at 31 December 2020:

Acquisition of control	Company/business unit
	Eco Gas Srl
	Vallortigara Group*
	Primagas Ad**
	Recycla Spa

Exited the scope	Company/business unit
	Sinergie Italiane Srl in liquidation

Acquisition of significant influence	Company/business unit
	SEA - Servizi Ecologici Ambientali Srl

* The Vallortigara Group comprises Vallortigara Servizi Ambientali Spa and its subsidiaries Hydro Mud Srl Vallortigara Angelo Srl and Vegri Scarl
** The acquisition of Primaga Ad has been achieved by means of Atlas Utilities Ead

On 30 September 2021 the associated company Sinergie Italiane Srl in liquidation terminated its operations due to the end of the multi-year contract for the import of gas and the sale of the transportation quotas held in its portfolio.

For further details regarding the acquisitions and significant influence carried out during the period, reference should be made to chapter 1.03 "Main events occurred" in the directors' report.

Changes in equity investments

On 8 September 2021, the purchase by EstEnergy Spa of the remaining 11% of Ascotrade Spa was ratified in accordance with the terms and conditions of the public auction. For the latter company, the shareholding increased from 89% to 100%.

The difference between the adjustment of these minority shareholdings and the fair value of the equivalent amount paid was reported directly in net equity and attributed to the parent company's shareholders.

Other corporate operations

During the year 2021, the company Green Factory Srl, incorporated in the year 2020 with no significant assets, became operational.

On 3 March 2021, the company HEA Spa was established for waste treatment activities, following a partnership agreement between Herambiente Servizi Industriali Srl and Eni Rewind Spa. This company, not equipped with significant assets, is not yet operational and has thus not been included in the scope of consolidation.

On 29 March 2021, Hera Comm Nord-Est Srl was merged by incorporation into EstEnergy Spa, with accounting effects backdated to 1 January 2021.

On 28 June 2021 AresGas EAD, the sole shareholder, established Ares Trading EOOD, specialising in natural gas trading and with its registered office in Varna, Bulgaria. The company became operational in the last three months of the year, having obtained a specific license from the Bulgarian energy and water regulation authority.

On 14 July 2021, Herambiente Servizi Industriali Srl acquired a 31% interest in Tremonti Srl, a company established in order to manage the environmental remediation of the Tre Monti area in the municipality of Bussi sul Tirino. This company, not equipped with significant assets, has thus not been included in the scope of consolidation.

On 30 July 2021, Herambiente Spa established Biorg Srl, a company that became operational in October 2021 with the aim of producing biomethane and compost from sorted organic waste and wastewater collection, in line with the guidelines of the circular economy. The project involves a partnership with the Inalca company (part of the Cremonini Group) which will be operationally implemented beginning from the 2022 financial year.

Business combination operations

Business combinations have been accounted for on the basis of assessments conducted by management in respect of analyses of the fair value of assets and liabilities and contingent liabilities, in line with information concerning facts and events available at the date of acquisition. The evaluation process of all operations ended on 31 December 2021.

The table below shows the assets and liabilities acquired as part of business combinations carried out during the year, recognised at their fair value.

	Primagas Ad	Recycla Spa	Eco Gas Srl	Vallortigara Group	Total business combinations
Non-current assets					
Tangible assets		10.6	0.1	4.5	15.2
Rights of use		0.9	0.2	3.0	4.1
Intangible assets	4.9	29.5	20.0	15.4	69.8
Deferred tax assets			0.2		0.2
Current assets					
Inventory and work in progress		0.2			0.2
Trade receivables		5.3	3.9	8.9	18.1
Financial assets				0.2	0.2
Current tax assets			0.1	0.1	0.2
Other current assets		1.5	0.3	1.0	2.8
Cash holdings		2.3	0.6	8.3	11.2
Non-current liabilities					
Financial liabilities		(3.8)		(0.5)	(4.3)
Lease liabilities		(0.5)	(0.1)	(1.0)	(1.6)
Post-employment		(0.8)		(0.9)	(1.7)
Provisions for risks and charges		(2.0)		(0.2)	(2.2)
Deferred tax liabilities	(0.3)	(8.6)	(5.6)	(4.9)	(19.4)
Current liabilities					
Financial liabilities		(0.4)	(0.6)	(0.2)	(1.2)
Lease liabilities		(0.2)		(0.7)	(0.9)
Trade payables	(1.4)	(3.2)	(1.3)	(5.3)	(11.2)
Current tax liabilities		(3.1)	(0.2)	(0.5)	(3.8)
Other current liabilities		(2.9)	(1.1)	(1.1)	(5.1)
Total net assets acquired	**3.2**	**24.8**	**16.5**	**26.1**	**70.6**
Equivalent fair value	3.2	28.5	14.9	28.6	75.2
Non-controlling interests acquired					-
Minority shareholders' put option	-	14.9	1.6	9.0	25.5
Total value of business combinations	**3.2**	**43.4**	**16.5**	**37.6**	**100.7**
(Goodwill) / Profit	**-**	**(18.6)**	**-**	**(11.5)**	**(30.1)**

The evaluation process resulted in the following adjustments to the carrying amounts recorded in the financial statement of the acquired entity, as well as the following considerations in relation to the amount transferred:

	Primagas Ad	Recycla Spa	Eco Gas Srl	Vallortigara Group	Total business combinations
Book value of net assets acquired	**0.9**	**6.6**	**2.2**	**15.3**	**25.0**
Adjustments for fair value evaluation					
Intangible assets	2.6	29.4	19.9	15.3	67.2
Tax liabilities		(2.7)			(2.7)
Deferred tax assets (liabilities)	(0.3)	(8.5)	(5.6)	(4.5)	(18.9)
Fair value of net assets acquired	**3.2**	**24.8**	**16.5**	**26.1**	**70.6**
Cash outlay	3.2	27.2	14.5	28.8	73.7
Deferred/contingent consideration		1.3	0.4	(0.2)	1.5
Equivalent fair value	**3.2**	**28.5**	**14.9**	**28.6**	**75,2**

Fair value adjustments

The managements' evaluation of the fair value of the identifiable assets acquired and liabilities incurred, which also considered the recoverable value of the assets, led to the following amendments being identified:

- Primagas Ad – an increase in the value of the gas distribution networks for 2.6 million euro was recorded. The depreciation period corresponds to the remaining useful life of the government authorisation for the service held under concession;
- Recycla Spa and Vallortigara Group – customer lists for respectively 29.4 million euro and 15.3 million euro were recorded. These amounts were calculated on the basis of both the characteristics of the reference context and using the incremental cash flow method (MEEM). The depreciation period, equal to 15 years for Recycla Spa and 12 years for the Vallortigara Group, was determined on the basis of the churn rate established by analysing the historical series of the turnover of the major clients. In relation to Recycla Spa, liabilities for direct and indirect taxes were recognised for a total of 2.7 million euro;
- Eco Gas Srl – a customer list of 19.9 million euro was recorded, amortised over a 10-year period representing the estimated churn rate of the acquired customers.

The effects reported above resulted in the recognition of deferred tax liabilities determined on the basis of the applicable nominal tax rate.

With reference to the acquisition of Recycla Spa, Eco Gas Srl and the Vallortigara Group, it should be noted that cross options to buy and sell the respective minority interests have been negotiated with the counterparties. The existence of such a right held by the minority shareholder led to the need to classify the option in the consolidated financial statements under financial liabilities rather than under derivative instruments. In accordance with its own accounting policies, the Group did not include the minority shares in the consolidated financial statements, considering the shareholdings to be fully owned. The valuation of the options identified at the time of acquisition, therefore, totalled 25.5 million euro. For further details, please see note 26 "Current and non-current financial liabilities";

Furthermore, over the course of the year, the evaluation process relating to the acquisition of Wolmann Spa was completed. Seeing as no new and additional information emerged, in accordance with the relevant accounting standards, the fair value measurement carried out at 31 December 2020 was confirmed.

Please see note 33 "Comments to the financial report" for an analysis of the cash flows associated with the combination operations.

2.02.03 Accounting policies and consolidation principles

The financial statements used for the preparation of the consolidated statement of financial position and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the Parent Company) for the purposes of consistency with the accounting standards and principles of the Group. In processing the values referred to the companies valued at net equity, adjustments to their respective financial statements were considered in order to adapt them to IFRS standards, in case these companies do not adopt them.

When drawing up the consolidated statement of financial position and income statement schedules, the assets and liabilities as well as the income and expenses of the companies included in the scope of consolidation are included on a line-by-line basis. However, the receivables and payables, income and expenses, gains and losses resulting from operations carried out between companies included in the scope of consolidation have been eliminated. The book value of the equity investments is eliminated against the corresponding portion of investees' shareholders' equity.

On first-time consolidation, the positive difference between the book value of the equity investments and the fair value of the assets and liabilities acquired, was allocated to the asset and liability items and on a residual basis to goodwill. The negative difference was immediately recorded in the income statement, as illustrated in the following section "Business combinations".

The total of capital and reserves of subsidiaries pertaining to non-controlling interests is recorded within equity in the line item "Non-controlling interests". The portion of the consolidated result relating to non-controlling interests is recorded in the account "Minority shareholders".

The valuation of the financial statement items has been carried out on the basis of the general criteria of prudence and on an accrual basis, with a view of the business as a going concern. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.

In preparing these consolidated financial statements, the accounting policies and principles were the same as those adopted in the previous year, considering the new accounting standards reported in the paragraph 2.02.04 "Accounting standards, amendments and interpretations applied beginning from 1 January 2021". As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

The transactions with minority shareholders are recognised as equity transactions. Therefore, for purchases of additional shares after control is attained, the difference between the cost of acquisition and the book value of the shares purchased from non-controlling interests is recognized in equity.

The assets and liabilities of foreign companies denominated in currencies other than the euro which are included in the scope of consolidation are translated using the exchange rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rate for the year. Exchange rate differences are included in an item of equity until the shareholding is sold. The main exchange rates used to convert the value of the investees outside the Euro zone are as follows:

	2021	31 Dec 21	2020	31 Dec 20
	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.565	4.597	4.443	4.560

The standards and principles adopted are outlined here below.

Tangible assets - Tangible assets are recorded at cost or production cost, including accessory costs, or at the value based on expert appraisals, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of direct and indirect costs reasonably attributable to the asset (e.g. personnel costs, transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). The cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. The cost also comprises the possible costs for dismantlement, recovering and reclamation of the site that hosts the item of property, plant and equipment, if it complies with the provisions of IAS 37. Ordinary maintenance costs are charged in full to the income statement. Improvement, upgrading and transformation costs which increase the value of the assets are recorded as assets.

The book value of intangible assets is subject to assessment so as to identify any losses in value, particularly when events or changes in circumstances indicate that the book value cannot be recovered (for details, see the section "Losses in value").

Depreciation starts to be applied when the assets enter the production cycle. Tangible assets are classified as in progress when the process of economic use has not yet begun. Tangible assets are systematically depreciated in each accounting period using the depreciation rates considered representative of the remaining useful lives of the assets. The rates of the amortisation for tangible assets are outlined here below:

Category	Rates
Buildings	1.8% - 2.8%
Distribution plants	1.4% - 5.9%
Production plants	2.5% - 25.0%
Other plants	3.9% - 7.5%
Equipment	5.0% - 20.0%
Electric machines	16.7% - 20.0%
Vehicles	10.0% - 20.0%

The estimated useful lives of tangible assets are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives do not provide a truthful representation of the expected future economic benefits, the relative depreciation schedule must be redefined according to the new assumptions. These changes are made prospectively to the income statement.

Land is not depreciated, with the exception of land in which landfills are located, which is depreciated based on the quantity of waste disposed of with respect to the total conferrable capacity.

Gains and losses on disposal of assets are calculated as the difference between proceeds from the sale and the book value of the relevant investment and are recognized in the income statement as the control of the asset is transferred to the buyer.

Investment property - An item of property is recognized as investment property when it generates cash flows largely independently of the other assets held by the Company, as it is held to earn rentals and/or for capital appreciation or both, not to be utilized in production of for the provision of goods or services or in connection with company operations. As permitted by IAS 40, investment property has been recognized at cost. As such, these assets are reported at cost minus depreciation and any impairment.

Rights of use - The right of use of a good or service is initially valued by the Group at cost. This cost includes: (a) the initial value of the lease liability (calculated as outlined in the section "Lease liabilities"); (b) payments related to the lease contract made before the effective date; (c) initial direct costs related to property, plant and equipment; (d) an estimate of the costs to be incurred by the lessee in dismantling and restoring the asset.

Service components that may be included in the contract are excluded from projections of future lease payments and accounted for separately under operating expenses on a straight-line basis.
After the initial recognition, the value of the right of use is reduced by accrued depreciation and impairment and is adjusted for any restatements of the lease liability. If the lease transfers the ownership of the underlying asset at the end of the lease term, the right of use is depreciated beginning from the effective date until the end of the useful life of the underlying asset, otherwise the depreciation is calculated on the basis of the lease duration.
The asset consisting of the right of use is subject to an impairment test to identify any loss in value.

Intangible assets - Intangible assets which are identifiable and can be monitored, and whose cost can be reliably determined based on the assumption that said assets will generate future economic benefits, are recorded in the accounts. These assets are stated at cost in accordance with the policies indicated for property, plant and equipment and, if they have a definite useful life, they are amortised systematically over the period of the estimated useful life. The depreciation begins when the asset is available for use or in any case begins to generate economic benefit for the Group. Assets under construction includes costs relating to intangible assets for which the process of economic use has not yet commenced. If the intangible assets have an indefinite useful life, they are not amortised but rather subjected to an annual impairment test, even in the absence of indicators signalling losses in value.

Research costs are recorded in the income statement. Any development costs for new products and/or processes are booked to the income statement in the year they are incurred, unless their use extends over several years.

Industrial patent rights and rights of use of intellectual work are representative of assets that are identifiable and capable of generating future economic benefits under the control of the Group. These rights are amortised over their remaining useful lives.

The concessions mainly comprise the rights associated with networks, plants and other facilities related to gas and integrated water cycle services managed by the Group and are instrumental to the management of these services. These concessions were listed as intangible assets even before the IFRIC 12 - Agreements for concession services - interpretation was first applied.
The depreciation of the concessions are calculated on the basis of the provisions of the respective conventions, and namely: i) according to a constant rate for the shorter of the following two periods: the useful life of the assets granted in concession and the duration of that same concession, provided that, when this concession expires, the outgoing operator is not granted any compensation value (Residual industrial value, or RIV); ii) according to the useful life of the individual assets if, at the moment the concessions expire, the assets in question are expected to pass into the hands of the operator.

Public services under concession include the rights over networks, plants and other facilities related to gas, integrated water cycle, and electricity (with the sole exception of the assets related to the territory of Modena, which are classified among the assets owned by virtue of the associated acquisition) and public lighting services (for the latter, except for that highlighted in the following note describing the accounting principles applied to the "Payables and financing" item) linked to services managed by the Group. These arrangements are accounted for by applying the intangible asset model provided for the IFRIC 12 interpretation, since it was considered that the underlying concession arrangements do not guarantee the existence of an unconditional right in favour of the concessionaire to receive cash or other financial assets. Construction and improvement services carried out on behalf of the grantor are accounted for as contract work in progress. Considering that most works are contracted out externally and that on construction activities carried out internally the job margin cannot be identified individually from the benefits included in the remuneration for the service, these infrastructures are reported on the basis of costs actually incurred, net of any contributions paid by the entities and/or private customers.

This category also includes improvements made and infrastructure constructed on the goods instrumental to the management of these services, which are the property of the Holding Companies (so called Asset Companies, pursuant to Art. 113 of Legislative Decree no. 267/00), yet managed by the Group by virtue of business branch leasing contracts. These contracts, in addition to establishing the fees due, also include clauses governing the restitution of assets, normally maintained, upon payment of a balance corresponding to the net book value or the Industrial Residual Value (also taking into account the recovery funds) of these assets.

The depreciation of these rights is carried out based on the useful life of the individual assets, also in view of the relevant legislation which, in the event of a change in service provider, calls for compensation to be paid to the outgoing operator in the amount of the Residual Industrial value (RIV) for assets constructed under their ownership, or at Net Book Value (NBV), for assets manufactured under a business unit leasing contract.

The intangible assets acquired following a business combination are recorded separately from goodwill if their fair value can be reliably determined and are depreciated over the useful life estimated in the purchase price allocation.

The depreciation begins when the asset is ready for use according to the needs of the corporate management.

Gains or losses on disposal of intangible assets are calculated as the difference between proceeds from the sale and the carrying amount of the asset and are recognized in the income statement when the control of the asset is transferred to the buyer.

The depreciation rates of intangible assets are outlined here below:

Category	rates
Industrial patents and intellectual property rights	20.0%
Patents and trademarks	10.0%
Buildings under concession	1.8% - 3.5%
Distribution plants under concession	1.8% - 10.0%
Other plants under concession	2.5% - 12.5%
Equipment under concession	12.5%

Business combinations - Business combination operations are accounted for by applying the acquisition method foreseen by IFRS 3, as a consequence of which the buyer acquires the equity and takes over the assets and liabilities of the acquired company. The cost of the operation is shown as the fair value of the transferred assets, liabilities assumed and equity instruments issued in exchange for the control of the acquired company, as at the date of acquisition. The expenses related to the business combination are generally recognised in the income statement at the time they are incurred.
Any positive difference between the cost of the transaction and the fair value at the date the assets and liabilities are acquired is attributed to goodwill (subject to impairment test, as indicated in the following section). If the process of allocating the purchase price shows a negative difference, such difference is immediately charged to the income statement at the date of acquisition.

Any consideration subject to conditions set forth in the business combination contract is measured at fair value on the acquisition date and considered in the value of the consideration paid for the business combination, for the purposes of calculating the goodwill.

Non-controlling interests on the acquisition date are measured at fair value or according to the pro rata amount of the net assets of the acquired company. The valuation method selected is stated for each transaction.

In the case of business combinations that take place in phases, the equity investment previously held by the Group in the acquired company is valued at the fair value on the date control was acquired and any resulting profit or loss is recognised in the income statement.

Losses in value (impairment) - As of each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, the Group takes into consideration the book value of property, plant and equipment and intangible assets in order to assess whether these assets have suffered an impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total write-down. The recoverable amount is either the fair value, less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the

recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the cash flows to which said assets belong. Future cash flows are discounted to present value at a rate (net of taxation) that reflects the current market value and takes into account the risks associated with the specific business activities.
If the recoverable amount of an asset (or of a cash generating unit) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

Treasury shares - treasury shares are recognised as a reduction in shareholders' equity, and any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement.

Investments valued at shareholders' equity method - Investments entered in this item refer to long-term investments in associated companies and joint ventures. An associated company is a company over which the Group is able to exercise remarkable influence, but not control, by means of participation in the decisions on the financial and operating policies of the investee company. A joint venture is a jointly controlled arrangement in which the entities that share joint control have rights to the net assets of the arrangement. Under the equity method, investments are recognised at cost, as adjusted for any changes following acquisition in the associated companies' net assets, minus any impairment. The excess price over the Group's share of the fair value of an associated company's identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is tested for impairment.

Other investments - This category includes investments that are not included in the scope of consolidation, including investments in negligible size subsidiaries, associates and joint ventures. For these investments, upon initial recognition, it is irrevocably determined whether subsequent changes in fair value are recognised in other comprehensive income; otherwise, changes in fair value are periodically recognised in profit or loss. This approach does not include equity investments held exclusively for the purpose of subsequent disposal, whose changes in fair value are recognized in profit (loss) for the fiscal period. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

Financial assets - The Group classifies financial assets through the business model adopted for managing them and on the basis of the features of contractual cashflows In relation to the previous conditions, financial assets are subsequently valued as follows:

- depreciated cost;
- fair value of the other comprehensive income components;
- fair value of the profit (loss) for the fiscal period.

Management determines their classification when they are first recorded.

Receivables and loans - This category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. Since the business model generally adopted by the Group provides for the holding of these financial instruments solely for the purpose of collecting the contractual cash flows, these assets are valued at depreciated cost on the basis of the effective interest rate method. The value of the assets is reduced on the basis of the expected losses, using information that is available without unreasonable charges or efforts, including historical, current and prospective data. Losses determined by an impairment test are recognized in the income statement, as are any subsequent reversals of impairment losses. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.
This category includes, as provided by the interpretation IFRIC 12, the financial assets associated to those public service under concession for which the Group has the unconditional contractual right to receive liquidity from the issuer for the construction services rendered. The Group uses the financial asset model for the contracts of public lighting service provision, in view of their characteristics, in

which increasingly frequently the issuer guarantees the area provider a specific amount, or at any rate which can be reliably determined, not depending on the use of the infrastructure by the final customer. Under that model, the financial asset reported in the balance sheet in relation to the issuer for an amount equal to the fair value of the construction services rendered.

Financial assets at fair value recorded in the comprehensive income components - This category includes assets, other than derivatives, held by the Group for the purpose of receiving contractual cash flows (represented by equity and interest payments) or for monetisation through sale. These assets are valued at fair value, the latter determined by referring to the market prices at the balance sheet date or using financial measurement techniques and models, recording their change in value in a specific equity reserve "Reserve for fair value assessments of financial assets". The changes in value due to the impairment test as well as of profit/loss on the exchange rate are recorded in the profit (loss) for the fiscal period This reserve is reclassified to income only when the financial asset is actually sold. Classification as a current or non-current asset depends on management's plans and on the real tradability of the security. Those whose sale is expected during the next 12 months are recorded as current assets.
Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

Assets valued at fair value recorded as profit (loss) for the fiscal period - This category includes the financial assets acquired for short-term trading purposes, in addition to the derivatives, which are described in the specific paragraph below. The fair value of these instruments is determined by referring to the market value on the date the registration period ends. Classification under current and non-current reflects management's expectations regarding their trading: current assets include those whose trading is expected within 12 months or those identified as held for trading.

Trade receivables - These refer to financial assets arising from the provision of goods and services and are valued at amortised cost, adjusted for any impairment. These assets are derecognized in the event of sale which transfers all risks and benefits associated with their management to third parties.

Environmental bonds - The Group complies with the various regulations issued in relation to the environment that require compliance with restrictions established through the use of certificates or bonds. Therefore, the Group is obliged to meet a need in terms of grey certificates (emission trading) and white certificates (energy efficiency instruments). The development of markets in which these bonds/certificates are traded has also made it possible to initiate a trading activity. These bonds are valued according to the intended use.
The bonds held to meet the company's requirement are recorded as assets at cost. If the bonds in the portfolio prove to be insufficient to meet the need, a liability is recorded to guarantee adequate coverage when the certificates are delivered to the operator. Bonds held for trading are recognised as assets and are measured at fair value through profit or loss.

Other current assets - These are stated at par value, and possibly adjusted for any losses in value corresponding to the amortised cost.

Contract work in progress - When the outcome of a construction contract can be estimated reliably, contract work in progress is measured on the basis of revenues accrued with reasonable certainty, according to the percentage of completion method of accounting so as to apportion revenues and costs to the relevant financial years in proportion to the stage of completion of the work in question. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives to the extent it is probable that they represent effective revenues which can be determined reliably.
When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred. When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

Inventories - Inventories are recorded at cost, including directly attributable costs, or net estimated realizable value, whichever is the lower. The cost configurations used for the valuation of stocks are the average cost measured on a continuous basis (used for raw materials and consumables) and the specific cost of other inventories. The net realisable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.
The value of obsolete and slow-moving stock is written down in relation to the possible use or realization, by means of the provision of a specific materials obsolescence allowance.
Inventories of work in progress are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

Cash and cash equivalents - The item regarding cash holdings and cash equivalents includes cash and bank accounts and deposits repayable on demand and other short-term financial investments with high liquidity that are readily convertible into cash and are subject to an insignificant risk regarding their change in value.

Financial liabilities - This item is initially stated at cost, corresponding to the fair value of the liability net of the transaction costs which are directly attributable to the issue of said liability. Following their initial recognition, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method. If the estimates of payments are revised, the adjustment of the liability is stated as income or expense in the income statement, except for lease liabilities.

Lease liabilities - As at the effective date of the contract, lease liabilities are calculated as the present value of payments due, discounted using the interest rate of the lease or, in case it is not easily identifiable, the marginal lending rate. The payments included in the calculation of the liability are: (a) fixed payments; (b) variable payments depending on an index or a rate; (c) amounts expected to be paid to secure the residual value; (d) the exercise price of the purchase option, if any, if the term of the lease considers it; (e) any penalties for terminating the contract, if the term of the lease considers them.
The marginal lending rate refers to the average rate at which the Group borrows, broken down by contractual maturity. It is determined annually in the budget on the basis of the final figures for previous financial year and is applied to contracts signed from 1 January of each subsequent financial year. It is updated during the period in the event of significant changes to the Group's average borrowing rate. For contracts with a life of more than 4 years, the Group uses the medium/long-term borrowing rate, while for contracts with a life of 4 years or less, the equivalent short-term rate is adopted.
After the initial date, lease liabilities are modified as a result of: a) accrued financial expenses recorded to the income statement; b) payments made to the lessor; c) any new valuations or changes to the lease or the revision of the assumptions regarding the payments due to the lessor.

Post-employment benefits - Liabilities related to defined-benefit plans (such as the employee severance accrued before 1 January 2007) are reported net of any plan assets on the basis of actuarial assumptions and on an accrual basis, in keeping with the service necessary to obtain benefits. The liability is valued by independent actuaries. Independent actuaries assess financial liabilities. Actuarial gains and losses are reported as other comprehensive income/losses. Following Law 296 of 27 December 2006, for companies with more than 50 employees, the severance amounts accruing after 1 January 2017 qualify as a defined-benefit plan.

Provisions for risks and charges - The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the obligation, as of the balance sheet date (assuming that there are sufficient elements for being able to make this estimate) and are discounted to present value when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting to present value the future cash flows at a pre-tax discount rate that reflects the current market valuation and takes into account the risk associated with the business activities.
When the discounting to present value is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability relates to property, plant and equipment (e.g. site restoration), the provision is recorded as a contra entry to the asset to which it refers and the

charge is recorded in the income statement via the depreciation process for the tangible asset to which it refers. The methods envisaged by IFRIC 1 are adopted if liabilities are recalculated.

Trade payables - These refer to payables derived from commercial supply transactions and are recorded at amortised cost.

Other current liabilities - These concern sundry transactions and are stated at nominal value, corresponding to the amortised cost.

Derivative instruments - The Group holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate and exchange rate fluctuations and the risk of changes in methane gas and electricity prices. In relation to said activities, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities. The instruments the Group uses for handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

In relation to commodity derivatives, operations are managed through OTCs - over the counter financial instruments (index swaps), currency derivatives (forward purchases in dollars), derivative instruments traded on the regulated platform EEX, as well as through brokerage contracts that provide for the physical delivery of the underlying (so-called physical contracts). In particular, the accounting method used for physical contracts varies according to their purpose: contracts related to procurement activities are subject to the own-use exemption and the related economic effects are recognised on an accrual basis only at the time of actual delivery, while contracts signed with reference to price or volume risk management activities are considered derivative financial instruments and measured at fair value from the time they are signed. Given the nature of physical contracts, in order to give a more consistent representation of the actual transactions carried out, at the time they become operational, regardless of their purpose, the settlement is recorded in the income statement either in the item "Revenues" or in the item "Raw and other materials" depending on whether the sale or procurement of commodities was involved.

From an operational point of view, a commercial portfolio has been identified, which includes physical and financial contracts signed for the management of procurement, and a trading portfolio, which includes physical and financial contracts signed for speculation, based on pure position taking logics whenever there is a market opportunity, always within the risk limits defined by the Board of Directors of the parent company.

The fair-value changes pertaining transactions that, in observance of the risk management policies, meet the requirements laid down by the accounting standards for hedge accounting treatment are recorded (in the terms indicated below) as part of the other components of comprehensive income, while those that despite being entered into for hedging purposes, do not meet the requirements set by the standards are recognises in profit or loss in the period in which they occur. Operations identified from their outset as speculative are recognised in profit or loss in the reporting period. Fair value is established with suitable assessment models for each type of instrument according to the reference market value as more fully described below.

For hedge accounting purposes, the Group formally designates and documents the hedging relationship, its risk management objectives and strategy pursued, identifying: i) the hedging instrument, ii) the nature of the risk being hedged, and iii) the way the effectiveness of the hedge will be assessed. The hedging relationship is effective if: i) there is an economic relationship between the hedging instrument and the hedged item; ii) the credit risk does not prevail over the changes in fair value resulting from the economic relationship; and iii) the hedge ratio is the same as the ratio between the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item, and no imbalance is identified.

For accounting purposes, the hedging transactions are classified as fair value hedges if they cover the risk of fluctuations in the market value of the underlying asset or liability; or as cash flow hedges if they cover the risk of changes in cash flows deriving both from an existing asset or liability, or from a future transaction, including transactions on commodities.

As far as derivative instruments classified as fair value hedges are concerned, which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are recognized through profit or loss. At the same time, gains or losses deriving from the fair value adjustment of the underlying hedged item, limited to the hedged risk, are also recorded in the income statement.

For instruments classified as cash flow hedges and that qualify as such, the fair value changes are recorded, only as far as the effective amount is concerned, in a reserve called "Cash flow hedge reserve" through the statement of comprehensive income. This reserve is recorded to income as soon as the underlying hedged instrument is realised. The change in fair value referring to the ineffective portion is immediately recorded in the income statement of the period. If the underlying transaction should no longer be considered highly probable, or the hedging relationship can no longer be demonstrated, the corresponding portion of the "Reserve of derivatives valued at fair value" is immediately reversed to income.
If, on the other hand, the derivative instrument is sold and therefore the hedging of the risk for which the transaction was created no longer qualifies as effective, the amount of "Reserve of derivatives valued at fair value" relating to it is kept until the economic effects of the underlying contract arise.

Whenever applicable, the Group adopts the fair value option.

Fair Value Hierarchy
The financial instruments measured at fair value are classified through a three-level hierarchy based on the way the fair value was determined, i.e., with reference to the factors used in determining the value:

- **level 1**, financial instruments the fair value of which is determined on the basis of quoted prices in active markets;
- **level 2**, financial instruments the fair value of which is determined using valuation techniques that employ parameters that are directly or indirectly observable on the market. Instruments valued on the basis of the market forward curve and short term differential contracts are classified in this category;
- **level 3**, financial instruments the fair value of which is determined using valuation techniques that employ parameters that cannot be observed on the market, using internal estimates exclusively.

Assets and liabilities held for sale - Assets and liabilities held for sale are those whose value will be recovered mainly through sale rather than use. Assets and liabilities are classified under this category the moment the sale operation is considered highly likely and the assets and liabilities are immediately available for sale in their current condition. These assets are valued at either cost or fair value, whichever is lower, net of sales costs.

Grants - Capital grants are recognized in the income statement over the period necessary for correlating them to the related costs. They are represented in the statement of financial position by recording the grant as deferred revenue. Operating grants, including those received from users for connection purposes, are considered to be revenues for services rendered during the fiscal period and are therefore recorded on an accruals basis.

Revenue and cost recognition - Revenues and income are recognized net of returned items, discounts and rebates, and net of taxes directly related to the sales of products and services rendered. These are broken down into revenues deriving from operating activities and financial income which accrues between the sale date and the payment date.
Specifically:

- revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- revenues from the distribution are recognized on the basis of the tariffs paid by Aeegsi and are subject to equalization at year end to reflect in accordance with the competence criterion the compensation recognised by the Authority in relation to the investments made;

- revenues are booked at the time (or as) the obligation is fulfilled, transferring the promised good or service to the customer. The transfer occurs when (or as) the customer gains control over the good or service. The revenue recorded corresponds to the price attributed to the obligation to be recorded. Revenue is recorded only if the consideration for the goods or services transferred to the customer is likely to be received;
- costs are accounted for in accordance with the accruals principle.

Lease payments - As defined by IFRS 16, lease payments relating to lease contracts for low-value assets and leases with a contract duration of 12 months or less (short-term leases) are recorded in the income statement as charges for the period. The Group has set a threshold of 10,000 euro for deeming the individual underlying asset to be of modest value.

Financial income and expense - Financial income and expense are recognised on an accrual basis. Dividends from “Other shareholdings” are recorded in the income statement, at the time the right to receive payment is established, the economic benefits arising from the dividends are likely to be received by the Group and their value can be assessed reliably.

Taxes - Taxes are the sum of current, deferred and possible substitute taxes. Current taxes are calculated on the taxable income for the financial period. Taxable income differs from the result recorded in the income statement, as it may exclude both positive and negative components which will be taxable or deductible in other periods (temporary changes), and components that will never be taxable or deductible (permanent changes). “Current tax liabilities” are calculated on the basis of the tax rates applicable on the balance sheet date.

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by Law 244 of 24 December 2007 and in particular the reinforced derivation principle established by Article 83 of the TUIR. This regulation calls for entities that use IFRSs to apply, including in a departure from the provisions of the TUIR, the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards.

Deferred taxes are calculated having regard to timing differences in taxation, and are recorded under item “Deferred tax liabilities”. “Deferred tax assets” are recognised to the extent that the existence of a taxable income at least equal to the amount of the differences to be offset is considered probable when the timing differences will reverse. Deferred taxes are determined on the basis of the tax rates foreseen to be in force during the financial year in which the tax asset will be conferred or the tax liability will be extinguished, on the basis of tax rates established by provisions in force or substantively in force at the date of the financial statements. These changes are recognised in profit or loss or in equity, depending on how the difference in question was originally recorded.

Finally, substitute taxes may be recorded when legal provisions exist that allow the Group to take advantage of special tax regimes. These are, by nature, non-recurring taxes, which may be attributed to the Group’s desire to opt or not for the related tax regime.

Translation of foreign currency balances - The functional and reporting currency adopted by the Group is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the period end date and the related exchange gains and losses are recognized through profit or loss. Any net gain that might arise is set aside in a specific restricted reserve until the date of realization.

Earnings per share - The earnings per share are represented by the net profit for the year attributable to the shareholders holding ordinary shares, taking into account the weighted average of the ordinary shares outstanding during the year. The diluted earnings per share are obtained by means of the adjustment of the weighted average of the shares outstanding, taking into account all the potential ordinary shares with dilution effect.

Transactions with related parties - Transactions with related parties take place on an arms'-length basis, in observance of efficiency and cost-effectiveness criteria. Some specific transactions are remunerated on the basis of rates established by Arera resolutions.

Risk management

Credit risk

The credit risk faced by the Group originates from the broad structure of the client portfolios in the main business areas in which it operates; for the same reason, this risk is spread out over a large number of clients. In order to manage the credit risk, the Group established procedures for selecting, monitoring and evaluating its customer portfolio. The Italian market is the benchmark market.

The Group's credit management model makes it possible to analytically determine the different risks associated with the collectability of trade receivables as soon as they arise and progressively according to their increasing seniority. This approach allows the company to reduce the concentration and exposure to credit risk posed by both business and household customers. With regard to receivables from small-sized customers, write-downs are carried out on the basis of future-oriented analysis regarding the amount of probable future income, taking into consideration the seniority of the receivables, the type of recovery action undertaken and the status of the creditor. From time to time, analyses are conducted on the individual credit positions yet to be resolved, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down.

Liquidity risk

Liquidity risk concerns the inability to meet the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is accomplished through the centralised management of cash inflows and outflows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

The financial planning of requirements, focused on medium-term borrowings, and the availability of abundant funds in credit facilities, allow effective management of liquidity risk.

Interest rate risk and currency risk on financing operations

The cost of financing is affected by interest rate fluctuations. In the same way, the fair value of financial liabilities is also subject to interest rate and exchange rate fluctuations.

The Group regularly assesses its exposure to such risks and manages them by means of derivative financial instruments, in accordance with its risk management guidelines. To mitigate interest rate volatility risk and simultaneously ensure a correct balance between fixed rate debt and variable rate debt, the Group has stipulated interest rate derivatives in relation to a portion of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has signed foreign exchange derivatives to fully hedge loans in foreign currencies.

Under these guidelines, derivative financial instruments may only be used to manage its exposure to interest and exchange rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out.

Market risk and currency risk on commercial operations

Concerning the wholesale business carried on by Hera Trading Srl, the Group manages risks related to the misalignment between indexation formulas related to the purchase of gas and electric energy and the indexation formulas related to the sales of the same commodities (including contracts entered into at fixed prices) as well as exchange rate risks in case the trading contracts for the commodities are denominated in currencies other than the euro (U.S. dollar).

In relation to these risks, the Group has set up a number of instruments, including different types of commodity derivatives (which may also include physical delivery) aimed at pre-establishing the effects on sales margins irrespective of changes in market conditions. The organisational model adopted and the supporting management systems make it possible to identify the nature of the operation (hedging vs. trading) and produce the information required for a formal identification of the purpose of these instruments. Specifically, from an operational standpoint, the Group identified a commercial portfolio, including contracts signed to manage the Group's procurement activities, and a trading portfolio, including instruments whose purpose cannot be strictly related to the underlying procurement activities.

Covid-19 emergency management

The strong economic growth recorded during the year and resulting upturn in consumption made it possible to overcome the potential critical aspects that had received particular attention from the Group since the beginning of the health emergency. In particular, the forecasts of economic and financial results for 2021, which the Group had not deemed necessary to revise on the basis of its particularly resilient business model, were confirmed. From a health point of view, given the more positive situation compared to last year, the measures taken remain in place and the Group continues to monitor them.

For an exhaustive discussion of how the Group analyses, measures, monitors and manages exposure to these risks, please refer to paragraph 1.02.03 “Risk areas: identification and management of risk factors” in the directors’ Report.

Significant estimates and valuations

Preparation of the consolidated financial statements and related notes requires the use of estimates and valuations by the directors, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.
Specifically, information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Impairment test
The Group carries out an analysis of the recoverable value of goodwill as well as of its investment (not majority investment) in companies holding assets for generating thermoelectric energy, through impairment tests, at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates as specified in note 31 of the comments to the financial statement formats.

Provisions for risks
These provisions were made by adopting the same procedures as in previous years, with reference to reports by the legal advisors and consultants that are following the cases, and on the basis of developments in the relevant legal proceedings as well as of the updates of the hypotheses concerning future expenses for post-mortem costs of the landfills, following the revision of the estimated costs identified by external consultants.

Recognition of revenues
Revenues for the sale of electricity, gas and water are recognised and accounted for at supply only if the consideration is expected to be collected. They include the allocation for services rendered between the date of the last reading and the end of the financial year, but still not billed. This allocation is based on estimates of the customer's daily consumption, based on the historic profile, adjusted to reflect the weather conditions or other factors which might affect consumption under evaluation.

Deferred tax assets
Accounting for deferred tax assets takes place on the basis of expectations of taxable income in future years. The evaluation of the taxable income expected for the purposes of accounting for deferred tax assets depends on factors that may vary over time and significantly affect the recoverability of deferred tax assets.

Depreciation
Depreciation is calculated on the basis of the useful life of an asset. The useful life is determined by Management at the time the asset is recognized in the balance sheet; valuations of the duration of useful life are based on historical experience, market conditions and the expectation of future events that could affect the useful life itself, including technological changes. Therefore, the actual useful life might differ from the estimated useful life.

Fair value assessment and evaluation process
The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices. In the absence of prices quoted in active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. The fair value of contracts on commodities are determined using directly observable market inputs, where available.

The methodology for calculating the fair value of these instruments includes the assessment of the non-performance risk, where relevant. All derivative contracts entered into by the Group are with leading institutional counterparties.

2.02.04 Changes to the accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2021

Beginning 1 January 2021, the following accounting standards and associated amendments as issued by the IASB and endorsed by the European Union apply:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16- Interest rate benchmark reform for determining interest rates - phase 2 (Regulation 25/2021). Document issued by IASB on 27 August 2020, applicable from 1 January 2021 with early application allowed. The amendments provide for a specific accounting approach to allocate over time changes in the value of financial instruments or leases due to the replacement of the benchmark index for determining interest rates, thus avoiding immediate impacts on profit or loss and terminations of hedging relationships.

Beginning 1 January 2021 the amendment to the standard listed below, issued by the IASB and integrated by the European Union, is applicable:

Amendments to IFRS 16 - Covid-19-related rent concessions after 30 June 2021. Document issued by IASB on 31 March 2021 and applicable beginning 1 January 2021. The change extends by one year the possibility to apply the amendment issued in 2020, providing that lessees could account for Covid-19 related rent reductions without having to assess whether the definition of a contractual change was met.

With reference to the application of these amendments, there were no observable effects on the Group’s financial statements.

Accounting standards, amendments and interpretations endorsed by the European Union which are not yet applicable and have not been adopted early by the Group

With reference to the areas that are significant for the Group, the following accounting standard amendments will be mandatory from the following financial years onwards, having also already been endorsed by the EU:

Amendments to IFRS3 - Reference to the Conceptual Framework. Document issued by IASB on 14 May 2020, applicable from 1 January 2022 with early application allowed. The amendments require entities to refer to the Conceptual Framework published in March 2018 and not the one in force when IFRS3 was introduced. It also introduces an exception to the use of the Conceptual Framework for certain types of liabilities, requiring to refer to IAS 37 when applying IFRS 3. Without this exception, an entity might recognise liabilities in gaining control of a business that it would not otherwise recognise, and immediately after the acquisition it would have to derecognise those liabilities by recording income that has no economic substance.

Amendments to IAS16 - Selling items produced while bringing an asset into the location and condition for its intended use. Document issued by IASB on 14 May 2020, applicable from 1 January 2022 with early application allowed. This amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. The entity must recognise the proceeds from selling such items, and the cost of producing those items, in profit or loss for the period.

Amendments to IAS 37 - Onerous Contracts: cost of fulfilling a contract. Document issued by IASB on 14 May 2020, applicable from 1 January 2022 with early application allowed. The changes specify that the cost of fulfilling a contract must comprise all the costs that relate directly to the contract. Accordingly, the valuation includes not only incremental costs (such as the cost of material used in the processing), but also all costs that the company cannot avoid because it entered into the contract (such as the share of personnel costs and depreciation of machinery used to fulfil the contract).

On 14 May 2020 the IASB published the document "Improvements to the International financial reporting standard: 2018-2020 Cycle". These improvements include amendments to existing international accounting standards, including:

- **IFRS 1** - First adoption of International financial reporting standards. The improvement allows a subsidiary to measure cumulative exchange differences for all foreign currency transactions using the amounts that were recognised in the consolidated financial statements, based on the parent company's date of first adoption.
- **IFRS 9** - Financial Instruments. It specifies that the only fees to be taken into account for the purposes of the 10% test for derecognising a financial liability are those exchanged between the entity and the lender.
- **IFRS 16** - Leases. The improvement revises the illustrative example number 13, excluding the reimbursement of costs incurred to improve third-party assets, in order not to cause confusion on how to apply incentives on contracts.

Amendments to IAS 1 - Disclosure of financial statements and accounting policies. Document issued by IASB on 12 February 2021, applicable from 1 January 2023 with early application allowed. The amendments require entities to disclose their material accounting policies rather than their significant accounting policies and provide guidance to explain the application of the materiality process.

Amendments to IAS 8 - Accounting standards, changes in accounting estimates and errors. Document issued by IASB on 12 February 2021, applicable from 1 January 2023 with early application allowed. The amendments additionally clarify that companies should distinguish between changes to accounting policies and changes to accounting estimates.

These amendments clarify, correct or remove redundant statements or formulations in the text of the relevant standards.

The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

Accounting standards, amendments and interpretations that have not yet been endorsed by the European Union

The following standards, amendments and updates of IFRSs (already approved by IASB) and interpretations (already approved by IFRS IC) that are relevant for the Group are currently being endorsed by the relevant bodies of the European Union:

Amendments to IAS 1 - Presentation of financial statements: reporting liabilities as current or non-current. Document issued by IASB on 23 January 2020 and updated on 15 July 2020, applicable from 1 January 2023 with early application allowed. The amendments clarify the requirements to be considered in determining whether payables and other liabilities with uncertain settlement date should be classified as current or non-current in the statement of financial position (including payables that can be settled by conversion into equity instruments).

Amendments to IAS 12 - Deferred taxes related to assets and liabilities arising from a single transaction. Document issued by IASB on 7 May 2021, applicable from 1 January 2023 with early application allowed. The amendments clarify how companies account for deferred tax on transactions such as leases and contracts with decommissioning obligations that may generate assets and liabilities of equal amounts, for which the exemption for reporting deferred taxation does not apply when assets and liabilities are recognised for the first time. The amendments aim at reducing the differences in deferred tax reporting between different types of contracts.

With reference to the new amendments described above, the directors are currently evaluating what possible effects introducing them might have on the Group's consolidated financial statements.

2.02.05 Commentary notes to the financial statement formats

Please note that paragraphs 1.04 and 1.07 of the Directors' Report provide an analysis of the business management performance for each business area that may contribute to a better understanding of changes in the main categories of operating expenses and revenues.

1 Revenues

	2021	2020	Change
Revenues from sales and services	10,377.1	7,053.8	3,323.3
Changes in work in progress and semi-finished products	178.2	25.2	153.0
Total	**10,555.3**	**7,079.0**	**3,476.3**

Revenues are mainly generated in Italy, with the exception of natural gas wholesaling activities carried out at the international level, the value of which amounted to 2,405.6 million euro at 31 December 2021 (1,167.7 million euros at 31 December 2020), of which 1,577.4 million euros refers to brokerage on the Dutch TTF market carried out during 2021.

"Revenues from sales and services" includes allocations for services provided to end customers not yet invoiced, including 283.8 million euro for the electricity sector, 447.1 million euro for the gas sector and 132.2 million euro for the water sector.

"Changes in work in progress and semi-finished products", the increase compared to the previous year is mainly attributable to the energy efficiency works the Group carried out for customers, mainly apartment blocks; this business, which develops in line with the strategic choices concerning the fight against climate change, is strongly increasing compared to the previous year, mainly due to the tax benefits provided by the current legislation in this area.

2 Other operating revenues

	2021	2020	Change
Long-term contracts	341.9	293.0	48.9
Operating grants	26.9	25.1	1.8
Grants related to plants	12.4	12.9	(0.5)
Gains on asset disposals	1.2	1.1	0.1
Other revenues	17.7	135.7	(118.0)
Total	**400.1**	**467.8**	**(67.7)**

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held in concession as per the application of the accounting model for intangible assets for public services held under concession.

"Operating grants" mainly include Fer incentives recognised by the GSE for energy produced from renewable sources and grants awarded by public bodies, authorities or institutions for specific projects and activities carried out by the Group.

"Grants related to plants" represent the proceeds for the period associated with the depreciation rate of the assets subject to grants.

"Other revenues" mainly consist of insurance reimbursements, recovery of fees and white certificates. White certificates comprise the revenues calculated on the basis of energy efficiency objectives as established by the GSE and regulated in relation to the Cassa per i Servizi Energetici e Ambientali. The change compared to the previous year is mainly due to the decrease in revenues from white certificates, which were negatively affected by the provisions contained in the Decree of the Ministry of Ecological Transition of 21 May 2021 concerning the definition of the national energy saving targets for electricity and gas distribution companies for the years 2021-2024. In addition to defining a significantly lower number of certificates than in previous periods for the 2021 obligation, this decree retroactively reduced by 60% the number of certificates for the 2020 obligation year.

3 Raw and other materials

	2021	2020	Change
Raw materials earmarked for sale	6,612.1	3,058.8	3,553.3
Plastic materials	65.8	37.8	28.0
Materials for industrial use	35.9	31.2	4.7
Environmental certificates	(23.5)	88.7	(112.2)
Charges and revenues from derivatives	(175.7)	58.6	(234.3)
Maintenance and other materials	153.9	135.5	18.4
Total	**6,668.5**	**3,410.6**	**3,257.9**

"Raw materials earmarked for sale", net of changes in stocks, includes supplies of natural gas, electricity and water. Natural gas brokerage activities on the TTF market generated costs of 1,690.3 million euros in 2021.

"Plastic materials", net of changes in stocks, include the cost of purchasing plastic raw materials destined for subsequent processing, transformation and sales as part of the Aliplast company activities. The change in costs is consistent with the increase in sales revenues due to the development of the plastics regeneration business, which improved significantly in terms of both volume and profitability.

"Materials for industrial use" mainly include the procurement of methane gas and electricity to power the Group's production plants, as well as the purchase of fuels and lubricants for fleet management.

"Environmental certificates", mainly include the purchase cost of white certificates, which are supplied in accordance with the obligations assigned to the distribution companies. This item also includes the environmental certificates in stock, mainly made up of white and grey certificates as well as the valorisation of commitments for purchasing electricity from renewable sources in relation to contracts signed with end customers. The negative value for the period and the resulting change from the previous period are due to the income related to the reduction of the liability for the 2020 obligation that the legislator retroactively applied, as described in note 2 "Other operating revenues".

"Maintenance and other materials", net of changes in stocks, mainly comprise consumables used in the management of the Group's operating activities and, marginally, products purchased to be resold to end customers.

For the item "Charges and revenues from derivatives", please see note 20 "Derivative instruments".

4 Service costs

	2021	2020	Change
Transport and storage	1,008.7	1,266.5	(257.8)
Work and maintenance expenses	646.3	433.8	212.5
Waste transportation, disposal and collection	398.9	375.1	23.8
IT and data processing services	67.8	61.1	6.7
Fees paid to local authorities	64.9	65.2	(0.3)
Professional services	40.8	40.2	0.6
Other service costs	237.2	183.0	54.2
Total	**2,464.6**	**2,424.9**	**39.7**

"Transport and storage" include the costs of distributing, transporting and storing gas as well as electricity distribution as well as system charges. The change compared to the previous year, which substantially does not affect the Group's performance as it relates to economic components re-charged to end customers, is due in particular to the cancellation for the last three months of 2021 of the rates concerning the general system charges of the electricity sector applied to domestic users and non-domestic users in low voltage, for other uses, with power available up to 16.5 kW, as regulated by Legislative Decree no. 130 of 30 September 2021. and by the following Arera resolution 396/2021/R/com of 28 September 2021, which the Italian government adopted in order to tackle the rising cost of bills caused by the sudden increase in the price of energy commodities.

"Charges for works and maintenance" refer to the costs for the construction or improvement of infrastructures under concession pursuant to the application of the accounting model for intangible assets for public services held under concession, costs for maintaining the plants managed by the Group and costs incurred for carrying out energy efficiency measures, which account for most of the increase compared to the previous year.

"Waste transportation, disposal and collection", mainly include the operating costs of urban hygiene and waste disposal activities.

"IT and data processing services", include costs for maintaining and managing the Group's IT, telecommunications infrastructure, corporate applications and cybersecurity systems.

The item "Fees paid to local entities" include the charges incurred for the use of public owned networks, fees paid to companies that own these assets for the rent of gas, water and electricity cycle assets. It also includes, marginally, the fees paid for the use of telecommunications and district heating networks.

"Professional services" include charges for commercial, legal, notary, administrative and tax services. This item includes fees paid for the audit of financial statements and the issuance of certifications.

"Costs for other services" include all other costs for services not specified in the above categories. In particular, technical services for the completion of paperwork relating to building renovation of apartment buildings, as well as commercial services provided by the Group's sales companies, both of which increased considerably compared to the previous year.
It should also be noted that the item "Costs for other services" also include bank fees for 8.7 million euro and the instalments relating to short-term and low-value leases, the value of which was not significant for 2021.

5 Personnel costs

	2021	2020	Change
Salaries and wages	415.7	402.8	12.9
Social security costs	133.0	128.6	4.4
Other costs	44.1	41.3	2.8
Total	**592.8**	**572.7**	**20.1**

The increase as compared to the previous year is mainly connected to:.

- the increase in the number of employees, particularly as a result of new acquisitions during the year;
- salary increases provided for in national collective labour agreements;
- lower benefits related to the massive holiday plan, adopted by the Group in 2020 in connection with the national lockdown.

The average number of employees for the period in question, analysed by category, is as follows:

	2021	2020	Change
Managers	153	156	(3)
Middle managers	572	557	26
Clerks	5,047	4,940	134
Blue-collar workers	3,289	3,265	47
Total	**9,061**	**8,918**	**204**

Overall, the average cost of labour per capita for 2021 was 65.4 thousand euro (64.2 thousand euro in 2020).

At 31 December 2021, the actual number of employees was 9,122 (9,011 employees at 31 December 2020).

6 Other operating expenses

	2021	2020	Change
Taxation other than income taxes	21.7	19.2	2.5
State rentals	13.1	12.6	0.5
Losses on the sale and disposal of assets	9.2	6.0	3.2
Minor charges	22.5	21.1	1.4
Total	**66.5**	**58.9**	**7.6**

"Taxation other than income taxes" mainly relate to taxes on buildings, stamp duties and registration fees, public area occupation fee, fees related to the landfills managed and excise duties.

"State rentals" is fees paid to the Emilia Romagna region, land reclamation consortia, sector agencies and mountain-area communities, mainly regarding the withdrawal and use of water, as well as maintenance and management costs for hydraulic works; the item also includes fees for the preservation of hydrogeological protection areas in mountain municipalities (as provided for in Law 933/2012) and fees paid for the functioning of Atersir.

"Losses on the sale and disposal of assets" arise mainly from the disposal of certain components of the WTE plants, cogeneration plants, waste treatment plants and gas and electricity distribution network meters.

"Minor charges" comprise numerous charges including membership fees, indemnities, sanctions and fines.

7 Capitalised costs

	2021	2020	Change
Increase of self-constructed assets	60.8	43.3	17.5

This item includes mainly the labour costs and other charges (such as storage materials and costs for use of equipment) directly attributable to the Group's self-constructed assets.

8 Depreciation amortisation and provisions

	2021	2020	Change
Depreciation	463.3	455.5	7.8
Write-downs	6.6	1.6	5.0
Amortisation and impairment of assets	**469.9**	**457.1**	**12.8**
Provisions	146.4	117.8	28.6
De-provisioning	(4.2)	(3.2)	(1.0)
Nominal change in provisions	**142.2**	**114.6**	**27.6**
Total	**612.1**	**571.7**	**40.4**

For breakdowns and further detail about these items, please refer to the comments under note 13 "Tangible assets", note 14 "Rights of use and lease liabilities", note 15 "Intangible assets", 22 "Trade receivables" and 29 "Provisions for risks and charges".

"Depreciation" includes depreciation of tangible assets, rights of use and intangible assets. The changes as compared to the previous period is due primarily to:

- the increase in amortisation of assets relating to public services under concession as a result of new investments in public services that came into use over the course of the year, particularly in relation to the water cycle and gas distribution businesses, with a net effect of 7.6 million euro;
- capitalisation of incremental costs related to the entering into new energy and gas sales contracts with end customers, represented by commissions paid to agents, depreciated according to the average useful life of the acquired customers (churn rate), for 5.5 million euro.
- higher amortization relating to customer lists recorded following the acquisition of control of Recycla Spa, Eco Gas Srl and the Vallortigara Group and process know-how recorded following the acquisition of control, at the end of the previous year, of Wolmann Spa, for a total of 4.7 million euro;
- a reduction of 9.1 million euro in the depreciation of plants linked to the waste treatment business for which the depreciation process was completed in 2020 due to their expected end of life within the first few months of 2021.

"Write-downs" mainly include:

- value reduction of land and buildings which the management considered to be no longer recoverable for 4.2 million euro;
- plants no longer in use and expansion projects no longer deemed feasible totalling 1.5 million euro;
- capitalised costs for participating in tenders for which the Group was not awarded in the amount of 0.9 million euro.

"Provisions" include:

- 94.4 million euro to the provision for bad debts, up by 11 million euro compared to the previous year due to a higher amount of receivables subject to valuation, against a decrease in the 24-month unpaid ratio of the Group's sales companies (from 0.87% in 2020 to 0.85% in 2021);
- 52 million euro to the provisions for risks and charges, an increase of 17.6 million euro, mainly due to regulatory risks and updated estimates of future costs for post-operational management of certain landfills.

The item "De-provisioning" include re-evaluations of the funds in view of the fact that the underlying risks no longer exist.

9 Share of profits (losses) pertaining to joint ventures and associated companies

	2021	2020	Change
Joint venture share of net profits	3.1	1.2	1.9
Associated companies share of net profits	10.1	7.0	3.1
Total	**13.2**	**8.2**	**5.0**

The share of profits and losses of joint ventures and associated companies includes the effects generated by the valuation of the companies included in the scope of consolidation carried out using the equity method. For details please refer to note 17 "Shareholdings". The increase for the period is due to:

- an improvement in results compared to the previous period totalling 3.6 million euro, due to both the economic recovery after the strong contraction linked to the Covid 19 pandemic and the excellent performance in the last three months of the 2021 financial year of Enomondo Srl, a company active in the production of thermal energy and electricity from biomass combustion plants;
- the entry of SEA – Servizi Ecologici Ambientali Srl – into the scope of consolidation, for an effect of 1.4 million euro.

10 Financial income and expense

	2021	2020	Change
Customers	28.1	28.3	(0.2)
Income from derivatives	29.3	21.8	7.5
Income from valuation at fair value of financial liabilities	9.5	8.0	1.5
Other financial income	15.4	15.3	0.1
Total income	**82.3**	**73.4**	**8.9**
Expenses from trading	82.6	-	82.6
Expenses from bonds and loans	73.1	79.1	(6.0)
Expenses from derivatives	34.1	30.3	3.8
Valuation at depreciated cost of financial liabilities	29.7	28.4	1.3
Expenses from valuation at fair value of financial assets and liabilities	25.8	3.0	22.8
Charges from earn out and put option minority	20.0	19.6	0.4
Discounting of provisions	18.6	25.5	(6.9)
Factoring charges and transfer of tax credits	13.3	2.3	11.0
Other financial expenses	3.1	10.1	(7.0)
Total expenses	**300.3**	**198.3**	**102.0**
Total net financial income (expenses)	**(218.0)**	**(124.9)**	**(93.1)**

The change in overall financial performance, including reference to the Group's average cost of debt, is described in the directors' report, section 1.04.02 "Equity structure and reclassified net financial debt".

"Income and expenses from derivatives" is commented in note 20 "Derivative instruments", while note 26 "Non-current and current financial liabilities" contains further details concerning "Expenses from trading", "Expenses from bonds and loans" and "Charges from earn-outs and minority put options".

"Customers" is in line with the previous period and mainly include the interest on payments in arrears billing system for the gas and electricity customers.

"Income from valuation at fair value of financial assets and liabilities" mainly include:

- valuation adjustments, in application of the fair value hedge, of a bond for 7.5 million euro, as reported in Note 20 "Derivative instruments";
- net financial income related to the valuation at current market value of receivables arising from the application of the so-called invoice discount to end customers for services subject to the 110% Superbonus concession, held by the Group and intended to be sold to financial institutions, for 1.3 million euro.

The item "Other financial income" mainly include:

- discounting of non-current financial receivables of 5.6 million euro representing a deferred payment for asset construction work, increased by 1.6 million euro compared to the previous year;
- dividends paid by non-consolidated subsidiaries, amounting to 3.5 million euro, increased by 0.6 million euro;
- value restoration of a loan receivable from Tamarete Energia Srl, for 2.2 million euro;
- interest earnings on loans granted to companies valued at equity or to minor subsidiaries, in the amount of 2.1 million euro, in line with the previous year;
- net financial income of 1.5 million euro relating to the sale, for the first time in 2021, of tax credits for energy efficiency measures carried out with customers who benefited from the 110% Superbonus concession.

It should be noted that last year's figures included non-recurring items such as interest granted by the Agenzia delle Entrate in relation to the reimbursement of claims for the deductibility of IRAP from IRES in the amount of 2.3 million euro, and income from the sale of the stake in the associated company Q.tHermo Srl for 1.4 million euro.

"Expenses from trading", the item includes the net effect of partial repurchase transactions made during the year in respect of five bond issues. These operations led to the repayment of the debt for the nominal share repurchased for 405.5 million euro and the recording of net charges totalling 82.6 million euro. For further details, please see note 26 "Current and non-current financial liabilities";

"Charges from earn out and put option minority" include discounting charges related to the fair value valuation of put options granted to non-controlling interests, as reported in Note 26 "Non-current and current financial liabilities".

"Valuation at depreciated cost of financial liabilities", this item includes imputed charges necessary to bring the face cost of debt in line with that calculated using the effective interest rate method. The item also includes figurative charges of 1.6 million euro, in line with the previous year, relating to the put option held by Ascopiave Spa on the minority shareholding in Hera Comm, accounted for as a loan (with a nominal value of 54 million euro).

"Expenses from valuation at fair value of financial assets and liabilities" mainly include:

- financial expenses related to the measurement at current market value of receivables related to the application of the so-called invoice discount to end customers for energy efficiency measures not following under the 110% Superbonus, held by the Group and destined to be sold to financial institutions once the procedure for granting the related tax credit has been completed, for 18.6 million euro;
- valuation adjustments, in application of the fair value hedge, of a bond for 6.4 million euro, as reported in note 20 "Derivative instruments";
- recalculation of the fair value of the put option granted to Ascopiave Spa for the non-controlling shares in Estenergy Spa, equal to 0.8 million euro.

Discounting costs

The item "Discounting of provisions" is broken down as follows:

	2021	2020	Change
Post-closure landfills	13.2	19.7	(6.5)
Restoration of third-party assets	5.4	5.4	-
Post-employment and other employee benefits	(0.1)	0.3	(0.4)
Plant dismantling	0.1	0.1	-
Total	**18.6**	**25.5**	**(6.9)**

The main change as compared to the previous period in the post-closure landfill provisions, is due to the lower effect arising from the yearly update of the parameters used to reflect current market conditions (Wacc), as well as the revision of the assumptions on the timing of future disbursements.
It should be noted that the positive effect related to the "Post-employment and other employee benefits" is related to the interest rate curve used for the actuarial valuation of employee benefit provisions, which shows negative short-term returns.

"Factoring charges and transfer of tax credits" include the charges due to:

- the transfer to financial institutions of tax credits for energy efficiency measures carried out with customers who benefited from other concessions (other than the 110% Superbonus concession) for 9.9 million euro. The Group began systematically disposing of these tax credits only in 2021;
- sales of trade receivables, amounting to 3.4 million euro.

"Other financial charges", of a residual nature, include the write-down of the investment and non-current financial receivable related to the company H.E.P.T. Co. Ltd for a total of 2.4 million euro, as well as miscellaneous financial intermediation costs.

11 Taxes

This item is made up as follows:

	2021				2020				Change
	Current	Pre-paid	Deferred	Total	Current	Pre-paid	Deferred	Total	
IRES	99.4	(82.7)	(12.5)	**4.2**	109.0	(11.1)	(21.5)	**76.4**	(72.2)
IRAP	31.4	(11.9)	(2.6)	**16.9**	27.0	(0.6)	(3.3)	**23.1**	(6.2)
Substitute tax	13.1	-	-	**13.1**	12.3	-	-	**12.3**	0.8
Total	**143.9**	**(94.6)**	**(15.1)**	**34.2**	**148.3**	**(11.7)**	**(24.8)**	**111.8**	**(77.6)**

The significant decrease in the tax amount and the consequent improvement in the tax rate from 25.7% to 8.4% is due to the non-recurring effects of the tax realignment of certain goodwill values, pursuant to Article 110, paragraph 8, 8 bis and 8 ter of Legislative Decree 104/2020 as amended by Law 234/2021. The tax recognition of higher values of eligible goodwill resulted in the recording of a tax benefit of 77.8 million euro. Specifically, this involved:

- recognising deferred tax assets for 79.8 million euro (refer to note 19 "Deferred tax assets and liabilities" for considerations on the recoverability of this amount) and derecognise deferred tax liabilities for 7.2 million euro;
- recognising and paying in full during the year substitute taxes in the amount of 3% of the value of the realigned goodwill, amounting to 9.2 million euro.

As a result of the realignment operation described above, the Group companies that agreed to the realignment proceeded to pledge reserves and capital, existing at 31 December 2020, in suspended taxation for tax purposes pursuant to the above mentioned regulations, subject to taxation in the event of distribution, for a total of 299 million euro.

For a more consistent analysis of the tax rate trend, reference should be made to paragraph 1.04.01 "Income statement and investments" of the Directors' Report, in which both the pre-tax earnings and the tax charge have been adjusted for special items for the period, in order to determine an adjusted tax rate fully comparable with that of the previous year.

IRES tax rate reconciliation

The statutory tax rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 24%; the reconciliation with the effective rate is shown below.

	2021		2020	
	Nominal effect	Percentage effect	Nominal effect	Percentage effect
Pre-tax profit	406.9		434.6	
IRES				
Standard rate	(97.7)	(24.0)%	(104.3)	(24.0)%
IRAP deduction	0.9	0.2%	0.6	0.1%
Divestiture of shareholdings	-		0.3	0.1%
Ace and super ace	5.7	1.4%	2.7	0.6%
Maxi and hyper depreciation	8.5	2.1%	8.0	1.8%
IRES previous years	2.0	0.5%	-	
Other changes (increases and/or decreases)	(3.0)	(0.7)%	(2.0)	(0.5)%
IRAP and other current taxes				
IRAP	(16.9)	(4.2)%	(23.1)	(5.3)%
Exemption	66.3	16.3%	6.0	1.4%
Taxes	**(34.2)**	**(8.4)%**	**(111.8)**	**(25.7)%**

This reconciliation is performed only in connection with the IRES, given that, as a result of the rules governing the IRAP, reconciliation between the statutory tax rate derived from financial statement information and the effective tax rate, is not very meaningful.

The item "IRES previous years" mainly includes the positive effect of the Ace benefit for the years 2019 and 2020, recognised in 2021 following the positive outcome of a tax appeal.

The item "Exemption" includes the benefit on IRES taxes deriving from:

- realignments of goodwill net of substitute tax paid, amounting to 64.5 million euro;
- exemption pursuant to Legislative Decree no. 185/2008 (converted into Law 2/2009) of higher values arising from the acquisition of Recycla Spa, amounting to 1.8 million euro.

The 3 million euro increase in the item "Ace and super Ace" compared to the previous year shows that the Group seized the opportunities introduced by the Legislative Decree 73/202 regarding the super ace (effect for 1.4 million euro), obtaining a significant benefit on the tax rate for the year.

Deferred taxation

The prepaid and deferred taxes relating to the year 2021 refer to the following variations between taxable income and profit recorded in the financial statements:

Deferred tax assets	2021			2020		
	Temporary changes	Tax effect (IRES+IRAP)	Equity changes	Temporary changes	Tax effect (IRES+IRAP)	Equity changes
Pre-paid taxes with effect on the income statement and the statement of comprehensive income						
Depreciation	701.7	183.1		415.0	102.7	
Cash flow hedge	348.4	100.2		4.2	0.8	
Provisions for risks and charges	189.2	51.4		172.8	47.1	
Shareholdings	170.1	47.8		163.6	45.8	
Provision for bad debts	191.8	46.0		167.4	40.1	
Other	119.3	29.8		106.1	27.5	
Total tax effect	**1,720.5**	**458.3**	**0.3**	**1,029.1**	**264.0**	**(2.6)**
Credited (or debited) amount to the statement of comprehensive income		99.4			(9.9)	
Credited (or debited) amount to the income statement		94.6			11.7	

Deferred tax liabilities	2021			2020		
	Temporary changes	Tax effect (IRES+IRAP)	Equity changes	Temporary changes	Tax effect (IRES+IRAP)	Equity changes
Deffered taxes with effect on the income statement and statement of comprehensive income						
Depreciation	779.5	158.1		766.2	156.7	
Cash flow hedge	463.4	133.1		15.6	4.5	
Discounted liabilities	118.9	23.3		113.3	27.2	
Provisions for risks and charges	37.6	10.9		42.0	12.1	
Other	149.4	35.9		113.7	27.8	
Total tax effect	**1,548.8**	**361.3**	**19.5**	**1,050.8**	**228.3**	**3.6**
Credited (or debited) amount to the statement of comprehensive income		(128.6)			(4.5)	
Credited (or debited) amount to the income statement		15.1			24.8	

"Equity changes" have no effect on the income statement and the statement of comprehensive income for the year, as they include the balances of deferred tax assets and liabilities arising from:

- business combination operations (please see paragraph 2.02.02 "Scope of consolidation" for the specific values recorded during 2021);
- marginal reclassifications arising between deferred tax assets and liabilities.

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by Law 244 of 24 December 2007, and associated implemetational decrees, Ministerial Decree. of 1 April 2009, Ministerial Decree 8 June 2011 and Ministerial Decree 10 January 2018, to coordinate international accounting standards with the rules to determine the taxable base for IRES and IRAP purposes, as per Article 4, paragraph 7-quarter of Legislative Decree 38/2005. In particular, the reinforced derivation principle of article 83 of the Consolidated Tax Act (TUIR) was applied, which calls for entities that use IFRSs to use, including in a departure from the provisions of the TUIR, the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards.

Reporting on tax litigations

IRES, IRAP and VAT

Company Tax	Description of litigation	Status of litigation	Disputed amount*	Amounts paid (including provisionally)	recorded in the financial statement
Ascotrade Spa IRES, IRAP and VAT	Notice of assessment for the years between 2013 and 2017 concerning the deductibility of a number of components of the purchase cost of raw material and the irregular VAT deduction. Notice of assessment for the year 2018 concerning VAT alone.	The proceedings for the years 2013 and 2014 are pending before the Regional Tax Commission of Venice following the appeals lodged by the Inland Revenue Office against first instance rulings in favour of the company. The proceeding for the year 2015 is still pending before the Provincial Tax Commission of Venice. The Company filed appeals in February 2022, for the years 2016 and 2018.	7.6	-	-
Hera Trading Srl IRES and "Robin Tax" surtax	Notices of assessment for the years between 2011 and 2013 (only the latter for the Robin tax) concerning the deduction of net financial income related to commodity derivatives and environmental certificates.	The proceedings are pending before the relevant Regional Tax Commissions for all the tax periods for which appeals were lodged against the first instance ruling.	6.6	2.6	-
Herambiente Spa IRAP	Notices of assessment for the years from 2009 to 2013, focused mainly on the amount the company owed in relation to the IRAP subsidy "tax wedge".	In relation to the tax years 2009, 2010 and 2011 proceedings are pending before the Court of Cassation following the appeals lodged by the loosing party (the rulings are both favourable and unfavourable to the company). For the tax year 2012 the second instance ruling is underway, whilst for the tax year 2013 the appeal against the unfavourable second instance ruling is being prepared.	4.4	3.5	1.4
Marche Multiservizi Spa IRES and IRAP	Notices of assessment for the years between 2009 and 2015 to objection to the deduction of provision to landfill post management allowance.	The proceedings for the years 2009 and 2014 are pending before the Regional Tax Commission of Ancona following the appeals lodged by the loosing party against the rulings (the rulings are both favourable and unfavourable to the company). The proceeding for the year 2015 was decided by the Provincial Tax Commission of Ancona with a ruling favourable to the Company, but the Inland Revenue has lodged an appeal and the Company will file suit within the period established by law.	2.5	1.8	0.1
AcegasApsAmga Spa IRES, IRAP and VAT	The tax audit report for the year 2015 containing objections to the secondment of staff.	Following discussions with the Inland Revenue Office, the claim was reformulated with service of a notice of assessment amounting to 14 thousand euros, which was paid at the end of the dispute.	0.6	-	-
Inrete Distribuzione Spa IRES and IRAP	IRES and IRAP notice of assessment for the year 2016 in which the verifiers contested the undue deduction of discounting charges and the erroneous determination of the maxi depreciation allowance, with regard to accessory charges related to smart meters, as well as the undue deduction of personnel-related expenses for IRAP purposes.	The company entered into negotiations with the Inland Revenue Office and settled the IRAP claim by paying the amount due. With reference to IRES, the proceedings are currently pending in first instance following the filing of an appeal.	0.3	0.1	-

Hera Luce Srl IRES and IRAP	Notice of assessment for the year 2013 concerning the deductibility of routine maintenance costs.	The company appealed against the first instance ruling issued by the Provincial Tax Commission of Forlì, which cancelled the penalties, but confirmed higher taxes.	0.3	0.3	-
Hera Luce Srl IRES and IRAP	Audit report for the year 2015 in relation to the handling of the waiver of own receivables against an increase in a consortium fund.	Following the notice of assessment served by the Inland Revenue Office, payment was made with acquiescence and a resulting reduction in fines to 1/3 at the end of the dispute.	0.1	0.1	-

* "redetermined amount" means the original amount of the claim with no interests, unless it was redetermined as a result of judicial conciliation, assessment with adhesion, partial annulment in judicial proceedings or on self-defence.
** the amounts paid include interest, if due

Other taxes

Company Tax	Description of litigation	Status of litigation	Disputed amount*	Amounts paid (including provisionally)	Provisions recorded in the financial statement
Herambiente Spa Eco-tax	Dispute documents related to the Sommacampagna landfill for the periods 2014-2017.	The proceedings are pending before the relevant Provincial Tax Commissions for all the tax periods.	7.5	-	-
Herambiente Spa ICI/IMU	Notices of assessment for the years 2008 to 2016 concerning the classification in the real estate registry of the Ferrara waste-to-energy plant.	The proceedings were concluded for the 2008-2013 notices with a favourable ruling for the Company, and are still pending before the Tax Commission for the remaining years.	2.8	-	-
Herambiente Spa ICI/IMU	Notices of assessment for the years between 2010 and 2020 concerning the classification in the real estate registry of land, facilities and buildable areas located in Ravenna.	Most of the notices of assessment for the period 2010-2015 were subject to judicial settlement in 2018 and the company is in the process of paying them. A number of notices of assessment for matters not included in the settlement agreement as well as notices of assessment for the period 2016-2020 are still pending before the Regional Tax Commission of Emilia-Romagna and the Provincial Tax Commission of Ravenna.	2.6	1.8	0.2
AcegasApsAmga Spa Excise on self-consumption	Technical-administrative audit of the Padua and Trieste waste-to-energy plants carried out by the Customs Agency for the years 2012 to 2015 in relation to the installation of measuring instruments for detecting electricity produced and used for self-consumption and associated payment of the excise.	The proceedings pertaining to the waste-to-energy plant of Padua are pending before the Court of Cassation following the appeal filed, while the proceedings pertaining to the waste-to-energy plant of Trieste are pending before the Regional Tax Commission of Trieste.	2.1	0.8	-
Herambiente Spa ICI/IMU	Notices of assessment for the years between 2013 and 2019 concerning the waste to energy plant and the recycling plant located in the municipality of Coriano.	The proceedings for the years 2013-2015 are currently pending partly before the Provincial Tax Commission of Rimini and partly before the Regional Tax Commission of Emilia-Romagna. Assessments for the years 2016-2019 are pending before the Provincial Tax Commission of Rimini.	1.0	-	-
Hera Spa COSAP/TOSAP	Notices of assessment for the tax periods from 2013 to 2017, notified by the Municipality of Riccione for the permanent occupation of public land with waste bins.	The TOSAP proceedings for the years between 2013 and 2016 are pending before the Regional Tax Commission of Emilia-Romagna, while the COSAP proceedings for the year 2017 are pending before the Civil Court of Rimini.	1.0	1.0	2.4
	COSAP notice of objection for the tax periods from 2018 and 2019, notified by the Municipality of Riccione for the permanent occupation of public land with waste bins.	The proceedings are pending before the Civil Court of Rimini.	2.1	-	
	TOSAP notices of assessment for the tax years 2014-2018, notified by the Municipality of Coriano for the permanent occupation of public land with waste bins.	The proceedings for the year 2014 are currently pending before the Regional Tax Commission of Emilia-Romagna, while the appeal for the year 2015 is pending before the Provincial Tax Commission of Rimini. With respect to the notices for 2016, 2017 and 2018, the following appeals were filed in the first instance.	0.9	-	

* "redetermined amount" means the original amount of the claim with no interests, unless it was redetermined as a result of judicial conciliation, assessment with adhesion, partial annulment in judicial proceedings or on self-defence.
** the amounts paid include interest, if due

With reference to the disputes in question, having consulted its lawyers, the Group has decided to make the provisions indicated. In cases in which no provision has been made, the alleged violations have been deemed groundless.

12 Earnings per share

	2021	2020
Profit or loss for the period attributable to holders of ordinary shares of the parent entity (A)	333.5	302.7
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss) per share		
basic (B)	1,461,238,457	1,467,973,723
diluted (C)	1,461,238,457	1,467,973,723
Earnings (loss) per share (in euro)		
basic (A/B)	**0.228**	**0.206**
diluted (A/C)	**0.228**	**0.206**

Basic earnings per share are calculated on the operating result attributable to holders of ordinary shares of the parent company. Diluted earnings per share are equal to the basic as there are no classes of shares other than ordinary shares and there are no instruments that can be converted into shares.

At the writing of this consolidated financial statement, the share capital of the parent company Hera Spa consisted of 1,489,538,745 ordinary shares, unchanged from 31 December 2020, which were used in determining basic and diluted earnings per share.

13 Tangible assets

	31 Dec 21	31 Dec 20	Change
Land and buildings	585.3	573.2	12.1
Plants and machinery	1,107.8	1,120.1	(12.3)
Other movable assets	123.7	126.5	(2.8)
Assets under construction	122.1	104.4	17.7
Total operating assets	**1,938.9**	**1,924.2**	**14.7**
Investment property	2.1	2.3	(0.2)
Total	**1,941.0**	**1,926.5**	**14.5**

Tangible assets are disclosed net of accumulated depreciation. Their composition and changes in the period are as follows:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net terminal value	of which gross terminal value	of which depreciation provision
31 Dec 20									
Land and buildings	583.5	6.4	(1.7)	(20.6)	-	5.6	573.2	824.5	(251.3)
Plants and machinery	1,181.6	49.8	(2.0)	(133.9)	-	24.6	1,120.1	2,906.6	(1,786.5)
Other movable assets	134.9	17.7	(0.5)	(27.1)	0.1	1.4	126.5	487.0	(360.5)
Assets under construction	90.3	66.7	(0.1)	(0.4)	-	(52.1)	104.4	104.4	-
Total	**1,990.3**	**140.6**	**(4.3)**	**(182.0)**	**0.1**	**(20.5)**	**1,924.2**	**4,322.5**	**(2,398.3)**
31 Dec 21									
Land and buildings	573.2	13.2	(0.1)	(21.5)	9.6	10.9	585.3	856.8	(271.5)
Plants and machinery	1,120.1	58.0	(4.2)	(120.6)	3.3	51.2	1,107.8	3,005.5	(1,897.7)
Other movable assets	126.5	14.4	(0.8)	(28.8)	2.3	10.1	123.7	511.1	(387.4)
Assets under construction	104.4	86.3	(0.1)	(2.0)	-	(66.5)	122.1	122.1	-
Total	**1,924.2**	**171.9**	**(5.2)**	**(172.9)**	**15.2**	**5.7**	**1,938.9**	**4,495.5**	**(2,556.6)**

The breakdown and main changes within each category are commented on below, while for a more detailed description of the investments made during the period, please refer to section 1.07 of the directors' report "Analysis by strategic business areas".

"Land and buildings" consists of 122.7 million euro in land and 462.6 million euro in buildings. These are mainly company-owned properties on which the majority of the sites and production plants stand.

"Plant and machinery" is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system such as district heating, electricity in the Modena area, waste disposal and waste treatment as well as plastic production plants. The main investments during the year concern waste treatment, for a total of 25.6 million euro, distribution of electricity for 9.3 million euro and energy services for a total of 7.3 million euro.

"Other movable assets", mainly includes the equipment, waste disposal bins for 63.9 million euro, and vehicles and cars for 47 million euro.

"Assets under construction" includes mainly investment for development of district heating (8.9 million euro), electricity distribution (8.8 million euro), cogeneration facilities (4.8 million euro) and waste treatment plants.

"Other changes" covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial year, as well as the reclassification from tangible assets to intangible assets, especially when goods used in activities under concession are involved. Please note that this also includes the initiation of the development of a new landfill, for 5.1 million euro.

For additional details on guarantees granted in favour of third parties and in relation to tangible assets held by the Group, please refer to note 26 "Current and non-current financial liabilities".

The value of tangible assets was tested for impairment, the results of which are outlined in note 31 "Impairment test".

14 Rights of use and leasing liabilities

The following tables show the breakdown of rights of use (reported net of the associated amortisation provision) and lease liabilities at the transition date and the related movements. Contracts taken over as part of business combinations are separately reported in movements during the period and classified as "Changes in the scope of consolidation".

Rights of use

	31 Dec 21	31 Dec 20	Change
Rights of use land and buildings	65.7	68.7	(3.0)
Rights of use plants and machinery	7.8	7.9	(0.1)
Rights of use other assets	28.1	19.3	8.8
Total	**101.6**	**95.9**	**5.7**

	Net opening balance	New contracts and contractual changes	Decreases	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net terminal value	of which gross terminal value	of which depreciation provision
31 Dec 20									
Rights of use land and buildings	69.1	7.5	-	(7.8)	0.3	(0.4)	68.7	106.1	(37.4)
Rights of use plants and machinery	7.9	4.7	-	(1.2)	-	(3.5)	7.9	10.9	(3.0)
Rights of use other assets	19.9	6.6	-	(7.3)	-	0.1	19.3	35.9	(16.6)
Total	**96.9**	**18.8**	**-**	**(16.3)**	**0.3**	**(3.8)**	**95.9**	**152.9**	**(57.0)**
31 Dec 21									
Rights of use land and buildings	68.7	5.1	-	(7.7)	0.8	(1.2)	65.7	110.4	(44.7)
Rights of use plants and machinery	7.9	0.2	-	(1.2)	0.9	-	7.8	12.0	(4.2)
Rights of use other assets	19.3	14.6	-	(8.1)	2.4	(0.1)	28.1	48.3	(20.2)
Total	**95.9**	**19.9**	**-**	**(17.0)**	**4.1**	**(1.3)**	**101.6**	**170.7**	**(69.1)**

"Rights of use land and buildings" consists of 60.3 million euro in rights of use of buildings and 5.4 million euro in rights of use of land. The rights of use for buildings refers mainly to contracts concerning the real estate structures used for headquarters, offices and customer service desk.

"Rights of use of plant and machinery" refers mainly to contracts regarding purification and composting plants.

"Rights of use of other movable assets" refers mainly to contracts concerning IT infrastructures (especially data centres), operational vehicles and cars.

The column "New contracts and contractual amendments" shows the leases signed during the year, as well as the change in the assumptions regarding their duration and contractual options. The increase in the period is primarily due to the signing of contracts for the use of IT infrastructure (8.6 million euro), company vehicles (3.4 million euro) and the revision of clauses relating to lease contracts for operating sites (2.7 million euro).

The column "Other changes" includes the residual value of leased assets redeemed during the period and reclassified under tangible assets due to their nature.

The value of the rights of use was tested for impairment, the results of which are outlined in note 31 "Impairment test".

Financial liabilities are broken down below with details of the changes:

Financial liabilities

31 Dec 21	Net opening balance	New contracts and contractual changes	Decreases	Financial expenses	Changes in the scope of consolidation	Other changes	Net terminal value
Lease liabilities	**93.6**	**19.9**	**(22.5)**	**3.2**	**2.5**	**-**	**96.6**
of which							
non-current liabilities	73.5						53.2
current liabilities	20.1						43.4

Financial liabilities due to leases mainly include financial payables arising from the rental fees of the Group's operating and administrative offices. The column "New contracts and contractual changes" includes the new contracts signed in the period and the re-assessment of the debt of some of the existing contracts, generated by the update of the assumptions underlying the contracts themselves concerning options of renewal, purchase or early termination.

"Decreases" is generated by the reimbursement of contractual fees due over the course of the financial year.

In accordance with its procurement policies, the Group subscribed contracts in line with market standards for all types of underlying assets. In the case of offices, customer service desks, cars and IT infrastructure, the contracts do not contain any binding clauses or special fees in the event of annulment, as these assets are perfectly interchangeable and are offered by a large number of counterparties. The liability reported in the financial statements therefore represents the most likely total sum of disbursements that the Group will have to make in future periods. For the same reasons, moreover, the renewal clauses, when they exist, are not currently expected to be exercised, possibly assessing their cost-effectiveness in the future. Finally, with regard to the leased buildings hosting important production facilities, which represent the contracts with the most significant absolute value, following agreements entered into at the end of the financial year, the Group will redeem them during 2022 and therefore the value of the liability already reflects the option to transfer ownership.

The table below shows the lease liabilities broken down by category according to their expiration date, within the financial period, within the 2nd year, within the 5th year and after 5 years:

Type	Total	Portion due within the period	Portion due within 2nd year	Portion due within 5th year	Portion due beyond 5th year
2020 financial year	93.6	20.1	23.1	20.0	30.4
2021 financial year	96.6	43.4	15.0	26.1	12.1

15 Intangible assets

	31 Dec 21	31 Dec 20	Change
IT applications	84.6	78.8	5.8
Concessions and other rights of use	113.8	130.2	(16.4)
Public services under concession	2,963.4	2,860.1	103.3
Customer lists	576.2	546.3	29.9
Other intangible assets	79.4	67.7	11.7
Intangible assets in progress, public services under concession	237.4	169.5	67.9
Intangible assets in progress	71.9	71.8	0.1
Total	**4,126.7**	**3,924.4**	**202.3**

Intangible assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net terminal value	of which gross terminal value	of which depreciation provision
31 Dec 20									
IT applications	78.6	4.3	-	(37.2)	-	33.1	78.8	479.3	(400.5)
Concessions and other rights of use	132.0	2.8	-	(15.5)	-	10.9	130.2	471.3	(341.1)
Public services under concession	2,718.6	196.6	(3.2)	(153.3)	-	101.4	2,860.1	4,896.9	(2,036.8)
Customer lists	578.4	-	-	(32.1)	-	-	546.3	629.2	(82.9)
Other intangible assets	49.6	30.1	(0.7)	(20.5)	5.3	3.9	67.7	200.9	(133.2)
Intangible assets in progress, public services under concession	157.3	82.8	(0.2)	-	-	(70.4)	169.5	169.5	-
Intangible assets in progress	65.7	49.2	-	(0.2)	-	(42.9)	71.8	71.8	-
Total	**3,780.2**	**365.8**	**(4.1)**	**(258.8)**	**5.3**	**36.0**	**3,924.4**	**6,918.9**	**(2,994.5)**
31 Dec 21									
IT applications	78.8	5.5	-	(39.7)	0.2	39.8	84.6	524.5	(439.9)
Concessions and other rights of use	130.2	0.3	-	(16.8)	-	0.1	113.8	471.6	(357.8)
Public services under concession	2,860.1	181.1	(4.5)	(160.9)	4.7	82.9	2,963.4	5,144.1	(2,180.7)
Customer lists	546.3	-	-	(34.8)	64.7	-	576.2	693.9	(117.7)
Other intangible assets	67.7	33.3	-	(26.9)	0.2	5.1	79.4	225.8	(146.4)
Intangible assets in progress, public services under concession	169.5	144.4	(0.8)	-	-	(75.7)	237.4	237.4	-
Intangible assets in progress	71.8	52.2	-	(0.9)	-	(51.2)	71.9	71.9	-
Total	**3,924.4**	**416.8**	**(5.3)**	**(280.0)**	**69.8**	**1.0**	**4,126.7**	**7,369.2**	**(3,242.5)**

The breakdown and main changes within each category are commented on below, while for a detailed description of the investments made during the period, please refer to paragraph 1.07 "Analysis by business areas" of the directors' report.

"IT applications" refers to costs incurred in purchasing licenses and implementing corporate information systems.

"Concessions and other rights of use" mainly includes:

- concessions, for 44.5 million euro, primarily involving the rights relating to the activities of gas distribution and integrated water cycle, classified as intangible assets even before the IFRIC 12 interpretation "Service concession arrangements" was first applied;
- the authorisation to operate the Serravalle Pistoiese landfill, for 59.6 million euro, an asset recorded as part of a business combination operation carried out the previous financial year and amortised on the basis of the tons consigned.

"Public services under concession" includes assets relating to gas distribution, electricity distribution (Imola area), the integrated water cycle and public lighting activities (except for the latter, as specified in note 18 "Current and non-current financial assets") provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC 12 interpretation. Investments for the year related mainly to the water networks, in the amount of 104.2 million euro, and gas distribution networks, in the amount of 65.4 million euro.

"Intangible assets in progress and public services under concession" includes investments related to these concessions that are still to be completed at the end of the period and mainly refers to the water networks, in the amount of 87 million euro, and gas distribution networks, in the amount of 30.9 million euro.

"Intangible assets in progress" essentially comprises IT projects that are still incomplete.

"Customer lists" are recorded as a result of business combination transactions and the consequent valuation of the assets acquired. The amortisation period of these customer lists is correlated to the churn rate identified for each individual transaction.

The item "Other intangible assets" refers mainly to the rights of use for networks and infrastructures for the passage and laying down of telecommunication networks and the incremental costs incurred for obtaining new sale contracts. As required by IFRS 15, these incremental costs, involving mainly commissions paid to agents, were recorded as assets and are depreciated over the average lifetime of new customers (churn rate). The commissions stated as assets for the year 2021 amount to 24.8 million euro (as compared to 24.6 million euro in the previous year).

"Other changes" includes reclassifications of assets under construction to their specific categories for assets that began to be used during the year and reclassifications to tangible assets, especially when goods used in activities under contract are involved.

The "Changes in the scope of consolidation" reflects the acquisitions carried out during the year that specifically resulted in recording customer lists for 64.6 million euro and networks for managing public services held under concession for 4.7 million euro. For further details, reference should be made to paragraph 2.02.02 "Scope of consolidation".

The value of intangible assets was tested for impairment, the results of which are outlined in note 31 "Impairment test".

16 Goodwill

	31 Dec 21	31 Dec 20	Change
Goodwill	842.9	812.8	30.1

The value of goodwill at 31 December 2021 mainly reflects the following operations:

- acquisition of control of "Ascopiave commercial activities" in the Veneto, Friuli-Venezia Giulia and Lombardy regions, that is the companies EstEnergy Spa, Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa and Etra Energia Srl, as well as the company Amgas Blu Srl operating in the province of Foggia, for a total of 431.2 million euro;
- integration that in 2002 resulted in the creation of Hera Spa, 81.3 million euro;
- acquisition of control through the merger of Agea Spa, effective beginning 1 January 2004, 41.7 million euros:
- acquisition of control over Gruppo Meta which took place at the end of the 2005 financial year, as a result of the merger of Meta Spa into Hera Spa, for 117.7 million euro;
- acquisition of control over Sat Spa through the merger into Hera Spa, effective beginning 1 January 2008, for 54.9 million euro:
- acquisition of control over the Gruppo Aliplast in early 2017, for 25 million euro;
- acquisition of control over the Marche Multiservizi Spa Group, for 20.8 million euro.

As reported in paragraph 2.02.02 "Scope of consolidation", during 2021 the acquisitions of control of the company Recycla Spa and of the Vallortigara Group led to the entry of goodwill amounting to 18.6 million euros and 11.5 million euros respectively.

The value of goodwill were tested for impairment, the results of which are outlined in note 31 "Impairment test".

17 Shareholdings

	31 Dec 21	31 Dec 20	Change
Shareholdings valued using the equity method	150.6	137.2	13.4
Other shareholdings	47.9	50.7	(2.8)
Total	**198.5**	**187.9**	**10.6**

The changes in joint ventures and associated companies as compared to 31 December 2021 take into account the pro-quota losses and profits reported by the respective companies (including the other components of the comprehensive income statement) as well as the possible reduction of the value for any dividends that were distributed and for depreciations due to the impairment test. The share of profit or loss pertaining to companies accounted for by the equity method is shown in note 9 "Share of profit (loss) of joint ventures and associated companies".

Associated companies and joint ventures

Changes in consolidated investments using the net equity method are as follows:

	31 Dec 20	Investments and disinvestments	Profit for the period	Dividends paid out	Changes in the scope of consolidation	Write-downs and other changes	31 Dec 21
Joint ventures							
Enomondo Srl	15.6	-	3.1	(1.1)	-	-	17.6
Total joint ventures	**15.6**	**-**	**3.1**	**(1.1)**	**-**	**-**	**17.6**
Associated companies							
Aimag Spa	50.6	-	3.7	(2.6)	-	-	51.7
Set Spa	27.9	-	0.6	-	-	-	28.5
Sgr Servizi Spa	24.4	-	3.0	(2.2)	-	-	25.2
ASM SET Srl	18.7	-	1.4	(1.2)	-	-	18.9
SEA - Servizi Ecologici Ambientali Srl	-	-	1.4	(2.4)	9.7	-	8.7
Total associated companies	**121.6**	**-**	**10.1**	**(8.4)**	**9.7**	**-**	**133.0**
Total	**137.2**	**-**	**13.2**	**(9.5)**	**9.7**	**-**	**150.6**

Acquisition of 31% of the associated company SEA - Servizi Ecologici Ambientali Srl is illustrated in Chapter 1.03 "Main events occurred".

On 30 September 2021 the associated company Sinergie Italiane Srl in liquidation terminated its operations due to the end of the multi-year contract for the import of gas and to the sale of the transportation quotas held in its portfolio. The company, whose book value had already been written off in previous years, is thus no longer consolidated using the equity method and is classified under "Other shareholdings", while the value of the outstanding loans to the company represents the best estimate of the cash holdings that the Group will receive upon liquidation.

Other shareholdings

Investments in companies not included in the scope of consolidation underwent the following changes:

	Fair value hierarchy	31 Dec 20	Investments and disinvestments	Assessments at fair value	Other changes	31 Dec 21
Ascopiave Spa	1	42.0	-	(2.1)	-	39.9
Veneta Sanitaria Finanza di Progetto Spa	3	3.6	-	-	-	3.6
Other minor companies	3	5.1	1.3	(2.0)	-	4.4
Total		**50.7**	**1.3**	**(4.1)**	**-**	**47.9**

In the case of shareholdings with a fair value hierarchy 1, the value adjustment, recorded in the components of the comprehensive income statement, makes it possible to align the book value of the equity investment with the market prices at the end of the year. In the case of hierarchy 3 shareholdings, partly in view of the insignificant value of the investments in the portfolio, the change in fair value was not significant.

Investments for the period mainly refer to HEA Spa, established in 2021 by Herambiente Servizi Industriali Srl in partnership with Eni Rewind Spa. The company, which was set up to create a multi-purpose platform for special waste pre-treatment and treatment in the industrial area of Ravenna, is not yet operational as it is awaiting the completion of the authorization process.

The assessment of the shareholding in H.E.P.T. Co. Ltd resulted in a reduction in fair value of 2 million euro due to current conditions in the Chinese benchmark market.

The carrying amounts of the equity investments representing vehicles through which the Group owns production quotas for electrical generation plants (Set Spa and Tamarete Energia Srl) underwent the impairment test; for the test results and further details regarding the assumptions, please see note 31 "Impairment test".

Subsidiary data

Below are presented the main aggregate values of the jointly controlled company Enomondo Srl as well as companies with significant influence (Aimag Spa, ASM SET Srl, SEA Srl, Set Spa, Sgr Servizi Spa and Tamarete Energia Srl):

Assets	Company Joint ventures	Company Associated companies	Total
Non-current assets			
Tangible assets	31.7	411.5	443.2
Rights of use		0.7	0.7
Intangible assets		51.4	51.4
Goodwill		107.6	107.6
Shareholdings		7.4	7.4
Financial assets	0.1	10.9	11.0
Deferred tax assets	0.7	5.3	6.0
Total non-current assets	**32.5**	**594.8**	**627.3**
Current assets			
Inventories	0.4	17.5	17.9
Trade receivables	9.9	334.0	343.9
Contract work in progress		0.4	0.4
Financial assets		29.7	29.7
Current tax assets		2.7	2.7
Other current assets	8.7	48.8	57.5
Cash and cash equivalents	7.2	49.2	56.4
Total current assets	**26.2**	**482.3**	**508.5**
Total assets	**58.7**	**1,077.1**	**1,135.8**

Net equity and liabilities	Company Joint ventures	Company Associated companies	Total
Share capital and reserves			
Share capital	14.0	88.0	102.0
Reserves	15.1	272.8	287.9
Profit (loss) for the period	6.3	35.1	41.4
Group net equity	**35.4**	**395.9**	**431.3**
Non-controlling interests		13.6	13.6
Total net equity	**35.4**	**409.5**	**444.9**
Non-current liabilities			
Non-current financial liabilities	10.2	244.6	254.8
Non-current lease liabilities		0.6	0.6
Post-employment and other benefits		5.8	5.8
Provisions for risks and charges	1.1	37.7	38.8
Deferred tax liabilities		0.7	0.7
Total non-current liabilities	**11.3**	**289.4**	**300.7**
Current liabilities			
Current financial liabilities	2.5	30.3	32.8
Current lease liabilities		0.1	0.1
Trade payables	9.1	293.3	302.4
Current tax liabilities	0.2	0.7	0.9
Other current liabilities	0.2	53.8	54.0
Total current liabilities	**12.0**	**378.2**	**390.2**
Total liabilities	**23.3**	**667.6**	**690.9**
Total net equity and total liabilities	**58.7**	**1,077.1**	**1,135.8**

Income statement	Company Joint ventures	Company Associated companies	Total
Revenues	21.6	881.6	903.2
Other operating revenues	6.4	2.8	9.2
Raw materials and materials	(2.2)	(617.9)	(620.1)
Service costs	(12.0)	(112.5)	(124.5)
Personnel costs	(0.5)	(29.3)	(29.8)
Amortisation, provisions and depreciation	(4.9)	(49.6)	(54.5)
Other operating costs	(0.3)	(18.6)	(18.9)
Operating revenues	**8.1**	**56.5**	**64.6**
Financial income		8.6	8.6
Financial expenses	(0.1)	(8.2)	(8.3)
Total financial management	**(0.1)**	**0.4**	**0.3**
Other non-operating revenues (expenses)		(0.3)	(0.3)
Pre-tax profit	**8.0**	**56.6**	**64.6**
Taxes for the period	(1.7)	(15.2)	(16.9)
Net revenues for the period	**6.3**	**41.4**	**47.7**

18 Current and non-current financial assets

	31 Dec 21	31 Dec 20	Change
Loan receivables	35.8	44.3	(8.5)
Portfolio securities	1.9	1.9	-
Receivables for construction services	59.2	46.5	12.7
Other financial receivables	45.8	48.1	(2.3)
Total non-current financial assets	**142.7**	**140.8**	**1.9**
Loan receivables	5.8	4.1	1.7
Portfolio securities	-	0.1	(0.1)
Other financial receivables	23.5	28.6	(5.1)
Total current financial assets	**29.3**	**32.8**	**(3.5)**
Total cash holdings	**885.6**	**987.1**	**(101.5)**
Total financial assets and cash holdings	**1,057.6**	**1,160.7**	**(103.1)**

"Loan receivables", comprises loans, regulated at market rate, made to the following companies:

	31 Dec 21			31 Dec 20		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe SpA	6.1	0.8	6.9	6.9	0.8	7.7
Calenia Energia Spa	7.1	0.3	7.4	9.6	0.1	9.7
Set Spa	15.4	3.1	18.5	18.5	3.0	21.5
Other minor companies	7.2	1.6	8.8	9.3	0.2	9.5
Total	**35.8**	**5.8**	**41.6**	**44.3**	**4.1**	**48.4**

Loans to companies that are vehicles through which the Group owns production quotas for electricity generation plants (Set Spa andTamarete Energia Srl) were tested for impairment, resulted in a write-up of the loan to Tamarete Energia Srl for 2.2 million euro, equivalent to the amount collected during the year.

"Portfolio securities" include for the non-current part 1.9 million euro in bonds, funds and insurance policies to guarantee post-mortem management of the landfill managed by the subsidiary Asa Scpa. These securities are financial instruments measured at fair value through other comprehensive income components.

"Receivables for construction services" are from municipalities for the construction of public lighting systems identified in keeping with the financial asset model provided by the IFRIC 12 interpretation, as shown in greater detail in the section describing the evaluation criteria of the item "Loans and receivables" in paragraph 2.02.03 "Evaluation criteria and consolidation principles".

"Other financial receivables", in the non-current section, include the following counterparties:

- the municipality of Padua, receivables regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 13.6 million euro;
- the so-called Collinare Consortium of Municipalities in the amount of 12.1 million euro represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- Acosea Impianti Srl, regarding a security deposit in the amount of 12.6 million euro;
- the municipalities of Vigarano, Goro and Castello d'Argile in relation to the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end, in the amount of 3.9 million euro.

"Other financial receivables", in the current section, are mainly comprised of:

- public grants to be received from various subjects (Cato and the Veneto Region) in the amount of 9.8 million euro;
- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the commencement of the calls for tender, in the amount of 4.7 million euro.

The decrease compared to the previous year is mainly due to the collection of the grant from the Friuli Venezia-Giulia Region for the construction of the water treatment plant in Servola, amounting to 3.6 million euro, and the collection of 1.7 million euro from the Consorzio Stabile Energie Locali (Csel), following the awarding of the tender for the public lighting service.

"Cash and cash equivalents" include almost exclusively bank and postal deposits.
To better understand the financial dynamics taking place during 2021, see the financial statements.

19 Deferred tax assets and liabilities

	31 Dec 21	31 Dec 20	Change
Pre-paid tax assets	458.3	264.0	194.3
Offsetting of deferred tax liabilities	(229.2)	(107.8)	(121.4)
Substitute tax credit	0.3	0.4	(0.1)
Total net deferred tax assets	**229.4**	**156.6**	**72.8**
Deferred tax liabilities	361.3	228.3	133.0
Offsetting of deferred tax liabilities	(229.2)	(107.8)	(121.4)
Total net deferred tax liabilities	**132.1**	**120.5**	**11.6**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets with the corresponding current tax liabilities.

"Pre-paid tax assets" arise from timing differences between reported profit and taxable profit, mainly in relation to bad debt provisions, risks and expenses funds, instances of civil depreciation that are greater than those relevant for tax purposes, and the redemption of goodwill customers lists and controlling interests.
The increase for the period is due to the following effects:

- change for the period of the fair value of commodity derivatives classified as cash flow hedge, resulting in an asset increase of 99.4 million euro with a balancing entry in the statement of comprehensive income.
- realignment of the book and tax values of goodwill recognised in the financial statements at 31 December 2019, as provided for by Article 1, paragraph 83 of the 2021 Budget Law, amounting to 78.2 million euro.

Deferred tax assets were recorded in the financial statements in view of the high likelihood of generating taxable income in future years against which the deductible temporary difference may be used. In particular, in relation to the assets recorded against the realignment of goodwill, for which tax regulations provide for annual use on a straight-line basis for a period of 50 years from 2021, management has assessed they are fully recoverable in view of the extension of the predictability timeframes of regulated distribution businesses (assessed on the basis of parameters such as the residual useful life of the assets, the extension of the concessions and their likelihood of renewal), the particularly limited impact of the taxable income required to recover these deferred tax assets on the overall taxable income generated by the distribution assets with a residual useful life of several decades, as well as the tax consolidation regime under which the Group operates, which makes it possible to offset any tax losses across all businesses.

"Deferred tax liabilities" arise from temporary differences between reported profit and taxable profit, mainly in relation to greater tax deductions taken in previous years for provisions and amounts of

property, plant and equipment not relevant for tax purposes. The item also includes the significant tax effects of recognising or adjusting assets and liabilities in the consolidated financial statements.
The increase compared to 31 December 2020 is mainly due to deferred taxes related to changes in the fair value of commodity derivatives used as cash flow hedges, which brought about an increase in liabilities in the among of 128.6 million euro with a balancing entry in the comprehensive income statement.

For more details concerning the re-alignment and dynamics of deferred tax assets and liabilities, see note 11 "Taxes2.

20 Derivative instruments

	31 Dec 21			31 Dec 20			Changes
Interest/exchange rate derivatives	Fair value assets	Fair value liabilities	Net effect	Fair value assets	Fair value liabilities	Net effect	Net effect
Loans	-	0.1	(0.1)	9.9	2.7	7.2	(7.3)
Foreign currency loans	6.9	13.4	(6.5)	14.4	20.1	(5.7)	(0.8)
Total interest/exchange rate derivatives	**6.9**	**13.5**	**(6.6)**	**24.3**	**22.8**	**1.5**	**(8.2)**
Commodity derivatives			-				-
Commercial portfolio	1,716.1	1,616.6	99.5	56.5	49.4	7.1	92.4
Trading portfolio	81.3	86.6	(5.3)	46.8	63.6	(16.8)	11.5
Total commodity derivatives	**1,797.4**	**1,703.3**	**94.1**	**103.3**	**113.0**	**(9.7)**	**103.8**
Total derivatives	**1,804.3**	**1,716.8**	**87.5**	**127.6**	**135.8**	**(8.2)**	**95.7**
of which non current	6.9	13.5		14.4	20.1		
of which current	1,797.4	1,703.3		113.2	115.7		

The derivative instruments used by the Group are divided into two types based on the underlying assets hedged: interest and exchange rates with reference to financing transactions, and commodities with reference to the commercial purchase and sale of gas and electricity. All commodity derivatives are classified as current assets and liabilities by virtue of the high level of liquidity and the operational time span that characterize these instruments.

The Group's financial management policy envisages the use of hedging instruments to effectively offset changes in the fair value, cash flows of the hedged instrument or, more specifically, changes in interest and exchange rate fluctuations that affect the sources of funds used. With regard to derivatives on current and non-current interest and exchange rates in the form of interest rate swaps (IRS) and cross currency swaps (CCS) at 31 December 2021, the Group's net exposure is lower compared to the previous year and is due to the realisation of cash flows, declining interest rate curves and a strengthening of the euro against the yen.

The Group's operational management, on the other hand, is carried out through a process that identifies objectives, strategies and responsibilities for each operation. Contracts, both financial and physical (i.e. involving the exchange of raw materials), are classified into two portfolios according to their purpose, either commercial or trading. The Group's internal organisational model make it possible to identify the nature of the operation (commercial or trading) and produce the information required for a formal identification of the purpose of derivatives. In relation to the gas commodity, beginning in 2021 the Group reshaped its strategic approach to the management of its commercial portfolio. In particular, this management adjustment has entailed the establishment of new procedures and the adaptation of management systems which improved the process of identifying the nature of the operations and underlying hedging relationships. The commercial portfolio includes financial and physical procurement contracts and derivative or similar contracts, entered into for the purpose of hedging future transactions for which cash flow hedge accounting is envisaged on the basis of the effectiveness of the hedge. In particular, the valuation of physical contracts varies according to their purpose: contracts related to procurement activities are subject to the own-use exemption, while contracts related to price or volume risk management activities are considered derivative financial instruments and measured accordingly at fair value from the time of stipulation. The centralised management of hedging transactions allows for all possible synergies for hedging the electricity consumption needs of the Central Market Department, and is integrated with exchange rate transactions towards the market and is carried out through the exclusive use of swap contracts or other authorised derivatives. All other derivatives or similar instruments that are not intended to hedge the Group's requirements are classified in the trading portfolio. In the 2021 fiscal year, commodity derivatives showed a significantly higher net positive exposure than in the previous year, substantially related to the significant increase in energy commodity prices recorded especially beginning in the second half of the year, which were also reflected in higher raw material costs (gas and electricity).

The fair value of financial instruments is deduced from market prices; in the absence prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. All derivative contracts entered into by the Group are with leading institutional counterparties.

Interest/exchange rate derivatives

Interest rate and foreign exchange derivative instruments held as of 31 December 2021, subscribed in order to hedge loans, can be classed into the following categories:

	31 Dec 21				31 Dec 20		
Type	**Fair value hierarchy**	**Notional**	**Fair value assets**	**Fair value liabilities**	**Notional**	**Fair value assets**	**Fair value liabilities**
Cash flow hedge	2	9 mln	-	0.1	10.5 mln	-	0.3
Fair value hedge	2	149.8 mln	6.9	13.4	149.8 mln	14.4	19.8
Non hedge accounting	2	-	-	-	500 mln	9.9	2.7
Total fair value			**6.9**	**13.5**		**24.3**	**22.8**

		31 Dec 21			31 Dec 20		
Type	**Fair value hierarchy**	**Income**	**Expenses**	**Net effect**	**Income**	**Expenses**	**Net effect**
Cash flow hedge	2	0.0	-	0.0	0.1	-	0.1
Fair value hedge	2	11.0	(15.8)	(4.8)	7.8	(16.1)	(8.3)
Non hedge accounting	2	18.3	(18.3)	(0.0)	14.0	(14.1)	(0.1)
Total income (expenses)		**29.3**	**(34.1)**	**(4.8)**	**21.8**	**(30.3)**	**(8.5)**

Cash flow hedge

The positive change in the fair value of derivatives classified as cash flow hedges is mainly due to the realisation of cash flows during the period and the reduction in the notional amount of the derivative. No significant ineffective portions connected to the residual financial instruments were found in the financial period. Overall effect of these instruments on the statement of comprehensive income was lower than 0.1 million euro in 2021.

Fair value hedge

Derivatives designated as fair value hedges of foreign currency financial liabilities recorded in the financial statements (fair value hedges), as interest rate swaps (IRS) and cross currency swaps (CSS) relate to the bond loan in Japanese yen with a notional residual value of 20 billion yen or 149.8 million euros (converted at the original exchange rate being hedged). The change in fair value is due to the exchange rate, since the Japanese yen lost value against the euro during 2021.
The table below provides a breakdown of financial income and expense associated with derivatives designated as fair value hedges and related underlying liabilities, as adjusted for the income and losses attributable to the hedged risk:

Fair value hedges	31 Dec 21			31 Dec 20		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives	6.4	(7.6)	(1.2)	3.0	(8.0)	(5.0)
Accrued interest	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Realised cash flows	4.6	(8.2)	(3.5)	4.8	(8.1)	(3.3)
Economic effect of derivatives fair value hedge	**11.0**	**(15.8)**	**(4.8)**	**7.8**	**(16.1)**	**(8.3)**

Underlying amounts hedged	31 Dec 21			31 Dec 20		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of financial liabilities	7.5	(6.4)	1.2	8.0	(3.0)	5.0

Non hedge accounting

The derivatives on interest rates, identified as non-hedge accounting, are entirely extinguished as they matured during the year. The category originated in full from past restructuring operations and, despite not including instruments that qualify as hedges pursuant to IFRS 9, have as their main objective to hedge against interest rate fluctuations and have no impact on the income statement (mirroring).

The breakdown of the charges and revenues relating to derivatives classified as non-hedge accounting is as follows:

Interest/exchange rate derivatives	31 Dec 21			31 Dec 20		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives	6.3	(7.2)	(0.9)	1.4	(8.7)	(7.3)
Accrued interest	(0.6)	(5.6)	(6.3)	0.1	(0.1)	0.0
Realised cash flows	12.7	(5.5)	7.2	12.5	(5.3)	7.2
Economic effect of non-hedge accounting derivatives	**18.3**	**(18.3)**	**(0.0)**	**14.0**	**(14.1)**	**(0.1)**

Sensitivity Analysis - Financial operations

Assuming an instant change of 10% in the euro/yen exchange rate, given the same interest rates, the potential decrease in fair value of the derivative financial instruments in place at 31 December 2021 would amount to approximately 14.6 million euro. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 19.3 million euro. Given that exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

The assumptions on interest rate changes would have no significant effect on the fair value of outstanding derivative financial instruments on interest and exchange rates. Furthermore, these changes in fair value of financial instruments accounted for as cash flow hedges would have no effect on the income statement if it were not for their potential ineffective portion, which moreover is not significant. In the event of an increase or decrease in fair value, there would be a non-significant increase or decrease in net equity. As to derivatives designated as fair value hedges, any change in fair value would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be essentially offset by a movement in the opposite direction of the hedged liability.

Commodity derivatives - Commercial portfolio

The commercial portfolio includes physical and financial derivative or comparable instruments entered into to hedge mismatches between purchase and sale formulas, which are classed into the following categories:

Operations management

Type	Fair value hierarchy	31 Dec 21 Notional	31 Dec 21 Fair value assets	31 Dec 21 Fair value liabilities	31 Dec 20 Notional	31 Dec 20 Fair value assets	31 Dec 20 Fair value liabilities
Gas formulas	3	27,991,358 MWh	1,309.2		6,089,061 MWh	11.6	
Electricity formulas	2	4,829,772 MWh	406.8		6,027,306 MWh	44.9	
Exchange	2	10,408,061 USD	0.1				
Gas formulas	3	28,987,729 MWh		1,440.8	7,076,405 MWh		14.5
Electricity formulas	2	2,905,219 MWh		175.6	5,394,118 MWh		34.9
Exchange	2	30,477,506 USD		0.2			
Total fair value			**1,716.1**	**1,616.6**		**56.5**	**49.4**

Type	31 Dec 21 Income	31 Dec 21 Expenses	31 Dec 21 Net effect	31 Dec 20 Income	31 Dec 20 Expenses	31 Dec 20 Net effect
Assessment of derivatives	1.6	(1.9)	(0.2)	15.5	(19.5)	(4.0)
Realised cash flows	1,242.7	(1,279.8)	(37.1)		(92.4)	(92.4)
Economic effect of derivatives	**1,244.4**	**(1,281.7)**	**(37.4)**	**15.5**	**(111.9)**	**(96.4)**

The commercial portfolio includes financial and physical contracts that are almost all formally inserted in hedging relationships for masses, designated to hedge planned future electricity and gas purchase transactions that are considered highly likely, and consequently accounted for using hedge accounting if formal requirements are met. The main objectives of these hedges are to replicate the cash flows of the formulas on sale in the market and to cover the spread between the TTF price, the benchmark market for continental Europe, and the PSV price, the virtual trading point and Italian gas hub. The fair value changes are recorded to the statement of comprehensive as per the effective quota; such changes are transferred to the income statement as soon as the underlying hedged instrument is realised. For other limited types of operations involving the de-structuring of formulas and the hedging of individual components, the formal requirements for being identified as hedge accounting are not met and therefore, despite their hedging purpose and their inclusion in the commercial portfolio, the related contracts are measured at fair value with a balancing entry in the income statement.
In order to assess the impact that fluctuations in the market price of the underlying asset have on the financial derivatives attributable to the commercial portfolio, the PaR (Profit at Risk) tool is used, that is the change in the value of the portfolio of derivative financial instruments within pre-established probability hypotheses as a result of a shift in market indexes.

Effects on the comprehensive income statement

The increase in the net fair value of commodity derivatives related to the commercial portfolio is mainly due to the increase in the gas price, which exceeded all-time highs during the year, and to the same dynamics recorded during the period for the national price.
Overall effect of these instruments on the statement of comprehensive income is broken down as follows:

Commodity derivatives - Commercial portfolio	31 Dec 21 Positive components	31 Dec 21 Negative components	31 Dec 21 Net effect	31 Dec 20 Positive components	31 Dec 20 Negative components	31 Dec 20 Net effect
Changes to expected cash flows	87.6	-	87.6	-	(24.5)	(24.5)
Reserve transferred to the income statement	1,279.8	(1,242.7)	37.1	85.2	-	85.2
Derivatives effect on statement of comprehensive income cash flow hedge	**1,367.4**	**(1,242.7)**	**124.7**	**85.2**	**(24.5)**	**60.7**

The net effect of the year's expected cash flows also includes the change in the fair value of derivative instruments previously measured using hedge accounting, for which the outstanding hedge relationship has been redefined in relation to hedged items that have not yet matured. The components recognised in the statement of comprehensive income will be transferred to profit and loss on the maturity dates of the corresponding hedged positions, which are expected to occur within the next twelve months.
The economic components associated with hedging operations, i.e. the balancing entries to the changes in the cash flow hedge reserve accounted for at the time the instruments are realised, although falling within operations management, are classified according to the nature of the instrument concerned. In particular, at the time the underlying hedged item materializes, changes in the reserve relating to financial derivative contracts are classified as an adjustment to the cost of raw material, since, acting in a differential manner and mainly on procurement, they make it possible to represent the correct amount of cost incurred, while changes generated by physical contracts treated as derivatives are classified as sales revenues or as purchase costs of raw material, depending on whether they relate to the sale or purchase of commodities.

Effects on the income statement

The effect of these instruments on the statement of comprehensive income is broken down as follows:

Physical contracts treated as derivatives		Financial derivative contracts		Overall effect
Sales revenues	1,065.5	Income	177.3	1,242.7
Purchasing costs	(1,261.8)	Expenses	(18.0)	(1,279.8)
Effect of realising derivative cash flow hedges	**(196.3)**		**159.2**	**(37.1)**

Sensitivity analysis - Commercial portfolio

In assuming an instant increase of 60 euro/MWh of the TTF, with no change in the national standard price curve, the potential decrease in the fair value of derivative financial instruments commercially held as at 31 December 2021 would amount to approximately 232.4 million euro. On the contrary, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of approximately 232.4 million euro.
In assuming an instant +60 euro/MWh change in the national standard price curve, with no change in the TTF price, the potential increase in the fair value of derivative financial instruments of the commercial portfolio held as at 31 December 2021 would amount to approximately 67.7 million euro. On the contrary, an instant change of -60 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 67.7 million euro.
In the organizational model described above, these changes in fair value would mainly affect derivative instruments accounted for as hedges thus the opposite variation of net equity would be recorded in the income statement.

Commodity derivatives - Trading portfolio

The trading portfolio comprises derivatives or comparable instruments subscribed for purposes of speculation belonging to the following categories:

Operations management

Type		31 Dec 21			31 Dec 20		
	Fair value hierarchy	Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Gas formulas	3	546,478 MWh	20.6				
Electricity formulas	2	1,323,041 MWh	60.4		4,878,393 MWh	46.8	
Raw oil	2	4,253 Bbl	0.1				
Other commodities	2	3,578 Ton	0.3				
Foreign gas hubs	3	682,525 MWh		35.1			
Electricity formulas	2	2,183,368 MWh		49.9	10,093,260 MWh		63.6
Raw oil	2	18,514 Bbl		0.2			
Other commodities	2	16,163 Ton		1.3			
Totale fair value			**81.3**	**86.6**		**46.8**	**63.6**

Type	31 Dec 21			31 Dec 20		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives	144.2	(132.7)	11.5	95.8	(96.5)	(0.7)
Realised cash flows	89.4	(61.3)	28.1	38.5	-	38.5
Economic effect of derivatives	**233.6**	**(194.0)**	**39.6**	**134.3**	**(96.5)**	**37.9**

The operational logic of trading activities is based on pure position taking logics whenever there is a market opportunity, always within the risk limits defined by the Board of Directors of the parent company. The purpose of the contracts included in this portfolio is univocally identified at source and follows a dedicated workflow, with exclusive instruments and reporting.
In order to assess the impact that fluctuations in market prices of the underlying asset have on the derivatives attributable to the trading portfolio, the VaR (Value at Risk) instrument is used, that is the negative change in the value of the portfolio of derivative instruments within pre-established probability hypotheses as a result of an unfavourable shift in market indexes.
The fair value changes are recognised in which they take place. The settlement of financial contracts generates income and charges attributable to raw materials and as such are classified among operating costs, while the settlement of contracts treated as derivatives is accounted for among sales revenues or among purchase costs of raw materials, depending on whether the sale or purchase of commodities is involved.

Contracts treated as derivatives		Financial derivative contracts		Overall effect
Sales revenues	64.3	Income	25.1	89.4
Purchase costs	(41.4)	Charges	(19.9)	(61.3)
Effect from derivative realization	**22.9**		**5.2**	**28.1**

The following disclosure provides an analysis of the results of operations for the year ended 31 December 2021 for commercial and trading activities, including the effects of energy commodity contracts.

	Fair value 31 Dec 21	Fair value 31 Dec 20	Delta Fair value	Realised 2021	Amounts entered in the Income Statement 31 Dec 21
Trading portfolio					
Gas, crude oil and commodity formulas	(15.8)	-	(15.8)	27.0	11.2
Electricity formulas	10.5	(16.8)	27.3	(21.8)	5.5
Total trading portfolio	**(5.3)**	**(16.8)**	**11.5**	**5.2**	**16.6**
Total	**94.1**	**(9.7)**	**103.8**	**(31.9)**	**72.0**

Sensitivity analysis - Trading portfolio

In assuming an instant increase of 60 euro/MWh of the TTF, with no change in the national standard price curve, the potential increase in the fair value of derivative financial instruments held as at 31 December 2021 would amount to approximately 6 million euro. On the contrary, an instant fall in the same amount would bring about a potential decrease in the fair value of the instruments of approximately 6 million euro.

In assuming an instant +60 euro/MWh change in the national standard price curve, with equal TTF price, the potential increase in the fair value of derivative financial instruments of the trading portfolio held at 31 December 2021 would amount to approximately 8.4 million euro. On the contrary, an instant change of -60 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 8.4 million euro.

21 Inventories

	31 Dec 21	31 Dec 20	Change
Gas stocks	58.9	37.9	21.0
Raw materials and stocks	50.5	53.4	(2.9)
Materials earmarked for sale and final products	6.7	6.1	0.6
Contract work in progress	251.9	74.3	177.6
Total	**368.0**	**171.7**	**196.3**

"Gas stocks" includes stocks of natural gas earmarked for sale. The change compared to the previous year is due to the significant increase in wholesale raw material prices in 2021, while volumes in stock at the end of the period were lower. The book value of gas stocks is recoverable on the basis of gas sales made after the end of the financial period and forward sales contracts already signed by the Group at the date of the financial statements.

"Raw materials and stocks", already presented net of an associated obsolescence provision, mainly includes:

- replacement parts and equipment used for the maintenance and running of operating plants, equal to 44 million euros (47.7 million euro at 31 December 2020).
- plastic materials to be regenerated, equal to 6.5 million euro (5.7 million euro at 31 December 2020).

"Materials earmarked for sale and final products" mainly includes plastic products made in the Group's regeneration plants equal to 5.8 million euro (5.6 million euro as of 31 December 2020).

The item "contract work in progress" includes long-term contracts for plant construction work, mainly in relation to energy services, public lighting management and water services (for 199.1 million euro, 23.4 million euro and 21.3 million euro respectively). The change in the period is mainly related to the energy requalification of apartment buildings, a business that has strongly increased in 2021 thanks to the tax incentives for the sector (construction bonuses).

22 Trade receivables

	31 Dec 21	31 Dec 20	Change
Receivables from customers	1,842.9	1,435.0	407.9
Provision for bad debts	(444.6)	(394.4)	(50.2)
Receivables from customers for bills and invoices not yet issued	1,519.7	931.0	588.7
Total	**2,918.0**	**1,971.6**	**946.4**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2021, as well as receivables for revenues coming due during the period, referring to the water sector which will be billed in the following period, in accordance with the billing methods for final customers established by the relevant Authority. Change from the previous year was due to:

- the effect of the increase in the market prices of gas and electricity commodities, which led to a corresponding increase in the value of sales to customers and the consequent amount of receivables managed;
- the growth in the volume of energy efficiency upgrading of buildings carried out on behalf of end customers, particularly apartment blocks.

The value of trade receivables reported in the financial statements at 31 December 2021 represents the Group's maximum exposure to credit risk. Changes in the provision for bad debts is as follows:

	Opening balance	Provisions	Changes in scope of consolidation	Uses	Closing balance
2020 financial year	399.3	83.4	0.1	(88.4)	394.4
2021 financial year	394.4	94.4	1.8	(46.0)	444.6

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on future-oriented analyses of the receivables regarding the general body of customers (in relation to the age of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the section "Credit risk" and paragraph 2.02.03 "Evaluation criteria and consolidation principles". The significant increase of "Uses" is mainly due to the disposals of non-performing loans carried out during 2020, which led to the complete derecognition of the value of the loans through the use of the provision allocated in previous years for approximately 42 million euro. The value for the year 2021 is therefore substantially in line with the value for the year 2020, appropriately adjusted for the above-mentioned effect.

Past due analysis

The following table displays these receivables from clients on the basis of bills issued, organized by degree of past-due:

	31 Dec 21	Inc.%	31 Dec 20	Inc.%	Change
Not yet due	772.3	42%	501.7	35%	270.6
Due 0-30 days	214.5	12%	126.9	9%	87.6
Due 31-180 days	145.0	8%	113.9	8%	31.1
Due 181-360 days	98.8	5%	103.9	7%	(5.1)
Due beyond 360 days	612.3	33%	588.6	41%	23.7
Total	**1,842.9**		**1,435.0**		**407.9**

23 Current tax assets and liabilities

	31 Dec 21	31 Dec 20	Change
Income tax receivables	20.3	9.8	10.5
IRES refund receivables	0.9	1.9	(1.0)
Total current tax assets	**21.2**	**11.7**	**9.5**
Income tax payables	24.2	25.4	(1.2)
Substitute tax payables	3.7	-	3.7
Total current tax liabilities	**27.9**	**25.4**	**2.5**

"Income tax receivables" refer to the excess advance IRES and IRAP payments over the tax amount payable.

"IRES refund receivables" the change from the previous year is mainly due to the collection of part of IRES following the deductibility of IRAP from IRES related to labour cost and the like under Legislative Decree 201/2011.

"Income tax payables" includes provisions for IRES and IRAP made in relation to profit for the period.

"Substitute tax payables" include the liability for redeeming the higher value of the controlling interest in Recycla Spa; an operation that the management has already approved and which will be paid in 2022.

24 Other current assets

	31 Dec 21	31 Dec 20	Change
Security deposits	121.0	55.4	65.6
Fund for energy and waste management services for equalisation and continuity income	49.9	49.1	0.8
VAT, excise and additional taxes	47.6	94.9	(47.3)
Energy efficiency bonds and emissions trading	46.9	150.5	(103.6)
Advances to suppliers	42.7	25.8	16.9
Pre-paid costs	26.5	19.9	6.6
Incentives from renewable sources	23.4	23.5	(0.1)
Other receivables	64.3	68.4	(4.1)
Total	**422.3**	**487.5**	**(65.2)**

"Security deposits" mainly include deposits provided as security for participation in foreign platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity and natural gas, totalling 111.9 million euro; The increase in the period was due to the significant change in raw material prices in the final months of the year, as deposit requests were linked to the face value of the contracts traded, as well as an increase in the number of operations performed.
During the last three months of 2021, a deposit of 7.5 million euro was collected from the affiliate Sinergie Italiane Srl in liquidation, due to the termination on 30 September 2021 of the contract for the import of natural gas signed by the company.

"Fund for energy and waste management services for equalisation and continuity income", totalling 27.7 million euro of equalisation credit and 22.2 million euro of continuity income.
Equalisation credit decreased by 4.6 million euro compared to the previous year. The change is mainly due to the lower equalisation of gas distribution for 15.5 euro million, only partially offset by the higher equalisation credit from the sale of the regulated electricity service for 8.3 million euro. In particular, the decrease in the equalisation credit for gas distribution is to be interpreted in conjunction with the

increase in volumes distributed during the 2021 financial year, as the 2020 financial year had shown a significant decrease in volumes due to the effect of the Covid-19 pandemic leading to a greater use of the equalisation mechanism in relation to the regulated revenues recognised to the Group.
Continuity income increased by 5.4 million euro compared to the previous year mainly due to the recognition of costs incurred for gas default services and last resort supply for 7.5 million euro and fees introduced to compensate the equalisation balances for the gradually regulated electricity service for 1.5 million euro, only partially offset by the lower credit for the compensation component of the sales costs of gas, for 4 million euro.

"VAT, excise and additional taxes" are comprised of tax credits receivables to the treasury for value added tax in the amount of 6 million euro and for excise and additional taxes in the amount of 41.4 million euro. The change as compared to 31 December 2020 is attributable to a decrease of 26.9 million euro in receivables for value added tax and an increase of 20.4 million euro in receivables for excise and additional taxes. These changes should be interpreted together with the same changes shown in note 30 "Other current liabilities". In particular, with regard to excise duties and additional taxes, the procedures that govern the financial relations with the tax authorities should be taken into account: as a matter of fact, advance payments made during the year are calculated on the basis of the quantities of gas and electricity billed in the previous year. These methods can generate credit or debit positions with differences that may be significant even between one period and another.

"Energy efficiency bonds and emissions trading", include:

	31 Dec 21	31 Dec 20	Change
White certificates	22.7	127.9	(105.2)
Grey certificates	14.4	12.8	1.6
Green certificates	9.8	9.8	-
Total	**46.9**	**150.5**	**(103.6)**

The decrease in the value of white certificates is mainly due to regulatory changes that led to retroactively reduce the 2020 requirements for gas and electricity distribution companies and simultaneously set targets for the years 2021-2024 that are significantly lower than in previous years. For further details regarding the economic effect of this valuation, see note 2 "Other operating revenues".
In relation to grey certificates, the portfolio includes the valuation of both securities held by the Group and forward contracts. The increase as compared to the previous year is due to the price effect which was only partially off-balanced by the decrease in security volumes held at the end of 2021. The increase in the prices of greenhouse gas emission quotas traded on the market during the 2021 financial year is a consequence of the publication by the European Commission of the "Fit for 55" bundle of legislative proposals, which includes a revision of the European Emissions Trading System Directive (as reported in section 1.01.02 of the Directors' Report). The new proposals require greenhouse gas emissions to be 61% below 2005 levels by 2030 (previously the target was -43%). In order to achieve the new targets, the Commission proposes to lower the maximum quantity of emissions for the sectors concerned by the directive and to decrease it each year during the implementation phase until 2030. The Group, which currently has to comply with the directive in force for a number of district heating plants and a number of power generation plants in which it participates, views the new proposals to be negligible, both because they do not envisage extending the system to municipal or hazardous waste WTE plants and because they do not consider extending it to combustion plants with lower power thresholds (the threshold of total firepower at the site exceeding 20 Mwt remains unchanged at the moment). However, the Group still faces the risk of an increase in the market price of the quotas. For an exhaustive discussion on the management of risks, including those associated with climate change, please refer to paragraph 1.02.03 "Risk areas: identification and management of risk factors" in the Directors' Report.
The green certificate portfolio includes securities recognised on an accrual basis prior to 2016 in relation to the electricity production of certain waste-to-energy plants operated by the Group. These securities are the subject of a complaint by the GSE concerning the methodology for calculating the self-consumption of auxiliary services. To cover the potential risk of non-recognition, the Group has

already set up a risk provision in previous years to cover the entire amount of the portfolio. For further details see note 28 “Provisions for risks and charges”.

In the item “Advances to suppliers”, the increase compared to the previous year is mainly due to the advances paid to counterparties that support the Group in the energy efficiency upgrading of buildings on behalf of customers, mainly apartment blocks.

“Prepaid costs” are mainly costs for a future period deriving from external work and services in the amount of 13.7 million euro (8.5 million euros at 31 December 2020), costs incurred for insurance policies, surety, bank fees and charges in the amount of 4.3 million euro (2.8 at 31 December 2020) and network service fees and concession fees for 2.3 million euro (2.9 million euro at 31 December 2020).

“Incentives from renewable sources” consist of receivables from the GSE for the new incentive mechanism to promote the production of electricity from renewable sources. These receivables are generally collected within the following year.

“Other receivables” mainly include:
- tax credits arising from the application of the invoice discount to end customers in relation to subsidised energy efficiency measures, amounting to 13.4 million euro (9.6 million euro at 31 December 2020). For the most part, these receivables are used directly by the Group to offset tax withholdings, on the basis of the time distribution of benefits provided for by current legislation;
- receivables for water leakage provisions charged and not yet collected from users for insurance in case of leakage, amounting to10.6 million euro (9.3 million euro as at 31 December 2020) and receivables from companies owning the assets used to perform public utility services, amounting to 5.7 million euro (8.5 million euro at 31 December 2020).

25 Share capital and reserves

Compared to 31 December 2020, shareholders’ equity increased by 261.5 million euro due to the combination of the following effects:
- overall revenues for the period in the amount of 461.4 million euro;
- distribution of dividends in the amount of 178.7 million euro;
- decrease due to changes in treasury shares, in the amount of 21 million euro
- decrease due to transactions on treasury shares, in the amount of 0.2 million euro;

The statement of changes in net equity is shown in section 2.01.05.

Share capital
The share capital at 31 December 2021 amounted to 1,459.7 million euro, made up of 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up.
The treasury shares, whose nominal value at 31 December 2021 was 29.2 million euro, and the costs associated with the new share issues, net of the relevant tax effects, are deducted from share capital. The number of treasury shares in the portfolio at 31 December 2021 was 29,217,962 (28,891,271 at 31 December 2020).

Reserves
This item, amounting to 1,407.1 million euro, includes retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 1,379 million euro, cumulative losses in the other components of comprehensive income for 54.3 million euro and negative reserves for operations on treasury shares in the amount of 26.2 million euro. These latter items reflect transactions carried out on treasury shares at 31 December 2021. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 2.3 million euro.

Non-controlling interests

This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. It includes mainly the minority equity interests of the Herambiente Group and the Marche Multiservizi Spa Group.
With reference to the shareholding of the Ascopiave Group in EstEnergy Spa, nominally equal to 48%, note that Ascopiave Spa was granted an irrevocable put option. This option may be exercised annually, on a discretionary basis on all or part of the shareholding, in a time window between 15 July and 31 October and, in any event, no later than 31 December 2026. According to the provisions of IAS 32, the existence of such a right held by the minority shareholder has led to the need to classify the option on the shares of EstEnergy currently held by Ascopiave Spa in the consolidated financial statements as a financial liability, thus considering the shareholding in EstEnergy Spa to be fully owned. For additional details on the calculation of fair value of put option debt, please refer to note 26 "Current and non-current financial liabilities".

Reconciliation prospectus

The following is a reconciliation between the Parent Company's separate financial statement and the consolidated financial statement.

	Net Profit	Net equity
Balances as per parent company's financial statements	223.8	2,469.9
Excess of shareholders' equity reported in the financial statements for the period over the carrying amounts of investments in consolidated companies	161.6	484.8
Consolidation adjustments:		
net equity valuation of companies recognised in the separate financial statements at cost	3.4	45.7
difference between purchase price and corresponding net book equity	(39.5)	224.7
elimination of intra-group transaction effects	(15.8)	(24.9)
Total	**333.5**	**3,200.2**
Allocation of third-party holdings	39.2	216.6
Balances as per consolidated financial statements	**372.7**	**3,416.8**

26 Current and non-current financial liabilities

	31 Dec 21	31 Dec 20	Change
Bonds and loans	3,105.9	3,096.1	9.8
Minority shareholder' put option	585.2	556.4	28.8
Payables to acquire controlling shareholdings and potential consideration	23.0	22.8	0.2
Other financial liabilities	1.9	3.4	(1.5)
Total non-current financial liabilities	**3,716.0**	**3,678.7**	**37.3**
Overdrafts and interest liabilities	64.8	188.6	(123.8)
Bonds and loans	56.1	314.3	(258.2)
Payables to acquire controlling shareholdings and potential consideration	2.2	1.3	0.9
Other financial liabilities	376.6	112.7	263.9
Total current financial liabilities	**499.7**	**616.9**	**(117.2)**
Total financial liabilities	**4,215.7**	**4,295.6**	**(79.9)**

"Bonds and loans" for the non-current part, increased mainly thanks to the overall net effect of the following:

- issuing the first sustainability-linked bond (under the Euro Medium Term Notes programme) as part of the sustainability strategy to reduce emissions and recycle plastics. The bond is linked to the achievement of the sustainability targets contained in the Sustainability-linked financing framework, for which intermediate Sustainability Performance Targets (SPTs) have been defined. The new bond, listed on the regulated markets of the Irish Stock Exchange, the Luxembourg Stock

Exchange and the ExtraMOT PRO multilateral trading system of Borsa Italiana, has a face value of 500 million euro, a duration of twelve and a half years and annual fixed-rate coupon of 1%. From the interest payment date of 2032, a possible increase in the interest rate is foreseen in the event that the Group does not achieve the targets for the reduction of the greenhouse gas emissions of CO2 tonnes (rate increase of 0.20%) and/or the quantity of recycled plastic in thousands of tonnes (rate increase of 0.15%). For further details regarding the new issuance, reference should be made to chapter 1.03 "Main events occurred" in the directors' report;

- the partial re-purchase of five bonds, for a total book value of 1,832 million euro. These operations, combined with the new issuance referred to in the previous point, made it possible to increase the average duration of the debt to around 7 years and to improve the Group's average debt rate.. Specifically, the repurchase operations involved the following instruments:

Type	Overall nominal value	Maturity	Nominal rate	Securities tendered in the purchase offer (mn€)	Repurchase charges
Bond	700.0	2028	5.20%	101.0	46.9
Bond	400.0	2026	0.875%	74.6	7.6
Bond	500.0	2027	0.875%	142.8	18.5
Bond	329.4	2024	2.375%	41.1	5.0
Private Placement	68.0	2023	3.375%	46.0	4.5
Total	**1,997.4**			**405.5**	**82.6**

- the early repayment of a loan with a face value of 125 million euro granted by the European Investment Bank (EIB), which was to mature in June 2027. The portion of residual non-current debt repaid early for 59.8 million euro;
- the classification in the current portion of the loan of 50 million euro issued by Banca popolare dell'Emilia Romagna (Bper), maturing in January 2022 and repaid early in the year;
- the early repayment of two loans with a face value of 7.5 and 5 million euro granted by the Unione di Banche Italiane (UBI), which were to mature in March 2024 and June 2023. The portion of residual non-current debt repaid early respectively amount to 3.5 and 1.3 million euro.

The item includes the value of the sale option, in the amount of 54.9 million euro, related to Ascopiave Spa's minority shareholding in Hera Comm Spa which, as a result of the contractual provisions, is classified as a loan and valued according to the depreciated cost method. The face value of such debt amounts to 54 million euro.

"Bonds and loans" for the current part, decreased mainly due to:

- the repayment at maturity in October of the bond issued in 2013 with a residual face value of 249.9 million euro;
- the repayment of the above-mentioned EIB loan, whose portion of residual current debt repaid early amounts to 10.9 million euro;
- the repayment of the above-mentioned UBI loans, whose portions of residual current debt repaid early together amount to 4 million euro.

Put option

"Minority shareholders' put option", which includes the fair value measurement of the sale options that are granted, with specific contractual arrangements, to minority shareholders on their own shares. The policy of the Group provides not to represent the holdings of minority shareholders in the result component for the period, therefore in evaluating the value of the debt for the options (to be paid at the date of exercising the option according to the contractual mechanism agreed between the parties) increased of the dividends that are expected to be distributed by the subsidiary companies along the hypothetical life of the options themselves. The fair value recognised as a liability in the balance sheet is therefore not only the present value of the expected price of the put option at the date of it is exercised, but also contains the discounted estimate of future dividends distributed as part of the variable consideration due to the counterparty. Given the structure of the operation, during the period in which the option is exercised, the profit generated by the subsidiary companies will be distributed

according to their respective nominal shareholdings. This mechanism means that the portion of the fair value of the put option that will be settled through the distribution of future dividends is actually self-liquidating, since the necessary financial resources (i.e. dividends of non-controlling shareholdings) will be directly generated by the subsidiary companies, without thus determining during that period a real additional financial need for the Group.
This item refers to the sale option on the non-controlling shares in EstEnergy Spa, equal to 48% of the share capital, held by the Gruppo Ascopiave. The fair value of the option is calculated with reference to the future scenario of exercising the option deemed to be the most likely by the management in line with the updated planning assumptions, adopting applied multiples to margin indicators in accordance with the conditions agreed between the parties and discounting the corresponding future cash flows, using as a discount rate the average cost of the Group's long-term debt at the date of the transaction.

Change from the previous year was due to:
- the recognition of imputed financial charges generated by discounting, the distribution of dividends made by EstEnergy Spa during the year and the updating of the assumptions underlying the calculation of the fair value of the option itself.

The following table, which also includes the value of the option granted on the minority interest in Hera Comm Spa, shows the value adjustments during the year of the option described above:

	31 Dec 20	Financial expenses	Dividends paid out	Changes assumption	31 Dec 21
Put option (equity value)	401.9	14.1		3.2	419.2
Put option (future dividends)	153.0	5.3	(17.2)	(2.5)	138.6
Financing to Ascopiave	54.5	3.2	(2.7)		55.0
Total put option	**609.4**	**22.6**	**(19.9)**	**0.7**	**612.8**

- the acquisition of 70% of Recycla Spa and the consequent recognition of an option on the entire minority shareholding, which may be exercised for 18 months beginning from the second year following the closing, for an estimated value of 15.3 million euro;
- the acquisition of 80% of Vallortigara Servizi Ambientali Spa and the consequent recognition of an option on the entire minority shareholding, which may be exercised for 3 years beginning in 2025, for an estimated value of 9 million euro;
- the acquisition of 90% of Eco Gas Srl, that is the associated negotiation with the counterparty for a cross option on the outstanding shareholding, which may be exercised for 2 years beginning in 2023, estimated at 1.6 million euro.

"Payables to acquire controlling shareholdings and potential consideration" include the amounts still to be paid to transferor shareholders as part of the business combination transactions concluded in the period or in previous periods, as well as the estimate of the potential payments foreseen by the agreements signed at the time of the acquisition, as of the balance sheet date. At 31 December 2021 this item mainly refers to the acquisition of:
- Aliplast Group, for 17.9 million euro (in the non-current part for 17.4 million euro and in the current part for 0.5 million euro);
- Pistoia Ambiente Spa for 5,6 million euro;
- Recycla Spa, for 1.2 million euro and Eco Gas Srl for 0.4 million euro (classified in the current part).

"Other financial liabilities", for the portion due after the current period, includes 1.9 million euro due to the Municipal Pension Fund of the Municipality of Trieste. The current part mainly consists of payables due to:
- Advances for 266.6 million euro for contracts for the exchange of electric power carried out on the Eex platform, which provide for the daily settlement of differentials;
- collections from customers under the Safeguard regime, customers for last resort services of the gas sector and proceeds from system charges for 39 million euro;
- collection of receivables factored without recourse still to be transferred to factoring companies at year-end, in the amount of 23.1 million euro;

- RAI license fee collection for 2.3 million euro to be transferred to the State treasury.

The difference with respect to the previous year is mainly due to advances on electricity exchange contracts, which are significantly higher than those recorded at 31 December 2020 (10.3 million euro), and are substantially related to the increase in energy commodity prices experienced mainly from the second half of the year.

In "Overdrafts and interest liabilities", the significant change compared with the previous financial period is generated by the lower demand of short-term loans, in the form of hot money, amounting to 23.3 million euro (138.9 million euro at 31 December 2020).

Analysis of debt by maturity

The table below shows the financial liabilities at 31 December 2021 and indicates the portion expiring within the financial year, within 2 years, within 5 years and after 5 years:

Type	Residual amount 31 Dec 21	Portion due within the period	Portion due within 2nd year	Portion due within 5th year	Portion due beyond 5th year
Bonds	2,701.3	-	21.4	740.5	1,939.4
Loans	460.7	56.1	57.2	157.9	189.5
Minority shareholders' put option	585.2	-	-	585.2	-
Payables to acquire controlling shareholdings and potential consideration	25.2	2.2	-	23.0	-
Other financial liabilities	378.5	376.6	0.4	1.5	-
Overdrafts and interest liabilities	64.8	64.8	-	-	-
Total	**4,215.7**	**499.7**	**79.0**	**1,508.1**	**2,128.9**

The main conditions of the bonds outstanding as of 31 December 2021 are as follows:

Bonds

Bonds	Negotiation	Duration (years)	Maturity	Nominal value (mn)	Coupon	Annual rate
Sustainability-linked bond	Listed	12.5	25 Apr 2034	500.0 €	Annual	1.00%
Bond	Listed	10	22 May 23	22.0 €	Annual	3.375%
Green bond	Listed	10	04 Jul 24	288.3 €	Annual	2.375%
Bond	Unlisted	15	05 Aug 24	20,000 JPY	Six monthly	2.93%
Bond	Listed	12	22 May 25	15 €	Annual	3.5%
Bond	Listed	10	14 Oct 26	325.44 €	Annual	0.875%
Bond	Listed	10	03 Dec 30	500.0 €	Annual	0.25%
Bond	Unlisted	15/20	14 May 27/32	102.5 €	Annual	5.25%
Green Bond	Listed	8	05 Jul 27	357.2 €	Annual	0.875%
Bond	Listed	15	29 Jan 28	599.02 €	Annual	5.20%

At 31 December 2021 the outstanding bonds, totalling a face value of e 2,859.2 million euro (3,014.5 at 31 December 2020) and recorded at discounted cost of 2,701.2 million euro, have a fair value of 3,100.7 million euro (3,392.8 at 31 December 2020) determined by market quotations where available.
There are covenants on a few loans that require compliance with the corporate rating limit, namely that not a single rating agency lowers its corporate rating below Investment Grade (BBB-).
As of the balance sheet date this covenant has been complied with.

Current cash and lines of credit, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. At 31 December 2021, the Group has committed credit lines of 450 million euro and uncommitted credit lines of 516 million euro. These credit lines are distributed among leading Italian and international banks and allow for adequate diversification of counterparty risk and competitive conditions.

Analysis of the scenario

The table below shows the worst-case scenario where assets (cash, financial and trade receivables) are not taken into account, while financial liabilities are shown in the capital and interest portion, trade payables and interest rate derivatives. Financial lines were assumed to be revoked on demand, while loans were assumed to be repaid at the earliest date provided for in the contractual terms.

Worst case scenario	31 Dec 21			31 Dec 20	
mn€	from1 to 3 months	beyond 3 months up to 1 year	from 1 to 2 years	from1 to 3 months	beyond 3 months up to 1 year
Bonds	33.0	62.0	87.0	38.0	321.0
Financial payables and other liabilities	66.8	66.0	62.0	191.5	119.0
Payables to suppliers	2,356.6	-	-	1,497.5	-
Total	**2,456.4**	**128.0**	**149.0**	**1,727.1**	**440.0**

Sureties and guarantees

	31 Dec 21	31 Dec 20
Bank sureties and guarantees	1,870.2	1,591.8
Insurance sureties and guarantees	676.0	306.2
Total	**2,546.2**	**1,898.0**

"Bank sureties and guarantees", the value at 31 December 2021 comprises the following:

- 913.6 million euro for sureties made to public institutions (the Ministry of the Environment, the Regions, provinces and municipalities) and private entities to guarantee the suitable management of plants for treating waste, for the suitable provision of waste disposal and intermediation services, for reclamation work and for the proper fulfilment of contractual commitments;
- 956.7 million euro for comfort letters issued to guarantee timely payment for the sourcing of raw materials

"Insurance sureties and guarantees", at 31 December 2021, refers to sureties issued to public entities (provinces, municipalities and the Ministry of the Environment) and third parties to guarantee the suitable management of public utility and waste disposal services, the proper execution of the work to lay company pipelines across land owned by private individuals, reclamation work, managing waste treatment and disposal systems.

At 31 December 2021, the Hera Group provided the guarantees for certain bank loans, in the amount of 3.7 million euro. Specifically, mortgages on buildings in Pesaro and Urbino held by a bank that provided a loan to the subsidiary Marche Multiservizi Spa with a nominal outstanding value of 0.2 million euro.

27 Post-employment and other benefits

This includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the employee's matured receivables at the presumed date of leaving the company.

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly solely to settle payments made to eligible retirees. The "Tariff reduction" provision was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.
The table below shows the changes in the above provisions during the year:

	31 Dec 20	Service cost	Financial expenses	Actuarial profit (losses)	Uses	Other movements	Changes in scope of consolidation	31 Dec 21
Post-employment	102.2	1.1	(0.1)	0.1	(11.5)	0.2	1.7	93.7
Tariff reduction	7.5	-	-	(1.0)	(0.3)	-	-	6.2
Premungas	3.2	-	-	(0.3)	(0.4)	-	-	2.5
Gas discount	3.8	-	-	(0.4)	(0.4)	-	-	3.0
Total	**116.7**	**1.1**	**(0.1)**	**(1.6)**	**(12.6)**	**0.2**	**1.7**	**105.4**

The item "Service cost" regards companies with a small number of employees for whom the employee severance indemnity fund continues to represent a defined benefit plan.

"Financial charges" are calculated by applying a specific discount rate for each company, determined on the basis of the average financial life of the bond. The charges for the year are positive, as the expected yield curve at the beginning of 2021 showed negative values in the short and medium term.

"Actuarial profit (losses)" reflect the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recorded directly in the comprehensive income statement.

"Changes in scope of consolidation" include the post-employment provision acquired following the business combinations carried out during the period.

The table below outlines the main assumptions used in the actuarial estimate of employee benefits, subdivided by geographical area:

	Central area	North-east area
Technical actuarial yearly rate	0.25%	0.25%
Overall increase of salary yearly rate	2.00%	2.00%
Yearly frequency of exit from work for reasons other than death	1.70%	1.70%
Yearly average frequency of use of severance pay provision	2.20%	2.00%

In interpreting said assumptions, account is taken of the following:

- with regard to the inflation rate, the inflation assumption was inferred by adopting the Extended National Consumer Price index of 1% for the year 2022 and 1.2% for the following years;
- for probabilities of death, ISTAT 2020 tables were consulted;
- in the actuarial valuations, account was taken of the new effective dates for pensions under Law Decree of 6 December 2011, no. 201 concerning urgent measures for growth, equity, and the consolidation of public finances, as amended by Law 214 of 22 December 2011, as well as the regulation for adjusting requirements for accessing the pension system in view of increased life expectancies in accordance with Article 12 of Legislative Decree no. 78 of 31 May 2010 as amended by Law 122 of 30 July 2010;
- for the probability of leaving employment for reasons other than death, an average yearly exit rate of 1.7% was hypothesized, since the analysis differentiated by professional level and sex did not result in statistically significant results;
- to take into account the phenomenon of early leaving, the incidence and amount of average anticipated severance pay were hypothesized. The frequency of advance payments as well as the average percentage of severance pay requested as an advance were drawn from corporate data. The rate of severance pay requested as an advance was hypothesized at 70% of severance pay or the maximum amount set by current regulations;

Actuarial projections were made on the basis of the Euro Composite AA yield curve at 31 December 2021.

Sensitivity Analysis - Obligations of defined-benefit plans
Assuming a 50 bps increase in the internal rate of return compared to the discount rate actually applied to value the liabilities at 31 December 2021, all other actuarial assumptions being equal, the potential decrease of the present value of the obligations of the existing defined-benefit plans would amount to about 2.6 million euro. Likewise assuming a reduction of this rate of 50 bps, there would be an increase in the present value of the liabilities of about 2.8 million euro.
Assuming a 50 bps increase in the in the rate of inflation compared to that actually applied to value the liabilities at 31 December 2021, all other actuarial assumptions being equal, the potential increase of the present value of the obligations of the existing defined-benefit plans would amount to about 1.5 million euro. Likewise assuming a reduction of this rate of 50 bps, there would be a decrease in the present value of the liabilities of about 1.5 million euro.
Changes in the remaining actuarial assumptions would not produce significant effects on the present value of the liabilities of the defined-benefit plans reported in the financial statement.

28 Provisions for risks and charges

	31 Dec 20	Provisions	Financial expenses	Uses	Other movements	Changes scope of consolid.	31 Dec 21
Provision third-party asset restoration	232.2	9.2	5.4	-	(39.3)	-	207.5
Provision for closure and post-closure landfill expenses	179.0	5.6	13.2	(17.5)	2.3	-	182.6
Provision for personnel legal cases and disputes	14.5	3.1	-	(5.8)	(1.1)	-	10.7
Provisions for waste disposal	6.7	7.2	-	(6.4)	-	0.6	8.1
Provision for plants dismantling	5.9	-	0.1	-	-	-	6.0
Other provisions for risks and charges	99.9	28.0	-	(1.5)	(14.9)	1.6	113.1
Total	**538.2**	**53.1**	**18.7**	**(31.2)**	**(53.0)**	**2.2**	**528.0**

The "Provision for third-party asset restauration" include provisions made in relation to law and contractual requirements for the Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the owner companies for the wear and tear of the assets used for business activities. The provision reflects the present value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted to present value, and the financial charges for the period associated with the cash flows discounted to present value.

"Other movements" mainly include the reclassification under current financial payables of the amount, equal to 39.4 million euro, that the Group will have to pay to the companies owning the assets in 2022 as a result of the conclusion of the tender and consequent awarding of the water service management in the province of Rimini. Although the Group was confirmed, as the outgoing operator it is formally required to pay compensation for the previous award period.

The "Provision for landfill closure and post-closure expenses" represent the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently managed. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value. The increases in the provision comprise the financial component derived from the discounting process and provisions due to changes in the assumptions about future outlays, following the change in expert estimates on closed landfills. Uses represent the effective outlays during the year. "Other movements" additionally includes:

- estimated closure and post-closure costs in relation to newly constructed landfills and the changes in the estimated closure and post-closure costs of active landfills, which entailed the recording of an adjustment of the same amount as the value of tangible assets (landfill asset). At 31 December 2021, the initiation of the development of a new landfill, for 5.1 million euro;
- positive effects of the changes in the assumptions on future outlays following the revision of the estimates, for 2.8 million euro at 31 December 2021.

The "Financial expenses" for the items "Provision for third party asset restoration", "Provision for closure and post-closure landfill expenses" are discussed in note 10 "Financial income and expenses".

The "Provision for legal cases and disputes brought by personnel" reflects the outcomes of lawsuits and disputes brought by employees.

"Provision for plants dismantling" includes the amounts allocated for the future dismantling of the WTE plants.

"Provision for waste disposal" reports the estimated costs of disposal of the waste already stored at the Group's plants. The provisions reflect the estimated costs of contributions for the year 2021 not yet processed at the end of the financial period, while the uses represent the costs incurred over the period for the processing of waste that was residual at 31 December 2020.

"Other provisions for risks and charges" comprise provisions made against sundry risks. A description of the main items is below:

Liabilities	Type	Amount (mn€)
The amount of the WTE and cogeneration plants' green certificates, calculated according to the difference between auxiliary services resulting from total self-consumption and services estimated on the basis of the benchmark percentage, was not recognised;	Likely	18.7
Outstanding bonds (guarantee on financial exposure given by AcegasApsAmga S.p.A.) in case of abandonment of the operations run by the foreign subsidiary AresGas (Bulgaria).	Contingent	11.3
The higher cost of the electricity used in the water service provision was not recognised, due to the volatility of the energy market, which resulted in price values higher than the allowed maximum limit provided for by the tariff system and which may only be recognised by submitting a specific request to the relevant regional authorities, with no certainty that it will be approved.	Likely	7.5
Risks arising from the activity of energy efficiency upgrading of buildings carried out on behalf of end customers, particularly apartment blocks	Likely	7.3
Dispute concerning the granting of CIP6 incentives for the Trieste WTE plant for the years 2010-2012	Likely	6.6
Higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill	Contingent	6.3
reimbursement of a portion of the sewerage and purification tariffs for the water service	Likely	4.7
Potential litigations arising from the risk of disputes in relation to the gas distribution unit of the Veneto and Friuli Venezia-Giulia regions, which was sold at the end of 2019	Likely	3.5
Risk arising from the Authority's resolution 2016/527, which, in keeping with the findings of the GSE, established that the Fund for Energy and Environmental Services recover the amounts that the Group would have been unduly received for the electricity produced by the Granarolo (Bo) WTE plant	Likely	3.3

The liabilities classified as contingent were recognised as part of the business combination in the year in which it occurred.

For detailed information on risk provisions for tax litigations, see note 11 "Taxes".

"Other movements" of the item "Other provisions for risks and charges" shows a net decrease by 14.9 million euro. It mainly includes:

- the reclassification of amounts allocated in previous years (and re-accounted for in 2021) to cover financial receivables that doubtfully will be collected from associated companies, amounting to 10.2 million euro;
- 4.2 million euro in connection with the reaching of an out-of-court settlement with the counterparty in relation to a claim received after a contractual termination by the Group. The agreement provided for the payment of 0.8 million euro at the end of the dispute, compared to an estimated liability in previous years of 5 million euro.

The "Change in the scope of consolidation" include the provisions of the company acquired during 2021.

29 Trade payables

	31 Dec 21	31 Dec 20	Change
Payables to suppliers	741.2	616.8	124.4
Payables to suppliers for invoices not yet received	1,615.4	880.7	734.7
Total	**2,356.6**	**1,497.5**	**859.1**

The change in trade payables compared to the previous year is mainly due to the effects of the increase of gas and electricity wholesale prices, which led to an increase in the purchase costs of raw materials with a resulting higher liability towards suppliers.

Trade payables are mainly generated in from operations in the Italian national territory, with the exception of natural gas and electricity brokerage activities carried out at the European level, for 61.3 million euro.

30 Other current liabilities

	31 Dec 21	31 Dec 20	Change
Payables for advances to the fund for energy and waste management services	336.9	360.5	(23.6)
Plant investment grants	228.7	211.0	17.7
Anticipated revenues and other expenses	167.6	18.8	148.8
VAT, excise and additional taxes	155.0	32.8	122.2
Security deposits from customers	129.8	117.5	12.3
Fund for energy and waste management service components and equalisation	85.8	88.2	(2.4)
Personnel and employee withholding	81.7	76.3	5.4
Payables to social security institutions	63.6	53.2	10.4
Advances for works	50.4	7.1	43.3
Energy efficiency bonds and emissions trading	49.2	8.1	41.1
Other payables	86.9	82.7	4.2
Total	**1,435.6**	**1,056.2**	**379.4**

"Payables for advances to the Fund for energy and waste management services" comprises non-interest-bearing advances granted by the Fund for energy and waste management services, as follows:

- 233.4 million euro for advances in compliance with the integration mechanism set forth by resolution 370/2012/R/Eel and 456/2013/R/Eel by the Authority in charge of regulating the energy

networks and environment (Arera), for overdue and unpaid receivables from customers managed as protected customers; The latest reports concern the years 2009-2019;
- 90 million euro in compliance with the integration mechanism set forth in Law 239 of 23 August 2004 and by Arera's Tivg , for the charges for delinquency of services of last resort in the natural gas sector (Fui, Ftf and Fdd) until the 2019-2020 thermic year;
- 11.8 million in compliance with Resolution 32/2021/R/Eel (former Resolution 445/2020/R/Eel), relating to the procedures for accessing the reimbursement mechanism for general system charges not collected from end customers and already paid to distribution companies for 2016-2020. The scope is restricted to the sale of electricity on the free market, the Safeguard market (disconnectable) and the gradual protection service (disconnectable);
- 1.7 million euro in compliance with the recognition mechanism established by Arera resolution 627/2015/R/com for overdue charges related to the supply of electricity, gas and integrated water service to the populations affected by the 20 May 2012 earthquakes in the Emilia-Romagna region.

"Plant investment grants" refers mainly to investments made in the water and environment sector; this item decreases in proportion to the amount of depreciation calculated on the fixed assets in question and increases as a result of new investments subject to grants. The item includes specifically:
- 73 million euro related to the FoNI fund (new water system investment fund);
- 36 million euro related to purification plants for the Servola plant built in the Municipality of Trieste;
- 33 million euro for investments earmarked for purification and sewer networks;
- 21.5 million euro to built rolling basins e underwater pipes in the area of Rimini.

The item "Anticipated revenues and other expenses" comprises for 146.8 million euro invoices for energy efficiency measures benefiting from tax incentives (mainly ecobonus) for which the work will be completed in the 2022 financial year. In particular, the relevant legislation has made it possible to anticipate the invoicing of work already commenced, regardless of the stage of progress, thus resulting in the recognition of only the portion of revenue accrued.

"VAT, excise and additional taxes" includes payables for VAT in the amount of 78.9 million euro (1.9 million euro at 31 December 2020), and excise and additional taxes in the amount of 76.1 million euro (30.9 million euro at 31 December 2020). As outlined in note 24, "Other current assets", this increase must be understood taking into account the factors that regulate financial relations with the Inland Revenue Office, which can generate credit/debit positions with differences that can be significant even between one financial period and another.
With regard to value added tax, the increase at 31 December 2021 is linked to the significant increase in turnover generated at the end of the financial year, in particular relating to sales of commodities to end customers. The steady increase in the prices of raw materials, gas and electricity in the last few months of the year and the higher volumes of gas sold compared to the previous year significantly increased the taxable amount to which the current rates are to be applied, while the reduction of the rate to 5% for invoices issued in the last three months of 2021 for the supply of methane gas for domestic and industrial use, governed by Italian Legislative Decree 130 of 27 September 2021, only partially mitigated the above effects.
With regard to excise and additional taxes, the advance payment in 2021 was made, as required by the regulations in force, on the basis of the volumes invoiced in the previous year, which were adversely affected by the economic downturn due to the Covid-19 pandemic. However, the accrued liability was generated on the basis of the volumes invoiced in the year 2021 which, in terms of sales of natural gas, were higher than in the year 2020, resulting in an increase in the liability for excise and additional taxes on gas sales of 43.3 million euro.
"Security deposits from customers" reflect the amount paid by customers for gas, water and electricity provision contracts.

"Fund for energy and waste management service components and equalization", reflects the liabilities for the Fund for energy and waste management services mainly due to some system components of the gas, water and electricity service for the protected market categories and equalization of the electricity service. The change as compared to 31 December 2020 is mainly due to a lower debit for the components of the services managed amounting to 1.3 million euros, and to the equalisation of electricity distribution and sale for a total of 1.1 million euro.

"Personnel and employee withholding" includes for the most part the vacation time accrued and not used, as well as the productivity bonuses accounted for by department at 31 December 2021, plus withholding taxes to be paid to the State treasury as tax substitute for employees.

"Payables to social security institutions" relates to contributions owed to these institutions for the December salaries, performance bonuses and additional monthly payments under national collective agreements.

"Advances for works" includes advances received from municipalities and apartment buildings for works in progress relating to public lighting and energy efficiency upgrades of private buildings, respectively, which will be completed in the following years.

"Energy efficiency bonds and emissions trading", includes:

	31 Dec 21	31 Dec 20	Change
White certificates	26.7	-	26.7
Grey certificates	17.2	5.7	11.5
Go certificates	5.3	2.4	2.9
Total	**49.2**	**8.1**	**41.1**

White certificates include, beginning in 2021, the valuation of exposure with respect to obligations to return energy efficiency certificates to the relevant authorities. At 31 December 2020, the amount of the liability was estimated as a commitment to the Group's suppliers.
Grey certificates reflect the valuation of both the obligation to return certificates calculated in accordance with current legislation and the exposure for forward contracts to buy and sell greenhouse gas emission allowances.
Go (guarantee of origin) certificates comprise market exposure concerning certification obligations for electricity produced from renewable energy sources for sales made to customers with this type of supply.
The increase in the liability for grey and Go certificates primarily is due to the increase in the market price in 2021.

The item "Other payables" mainly comprises the following:

- payments on account and specific tariff subsidies payable to customers amounting to 12.8 million euro (10.8 million euro at 31 December 2020) mainly referring to the water cycle service for 6.5 million euro and the waste disposal and treatment service for 5.4 million euro;
- insurance deductibles for 12.2 million euro (12.7 million euro at 31 December 2020) that the Group must repay directly to damaged third parties or insurance companies;
- contributions for environmental damage to be made to municipalities, for 11.4 million euro (11.3 million euro at 31 December 2020) on the basis of specific agreements, as compensation for activities that impact on the environment for waste delivered to plants in their territory. The amount of these contributions is related to the amount of waste disposed of annually.

31 Impairment test

Cash-generating and goodwill units
Assets and goodwill have been subjected to impairment tests by determining the value in use, which is the current value of operating cash flows (duly discounted according to the DCF - discounted cash flow method) resulting from the 2021 - 2025 business plan approved by the Board of Directors of the parent company at its meeting 27 January 2022.

The impairment test was applied to the following CGUs (Cash generating units): gas, electricity, integrated water management, environmental and other services (Public lighting and telecommunications) that are consistent with the business areas used for internal periodic reporting and with the information contained in section 2.02.06 "Reporting by operating sector".

In relation to this, it should be noted that the Group has implemented a structured process for preparing and reviewing the business plan, which involves formulating the Plan on an annual basis according to an external context scenario that takes into account the market trends and rules for regulated businesses, with the support of all the business units and following a bottom-up logic. Specifically, assumptions were implemented in developing the 2021-2025 Business Plan consistent with those used in previous plans and, on the basis of the final reported values, forecasts were developed that refer to the most authoritative and up external sources available wherever necessary.

Revenues for regulated business areas were developed on the basis of the evolution of the rates deriving from national regulations and/or agreements with the Area Authority. In particular, revenues from energy distribution were forecasted according to the principles of Arera 570/19 (RTDG) and 654/15 (TIT) resolutions for gas and electricity respectively, and taking into account the respective WACC values. Such values have been approved for the year 2022, through Resolution no. 614/21 in relation to the electric power sector and for the gas distribution and measurement, and were updated for the following years in line with the methodology of the same Resolution and according to the forecasts of the financial and fiscal parameters integrated into the approved Business Plan.
Revenues from energy sales under protected conditions and with regard to services of last resort have been estimated on the basis of the respective regulatory reference texts, i.e. the TIV (resolution 301/12) for electricity and TIVG (resolution 64/09) for gas.
For integrated water management, the hypothesis used to forecast revenues assumed no change in the volumes distributed and was based on the rates originating from the agreements in effect with ATERSIR and the application of the Water Rate method (MTI-3) set forth by Arera resolution no. 639/21, also taking account the parameters underlying the hedging of financial and tax charges, among other factors. For urban sanitation, the hypothesis formalized involved achieving full rate coverage over all the areas served within the duration of the plan, consistent with the provisions of rules currently in effect.

Price trends for electric energy and gas bought and sold in the open market were worked out on the basis of business considerations consistent with the planned energy scenario, considering the forecasts provided by a panel of institutional observers.

The development of plants for the treatment and recycling of waste is consistent with the forecasts of the provincial plans in which the Hera Group operates. The investment schedule and the subsequent start of new plants is the result of the best estimate of the managers in charge.

The inertial evolution of the Group's costs in the plan timeframe was developed by formulating hypotheses based on the information available. Therefore, the most recent levels of inflation recorded in the final balance were taken into account, along with the anticipated trends outlined in the Economic and Financial Planning Document, as well as the forecasts made available by the Bank of Italy and European Commission. In relation to employees and labour costs, instead, the indications included in the various types of employment contracts were considered.
The first year of the plan represents the base reference for identifying economic, financial and management objectives that converge in the annual budget, the guiding operational element for achieving the Group's growth objectives.

The cash flows generated were therefore determined using the data for the 2022 - 2025 period as a base. In particular, the net profit margin was used, from which taxes were deducted, depreciation and provision were added and the maintenance investments planned for each year of the plan were deducted.

Following the last year of the plan, Free cash flows were considered equal to the value of the Net operating profit for the last year of the plan, in the event that the value of depreciation and provisions remains at the level of the investments. In the event that the plan does not take into account the prediction of future events that significantly influence estimated cash flows as a result of its medium-term timeframe, adjustments were applied in order to also incorporate the effects of such events. The cash flows are calculated by applying the growth rate (g) to the normalised Free Cash Flows with the medium/long-term timeframe for the relevant sector (2% on average) for the 2026-2041 period (20 years total). For regulated services, these flows are brought into line with the expected continuation of market share following the completion of the expected calls for tenders.

These flows are supplemented by the current value of perpetuity, calculated as follows:

- For market activities, the cash flow resulting from the application of the perpetuity criterion for the last year (2041) was considered, assuming an average factor growth of 2%;
- for services under contract, the terminal value was established by considering the cash flow resulting from the application of the perpetuity criterion weighted by the percentage of competitive bidding processes that the Group is expected to win at the end of the contract periods (100% for network services, 80% for urban sanitation services) and the redemption value of assets weighted by the proportion of competitive bidding processes which the Group expected not to win. This value was estimated as equal to the current value of the net book value of assets owned and leasehold improvements, less the recovery values, in order to properly represent the non-renewal of the contract and the subsequent sale of the assets to the new operator with a value equal to the remaining book value.

To discount unlevered cash flows, the rate used was the weighted average cost of capital (WACC), which represents the yield expected by the funders and shareholders of the company for the use of equity capital, adjusted for the risk of the specific country in which the asset being valued. The value of the specific country risk to be included in the discount rate is defined on the basis of information provided by external providers. The cash flows are thus differentiated according to the specific characteristics and consequent risks characterizing business areas as well as the countries in which the Group operates. For Italy, a WACC of 5.15% was used for waste management and 4.27% for other businesses.
The outcomes of the tests were positive. A sensitivity analysis was also conducted. In this regard, it should be noted that the Group's business model, with its distinct resilience thanks in part to the diversified portfolio of assets under management, has made it possible to achieve constantly improving results over the years with no overall significant changes in the planned hypotheses despite the adverse macroeconomic environment.

In view of this, the sensitivity analysis that was developed focused on the marginality of the individual businesses, hypothesizing a 5% decrease that would result in a reduction in the cash flows developed in the years covered by the plan and subsequent years. In this context, the values obtained are much higher than those recorded in the balance sheets, therefore this analysis has further confirmed the carrying values.

Within the scope of the CGU Gas, in order to render the initial analyses carried out in relation to climate change into a model, a further medium-long term stress scenario was developed that took into account the effects of an increase in average winter temperatures of 1 degree with respect to what was assumed in the Business Plan scenario and the consequent reduction in margins (reference should also be made to the paragraph 1.02.03 "Management of environmental-catastrophic risks" of the Directors' Report). Once again, the outcomes confirm the full recoverability of the asset values recorded in the balance sheet.

Electricity generation assets
With reference to the market for electric generation, in the presence of impairment indicators and in keeping with previous financial periods, an in-depth analysis was performed to determine the recoverable amount of the Group's investments, and related financial assets, operating in the sector. In particular, the analysis was conducted by discounting the value of the cash flows expected to be generated over the remaining useful lives of the plants of Set S.p.A. and Tamarete Energia S.r.l..

In the 2021 financial year, as a result of the significant increase in gas prices, there was a significant effect on prices in Mgp despite the presence of a positive clean spark spread. Emerging trends show that relatively high Css values offer opportunities in the short term, while in the medium to long term the outlook is for a consolidation at lower values. The factors that have determined the performance of the electricity generation market during this decade are due to the combination of multiple factors on both demand and supply sides. The main factors affecting current price dynamics are to be found in:

- introduction of significant production capacity in renewable energy in the past few years;

- moderate GDP growth and consumption efficiency (driven by European and national environmental policy objectives) reflected in the low growth in demand for energy;
- European and national policies in relation to CO2 emission reduction targets and targets for renewable energy affecting supply.

On the basis of new scenarios developed, it is believed that the market will evolve towards levels of clean spark spread aligned in the short term to the recent historical level, while they will be more limited in the medium to long term, in particular due to a combination of multiple effects, including:

- new high-efficiency incoming capacity (CCGT) beginning in 2022, which will replace coal-powered plants with a view to phasing out coal by 2025;
- beginning of the end-of-life cycle of the old CCGT plants, which, from the second half of the decade, creates favourable market conditions for highly efficient and flexible retrofits of the old CCGT plants, whose remuneration and return on investment are ensured by the participation in MGP and MSD, additionally ensuring a higher level of suitability of the system in the medium-long term and therefore less room for marginality growth in the absence of such investments;
- resulting unincreased marginality in the MGP market;
- growing role of renewable sources, also supported by the need to reduce dependency not only on fossil fuels in general but also on specific geopolitical areas.

That said, future cash flows determined on the basis of the medium/long-term energy scenario the Group considered to be the most likely, formulated on the basis of independent expert assumptions consistent with growth expectations for energy demand, installed power, the demand for combined cycle and the system's expected reserve margin. Especially in the medium/long term, this scenario differs from that used in the previous year, especially as a result of more analytical information concerning the efficiency levels of the new incoming capacity, which is expected to help maintain the future clean spark spread at lower values. The estimated cash flows were discounted using a 5.04% WACC, calculated in the same way as shown for the cash flow generating units.
The outcome of the test confirmed that the values concerning Set Spa are fully recoverable, while it resulted in a reversal of an impairment loss on the loan to Tamarete Energia Srl of 2.2 million euro, equal to the portion collected during the year.

A sensitivity analysis was also developed assuming a Css of zero, with a consequent reduction in the cash flows developed over the life of the plants. In this scenario too, the carrying amounts of Set Spa would be fully recoverable.

At the end of the valuation process, the carrying amount of financial assets, equity investments and receivables attributable to Set Spa was 47 million euro, while the financial assets attributable to Tamarete Energia Srl were written down in full.

32 Operational activity

Changes in net working capital

The following is a breakdown of information on changes in financial liabilities during the 2021 financial year, differentiating between cash flows and non-cash flows.

Type	31 Dec 21	31 Dec 20	Change (a)	Non-cash flows				Cash flows (f)=(b)+(c)+(d)+(e)-(a)
				Acquisitions divestitures (b)	Economic valuation components (c)	Changes in fair value (d)	Other changes (e)	
Inventories	368.0	171.7	196.3	0.2	(0.6)			(196.7)
Trade receivables	2,918.0	1,971.6	946.4	18.1	(95.0)	(17.3)	146.8	(893.8)
Trade payables	(2,356.6)	(1,497.5)	(859.1)	(11.2)			10.6	858.5
Other current assets/liabilities	(1,013.3)	(568.7)	(444.6)	(2.1)	12.0	(12.9)	(161.8)	279.8
Changes in working capital	**(83.9)**	**77.1**	**(161.0)**	**5.0**	**(83.6)**	**(30.2)**	**(4.4)**	**47.8**

"Acquisitions and divestitures" include the effects of the acquisitions of control carried out during 2021, as illustrated in detail in paragraph 2.02.02 "Scope of consolidation", in the section "Business combinations".

"Economic valuation components" mainly include:

- the provision for bad debts for a negative 94.4 million euro;
- the portions pertaining to the period of plan related grants, the total amount of which was collected in previous years, amounting to 12.4 million euro.

"Changes in fair value" includes:

- the valuation at current market value of receivables resulting from the application of the invoice discount in connection with energy efficiency measures for end customers, held for the purpose of transfer to financial institutions, for a negative 17.3 million euro;
- the valuation of environmental certificates and greenhouse gas emission obligations assigned to the Group, as well as the valuation of forward contracts for the purchase and sale of greenhouse gas emission allowances, for a total negative 12.9 million euro.

"Other changes" mainly comprises offsets within net working capital of transactions involving the gross recognition of assets and liabilities.

Dividends collected

In 2021, dividends for 8.5 million euro were received from companies consolidated according to the equity method and 3.5 million euro from shareholdings held in other companies.

Net interest paid

The following is a reconciliation of the balance sheet values of financial income and expenses and the related net cash flows for the year.

Type	2021 (a)	Non-cash components		Other changes (d)	Non-cash components (e)=(a)-(b)-(c)-(d)
		Components economic valuation (b)	Changes in fair value (c)		
Financial income	82.3	5.3	23.8	20.6	32.6
Financial expenses	(300.3)	(68.3)	(48.6)	(87.2)	(96.2)
Total	**(218.0)**	**(63.0)**	**(24.8)**	**(66.6)**	**(63.6)**

"Economic valuation components" include income and expenses arising from both the measurement at amortised cost and the discounting of liabilities with medium- to long-term monetary outlays.

"Changes in fair value" include measurements at current market value of financial assets and liabilities, mainly relating to receivables arising from the application of the invoice discount in relation to eligible energy efficiency measures carried out on behalf of end customers.

For further details on the above items, please see note 10 "Financial income and expenses" and note 20 "Derivative instruments".

"Other changes" mainly include:

- the components of income collected and expenses paid during the year, with the associated cash flows reported in specific items of the cash flow statement, mainly related to trading expenses for the partial repurchase of five bonds during the year for a negative 82.6 million euro;
- the interest cash flows recognised on an accrual basis in previous years.

Taxes paid

The breakdown of flows by tax type is as follows:

	31 Dec 21	31 Dec 20
Income taxes	148.2	116.9
Substitute tax	9.2	84.1
IRES refund	(1.1)	(16.4)
Taxes paid	**156.3**	**184.6**

The item "Substitute tax" at 31 December 2021 includes the amount paid in relation to the tax realignment of goodwill, as detailed in note 11 "Taxes". In the previous financial year, a significant tax operation was carried out to redeem controlling shareholdings (through the payment of a 16% substitute tax) as part of the acquisition of the Ascopiave Group sales companies.

The item "IRES refund" at 31 December 2020, refers to the collection of receivables for IRES refund requests in relation to the deductibility of IRAP from IRES for 16.4 million euro.

These effects were only partially offset by the higher cash flows paid compared to the previous year for the balance and advance payments of current taxes.

33 Investment activities

Investments in subsidiary companies and business units net of cash holdings

Over the course of the 2021 financial year, the Group gained control over the companies Primagas Ad, Recycla Spa and Eco Gas Srl and the Vallortigara Group; for further details, reference should be made to paragraph 1.03 "Main events occurred" of the directors' report.

Other equity investments

Over the course of the 2021 financial year, the Group gained control over SEA – Servizi Ecologici Ambientali Srl and Tremonti Srl and in partnership withe ENI Group it established HEA Spa. For further details, reference should be made to paragraph 1.03 "Main events occurred" of the directors' report.

The table below details the main cash disbursements and cash holdings acquired, when present, associated with shareholdings in companies and business units.

31 Dec 21	Primagas Ad	Eco Gas Srl	Recycla Spa	Vallortigara Group	Other minor companies	Total investments
Cash outlays leading to the acquisition of control	3.2	14.5	27.3	28.7		73.7
Fees payables		0.4	1.2			1.6
Cash holdings acquired		(0.6)	(2.3)	(8.3)		(11.2)
Investments in subsidiary companies and business units net of cash holdings	**3.2**	**14.3**	**26.2**	**20.4**		**64.1**
Cash outlays in non-consolidated companies					11.0	11.0
Investments in subsidiary companies, business units and other shareholdings	**3.2**	**14.3**	**26.2**	**20.4**	**11.0**	**75.1**

Increase/decrease in other investment activities

The following is a breakdown of information on changes in the other investment activities during the 2021 financial year, differentiating between cash flows and non-cash flows.

Type	31 Dec 21	31 Dec 20	Change (a)	Non-cash flows				Cash flows (f)=(b)+(c)+(d)+(e)-(a)
				Acquisitions divestitures (b)	Economic valuation components (c)	Changes in fair value (d)	Other changes (e)	
Current and non-current financial assets	172.0	173.6	(1.6)	0.2	7.1		(10.4)	(1.5)

"Economic valuation components" includes:

- income for 5.3 million euro from the discounting of financial receivables, as disclosed in note 10 "Financial income and expenses";
- the revaluation of the financial receivable written down in previous years from Tamarete Energia Srl, for 2.2 million euro, equal to the amount collected during the year;
- the write-down of non-current financial receivables from the associated company H.E.P.T. Co. Ltd for a negative 0.4 million euro.

"Other changes" mainly include the reclassification of provisions recognised in prior years (and reversed during the year) for doubtful receivables from investee companies for 10.2 million euro, as disclosed in note 28 "Provisions for risks and charges".

34 Financing activities

Changes in financial liabilities

The following is a breakdown of information on changes in financial liabilities during the 2021 financial year, differentiating between cash flows and non-cash flows.

For further details on "Changes in fair value" please refer to note 20 "Derivative instruments", while for "Economic valuation components" and "Other changes" please refer to notes 10 "Financial income and expenses", 14 "Rights of use and lease liabilities" and 26 "Non-current and current financial liabilities".

Type	31 Dec 21	31 Dec 20	Change (a)	Non-cash flows				Cash flows (f)=(b)+(c)+(d)+(e)-(a)
				Acquisitions divestitures (b)	Economic valuation components (c)	Changes in fair value (d)	Other changes (e)	
Non-current financial liabilities	3,716.0	3,678.7	37.3	29.8	51.8	(0.3)	(49.4)	5.4
Current financial liabilities	499.7	616.9	(117.2)	2.9	(2.1)	(0.7)	135.7	(253.0)
Cash flows related to financial liabilities	**4,215.7**	**4,295.6**	**(79.9)**	**32.7**	**49.7**	**(1.0)**	**86.3**	**(247.6)**
of which								
New issue of long-term binds								525.1
Repayments of non-current financial liabilities								(519.8)
Repayments and other net changes in financial liabilities								(252.9)
Lease liabilities	96.6	93.6	3.0	2.5	3.1		19.9	(22.5)
Financial liabilities generated by financing activities	**4,312.3**	**4,389.2**	**(76.9)**	**35.2**	**52.8**	**(1.0)**	**106.2**	**(270.1)**

"Acquisitions and divestitures" include the effects of the acquisitions of control carried out during 2021, as illustrated in detail in chapter 2.02.02 "Scope of consolidation", in the section "Business combinations".

"Economic valuation components" include:

- valuation at depreciated cost of bonds and financing for 29.7 million euro;
- discounting charges related to the minority shareholdings put options and the earn outs contracted in connection with the acquisition of control of companies and business units, for 20 million euro;
- expenses related to leases for 3.1 million euro.

"Changes in fair value" mainly include the adjustment made to the carrying amount of the foreign currency bond as a result of the fair value hedge for 1.1 million euro.

"Other changes" in the items "Non-current financial liabilities" and "Current financial liabilities" include net effect mainly due to:

- expenses from trading due to the repurchase transaction on the market of portions of bonds carried out during 2021, for 82.6 million euro (as specified in the previous note 32 "Operational activity" in the item "Net interests paid");
- reclassification as a financial liability of the provision for restoration concerning the management of the integrated water service in the province of Rimini, in the amount of 39.4 million euro, as reported in note 28 "Provisions for risks and charges";
- payment of dividends to the minority shareholders of EstEnergy Spa, equal to 17.2 million euro; In the statement of cash flows, the related cash flow is represented by dividends paid in the period, while in the financial statements it is a change in financial liabilities, since the Group's policy provides for the recognition of an estimate of the total amount of dividends that will be distributed over the life of the put option granted to minority shareholders; this mechanism is described in note 26 "Non-current and current financial liabilities".

"Other changes" in the item "Lease liabilities" include payables related to contracts signed during the year and the remeasurement of payables under existing contracts, generated by an update of the underlying assumptions on renewal, purchase or early termination options.

Acquisition of interests in consolidated companies
The amount refers to the cash outlays related to the purchase of non-controlling shares in the company Ascotrade Spa, as described in section 2.02.03 "Scope of consolidation".

Dividends paid out to Hera shareholders and non-controlling interests
The value refers to dividends paid out during the year 2021 to:

- parent company's shareholders for 157.3 million euro;
- minority shareholders in the amount of 35.7 million euro, of which 17.2 million euro paid to the minority shareholders of EstEnergy Spa; the latter amount was deducted from the put option payable, as explained in note 26 "Non-current and current financial liabilities".

Finally, it should be noted that non-monetary flows due to exchange rate differences were absent in 2021.

35 Classification of financial assets and liabilities pursuant to IFRS 7

The table below illustrates the composition of the Group's assets, using the current and non-current distinction. The fair value of other investments and derivative financial instruments, on the other hand, is discussed in notes 17 and 20, respectively.

31 Dec 21	Hierarchy fair value	Fair value to income statement	Fair value to statement of comprehensive income	Depreciated cost	Total
Non-current financial assets	2		1.9	140.8	142.7
Non-current assets		**-**	**1.9**	**140.8**	**142.7**
Trade receivables	3		198.0	2,720.0	2,918.0
Current financial assets				29.3	29.3
Other assets	2	26.1		417.4	443.5
Current assets		**26.1**	**198.0**	**3,166.7**	**3,390.8**

31 Dec 20	Hierarchy fair value	Fair value to income statement	Fair value to statement of comprehensive income	Depreciated cost	Total
Non-current financial assets	2		1.9	138.9	140.8
Non-current assets		**-**	**1.9**	**138.9**	**140.8**
Trade receivables	3			1,971.6	1,971.6
Current financial assets	2		0.1	32.7	32.8
Other assets	2	24.6		474.6	499.2
Current assets		**24.6**	**0.1**	**2,478.9**	**2,503.6**

With respect to "Non-current financial assets" reference is made to note 18.
With respect to "Current assets" reference should be made to notes 18, 22, 23 and 24.

The table below illustrates the composition of the Group's liabilities, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 20.

31 Dec 21	Hierarchy fair value	Fair value to income statement	Fair value hedges	Depreciated cost	Total
Non-current financial liabilities	2/3	590.8	143.7	2,981.5	3,716.0
Non-current lease liabilities				53.2	53.2
Non-current liabilities		**590.8**	**143.7**	**3,034.7**	**3,769.2**
Trade payables				2,356.6	2,356.6
Current financial liabilities	3	1.6		498.1	499.7
Current lease liabilities				43.4	43.4
Other liabilities	2	22.5		1,441.0	1,463.5
Current liabilities		**24.1**	**-**	**4,339.1**	**4,363.2**

31 Dec 20	Hierarchy fair value	Fair value to income statement	Fair value hedges	Depreciated cost	Total
Non-current financial liabilities	2/3	561.8	144.6	2,972.3	3,678.7
Non-current lease liabilities				73.5	73.5
Non-current liabilities		**561.8**	**144.6**	**3,045.8**	**3,752.2**
Trade payables				1,497.5	1,497.5
Current financial liabilities				616.9	616.9
Current lease liabilities				20.1	20.1
Other liabilities	2	8.1		1,073.5	1,081.6
Current liabilities		**8.1**	**-**	**3,208.0**	**3,216.1**

With regard to "Non-current financial liabilities", the fair value hierarchy for hedged items is Level 2, while for items measured at fair value through profit or loss it is Level 3.
With respect to "Non-current liabilities" reference is made to note 14 and 26.
With respect to "Current liabilities" reference is made to notes 14, 23, 26, 29 and 30.

2.02.06 Reporting by operating sector

Reporting by operational sectors is based on the approach management uses to monitor the performance of the Group by homogeneous business areas. The net costs and assets for business support functions, in keeping with the internal control model, are entirely associated to operational businesses.

At 31 December 2021, the Hera Group was organized into the following business lines:

- **Gas** includes the costs of distributing and selling methane gas as well as district heating and energy services;
- **Electricity** includes the costs of producing, distributing and selling electricity;
- **Water Cycle** includes aqueduct, purification and sewage services;
- **Waste management** includes waste collection, treatment, recycling and disposal services;
- **Other services** includes public lighting, telecommunications and other minor services.

The following are assets and liabilities by business line for the 2020 and 2021 financial years:

31 Dec 21	Gas	Electricity	Water cycle	Waste management	Other services	Total
Current year						
Assets (tangible and intangible)	1,943.3	647.6	2,134.2	1,315.4	128.8	6,169.3
Goodwill	494.8	72.2	42.7	228.3	4.9	842.9
Shareholdings	111.7	30.4	18.9	37.5	-	198.5
Not attributed fixed assets						97.3
Net fixed assets	**2,549.8**	**750.2**	**2,195.8**	**1,581.2**	**133.7**	**7,308.0**
Attributed net working capital	(95.5)	108.1	(155.4)	66.8	(7.9)	(83.9)
Non attributed net working capital						87.4
Net working capital	**(95.5)**	**108.1**	**(155.4)**	**66.8**	**(7.9)**	**3.5**
Other provisions	(181.1)	(33.4)	(129.4)	(285.2)	(4.3)	(633.4)
Net invested capital	**2,273.2**	**824.9**	**1,911.0**	**1,362.8**	**121.5**	**6,678.1**

31 Dec 20	Gas	Electricity	Water cycle	Waste management	Other services	Total
Previous year						
Assets (tangible and intangible)	1,855.5	618.8	2,122.4	1,222.9	127.2	5,946.8
Goodwill	498.5	68.5	42.8	198.1	4.9	812.8
Shareholdings	112.6	29.9	20.0	25.4	-	187.9
Not attributed fixed assets						36.1
Net fixed assets	**2,466.6**	**717.2**	**2,185.2**	**1,446.4**	**132.1**	**6,983.6**
Attributed net working capital	181.1	(32.6)	(145.6)	78.5	(3.9)	77.5
Non attributed net working capital						(23.9)
Net working capital	**181.1**	**(32.6)**	**(145.6)**	**78.5**	**(3.9)**	**53.6**
Other provisions	(175.6)	(32.8)	(159.4)	(282.6)	(4.5)	(654.9)
Net invested capital	**2,472.1**	**651.8**	**1,880.2**	**1,242.3**	**123.7**	**6,382.3**

The following are the main result measures by business line for the 2020 and 2021 financial years:

2021	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total
Current year							
Direct revenues	5,833.6	2,784.2	911.1	1,272.1	125.9	28.5	10,955.4
Infra-cycle revenues	109.0	233.1	4.7	34.9	44.2	76.1	502.1
Total direct revenues	**5,942.7**	**3,017.2**	**915.8**	**1,307.0**	**170.2**	**104.7**	**11,457.5**
Indirect revenues	26.3	7.4	48.9	21.4	0.6	(104.7)	-
Total revenues	**5,969.0**	**3,024.6**	**964.7**	**1,328.4**	**170.8**	**-**	**11,457.5**
EBITDA	**487.6**	**144.7**	**262.4**	**291.7**	**37.4**	**-**	**1,223.9**
Direct amortisations and provisions	173.8	69.7	121.2	152.0	20.4	75.0	612.1
Indirect amortisations and provisions	8.0	3.0	35.4	28.1	0.5	(75.0)	-
Total amortisations and provisions	**181.9**	**72.7**	**156.5**	**180.2**	**20.9**	**-**	**612.1**
Operating revenues	**305.8**	**72.0**	**105.9**	**111.6**	**16.4**	**-**	**611.7**

2020	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total
Previous year							
Direct revenues	3,271.7	2,189.5	846.8	1,121.7	105.9	11.2	7,546.9
Infra-cycle revenues	74.3	120.2	4.7	54.5	42.6	54.9	351.2
Total direct revenues	**3,346.0**	**2,309.7**	**851.6**	**1,176.2**	**148.5**	**66.1**	**7,898.1**
Indirect revenues	15.3	6.1	32.0	14.1	(1.4)	(66.1)	-
Total revenues	**3,361.3**	**2,315.9**	**883.6**	**1,190.3**	**147.1**	**-**	**7,898.1**
EBITDA	**374.4**	**188.2**	**265.8**	**258.0**	**36.7**	**-**	**1,123.0**
Direct amortisations and provisions	150.1	66.5	116.6	150.2	21.0	67.3	571.7
Indirect amortisations and provisions	7.3	3.5	31.0	25.0	0.4	(67.3)	-
Total amortisations and provisions	**157.4**	**70.0**	**147.7**	**175.2**	**21.4**	**-**	**571.7**
Operating revenues	**217.1**	**118.2**	**118.1**	**82.8**	**15.2**	**-**	**551.3**

2.03 NET DEBT

2.03.01 Net debt

		31 Dec 21	31 Dec 20
A	Cash	885.6	987.1
B	Cash equivalents	-	-
C	Other current financial assets	29.3	32.8
D	**Liquidity (A+B+C)**	**914.9**	**1,019.9**
E	Current financial debt	(443.6)	(302.6)
F	Current portion of non-current financial debt	(99.5)	(327.2)
G	**Current financial indebtedness (E+F)**	**(543.1)**	**(629.8)**
H	**Net current financial indebtedness (G-D)**	**371.8**	**390.1**
I	Non-current financial debt	(1,073.8)	(1,203.6)
J	Debt instruments	(2,702.0)	(2,554.3)
K	Non-current trade and other payables	-	-
L	**Non-current financial indebtedness (I+J+K)**	**(3,775.8)**	**(3,757.9)**
M	**Total financial indebtedness (H+L)**	**(3,404.0)**	**(3,367.8)**
	Non-current financial receivables	142.7	140.8
	Net financial debt (net debt)	**(3,261.3)**	**(3,227.0)**

2.03.02 Net financial debt according to the Consob notice DEM/6064293 of 2006

		31 Dec 21					31 Dec 20				
			A	B	C	D		A	B	C	D
A	Cash holdings	885.6	-	-	-	-	987.1	-	-	-	-
B	Cash holdings and equivalents	-	-	-	-	-	-	-	-	-	-
C	Other current financial assets	29.3	-	4.8	4.4	3.2	32.8	0.3	4.4	4.4	1.4
D	**Liquidity (A+B+C)**	**914.9**					**1,019.9**				
	of which related parties		**-**	**4.8**	**4.4**	**3.2**		**0.3**	**4.4**	**4.4**	**1.4**
E	Current financial debt	(443.6)	-	-	(0.8)	(39.4)	(302.6)	-	-	(0.7)	-
F	Current part of non-current financial debt	(99.5)	-	-	(1.2)	(0.1)	(327.2)	-	-	(1.2)	(0.1)
G	**Current financial indebtedness (E+F)**	**(543.1)**					**(629.8)**				
	of which related parties		**-**	**-**	**(2.0)**	**(39.5)**		**-**	**-**	**(1.9)**	**(0.1)**
H	**Current net financial indebtedness (G+D)**	**371.8**					**390.1**				
	of which related parties		**-**	**4.8**	**2.4**	**(36.3)**		**0.3**	**4.4**	**2.5**	**1.3**
I	Non-current financial debt	(1,073.8)	-	-	(6.4)	(0.2)	(1,203.6)	-	-	(7.9)	(0.2)
J	Debt instruments	(2,702.0)	-	-	-	-	(2,554.3)	-	-	-	-
K	Commercial and other non-current payables	-	-	-	-	-	-	-	-	-	-
L	**Non-current financial indebtedness (I+J+K)**	**(3,775.8)**					**(3,757.9)**				
	of which related parties		**-**	**-**	**(6.4)**	**(0.2)**		**-**	**-**	**(7.9)**	**(0.2)**
M	**Total financial indebtedness (H+L)**	**(3,404.0)**					**(3,367.8)**				
	of which related parties		**-**	**4.8**	**(4.0)**	**(36.5)**		**0.3**	**4.4**	**(5.4)**	**1.1**
	Non-current financial receivables	**142.7**					**140.8**				
	of which related parties		**-**	**18.6**	**13.6**	**29.8**		**-**	**20.3**	**15.0**	**36.9**
	Net financial debt	**(3,261.3)**					**(3,227.0)**				
	of which related parties		**-**	**23.4**	**9.6**	**(6.7)**		**0.3**	**24.7**	**9.6**	**38.0**

Key to column headings for related parties:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties

2.04 FINANCIAL STATEMENT FORMATS AS PER CONSOB RESOLUTION 15519/2006

2.04.01 Income statement as per Consob resolution 15519/ 2006

	notes	2021	of which related parties						2020	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	10,555.3	-	58.0	319.4	13.1	390.5	3.7%	7,079.0	-	27.4	293.5	14.2	335.1	4.7%
Other operating revenues	2	400.1	-	0.3	7.1	0.5	7.9	2.0%	467.8	-	0.2	9.2	-	9.4	2.0%
Raw and other materials	3	(6,668.5)	-	(51.0)	-	(46.1)	(97.1)	1.5%	(3,410.6)	-	(25.9)	-	(43.1)	(69.0)	2.0%
Service costs	4	(2,464.6)	-	(8.6)	(19.8)	(33.9)	(62.3)	2.5%	(2,424.9)	-	(9.4)	(22.1)	(34.1)	(65.6)	2.7%
Personnel costs	5	(592.8)	-	-	-	-	-		(572.7)	-	-	-	(1.6)	(1.6)	0.3%
Other operating costs	6	(66.5)	-	-	(1.8)	(0.6)	(2.4)	3.6%	(58.9)	-	-	(1.9)	(0.6)	(2.5)	4.2%
Capitalised costs	7	60.8	-	-	-	-	-		43.3	-	-	-	-	-	
Amortisation, provisions and depreciation	8	(612.1)	-	(4.0)	-	-	(4.0)	0.7%	(571.7)	-	(2.3)	-	-	(2.3)	0.4%
Operating revenues		**611.7**	**-**	**(59.0)**	**304.9**	**(67.0)**	**178.9**		**551.3**	**-**	**(10.0)**	**278.7**	**(65.2)**	**203.5**	
Share of profits (losses) pertaining to joint ventures and associated companies	9	13.2	-	13.2	-	-	13.2	100.0%	8.2	-	8.2	-	-	8.2	100.0%
Financial income	10	82.3	-	4.8	0.7	0.4	5.9	7.21%	73.4	-	4.8	0.7	0.4	5.9	8.0%
Financial expenses	10	(300.3)	-	(2.4)	(0.3)	-	(2.7)	0.9%	(198.3)	-	(2.3)	(0.3)	-	(2.6)	1.3%
Financial management		**(204.8)**	**-**	**15.6**	**0.4**	**0.4**	**16.4**		**(116.7)**	**-**	**10.7**	**0.4**	**0.4**	**11.5**	
Pre-tax profit		**406.9**	**-**	**(43.4)**	**305.3**	**(66.6)**	**195.3**		**434.6**	**-**	**0.7**	**279.1**	**(64.8)**	**215.0**	
Taxes	11	(34.2)	-	-	-	-	-		(111.8)	-	-	-	-	-	
Net profit for the period		**372.7**	**-**	**(43.4)**	**305.3**	**(66.6)**	**195.3**		**322.8**	**-**	**0.7**	**279.1**	**(64.8)**	**215.0**	
Attributable to:															
Parent company shareholders		333.5							302.7						
Minority shareholders		39.2							20.1						
Earnings per share															
Basic	**12**	**0.228**							**0.206**						
Diluted	**12**	**0.228**							**0.206**						

Column headings related parties: A non-consolidated subsidiaries, B Associated and jointly controlled companies, C Related companies with significant influence (shareholder municipalities), D Other related parties

2.04.02 Statement of financial position as per Consob resolution 15519/2006

	notes	31 Dec 21	of which related parties						31 Dec 20	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
ASSETS															
Non-current assets															
Tangible assets	13.31	1,941.0	-	-	-	-	-		1,926.5	-	-	-	-	-	
Rights of use	14.31	101.6	-	-	-	-	-		95.9	-	-	-	-	-	
Intangible assets	15.31	4,126.7	-	-	-	-	-		3,924.4	-	-	-	-	-	
Goodwill	16.31	842.9	-	-	-	-	-		812.8	-	-	-	-	-	
Shareholdings	17.31	198.5	-	152.4	-	2.0	154.4	77.8%	187.9	-	139.7	-	2.0	141.7	75.4%
Non-current financial assets	18.35	142.7	-	18.6	13.6	29.8	62.0	43.4%	140.8	-	20.3	15.0	36.9	72.2	51.3%
Deferred tax assets	19	229.4	-	-	-	-	-		156.6	-	-	-	-	-	
Derivative financial instruments	20	6.9	-	-	-	-	-		14.4	-	-	-	-	-	
Total non-current assets		**7,589.7**	**-**	**171.0**	**13.6**	**31.8**	**216.4**		**7,259.3**	**-**	**160.0**	**15.0**	**38.9**	**213.9**	
Current assets															
Inventories	21	368.0	-	-	-	-	-		171.7	-	-	-	-	-	
Trade receivables	22.35	2,918.0	-	10.3	65.6	15.0	90.9	3.1%	1,971.6	-	2.8	50.3	17.9	71.0	3.6%
Current financial assets	18.35	29.3	-	4.8	4.4	3.2	12.4	42.3%	32.8	0.3	4.4	4.4	1.4	10.5	32.0%
Current tax assets	23.35	21.2	-	-	-	-	-		11.7	-	-	-	-	-	
Other current assets	24.35	422.3	-	2.4	(1.2)	3.9	5.1	1.2%	487.5	-	8.5	-	5.4	13.9	2.9%
Derivative financial instruments	20	1,797.4	-	-	-	-	-		113.1	-	-	-	-	-	
Cash and cash equivalents	18	885.6	-	-	-	-	-		987.1	-	-	-	-	-	
Total current assets		**6,441.8**	**-**	**17.5**	**68.8**	**22.1**	**108.4**		**3,775.5**	**0.3**	**15.7**	**54.7**	**24.7**	**95.4**	
TOTAL ASSETS		**14,031.5**	**-**	**188.5**	**82.4**	**53.9**	**324.8**		**11,034.8**	**0.3**	**175.7**	**69.7**	**63.6**	**309.3**	

Column headings related parties: A non-consolidated subsidiaries, B Associated and jointly controlled companies, C Related companies with significant influence (shareholder municipalities), D Other related parties

	notes	31 Dec 21	of which related parties						31 Dec 20	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
NET EQUITY AND LIABILITIES															
Share capital and reserves															
Share capital	26	1,459.6	-	-	-	-	-		1,460.0	-	-	-	-	-	
Reserves	26	1,407.1	-	-	-	-	-		1,198.1	-	-	-	-	-	
Profit (loss) for the period		333.5	-	-	-	-	-		302.7	-	-	-	-	-	
Group net equity		**3,200.2**	-	-	-	-	-		**2,960.8**	-	-	-	-	-	
Non-controlling interests	26	216.6	-	-	-	-	-		194.5	-	-	-	-	-	
Total net equity		**3,416.8**	-	-	-	-	-		**3,155.3**	-	-	-	-	-	
Non-current liabilities															
Non-current financial liabilities	26.35	3,716.0	-	-	1.8	-	1.8	0.0%	3,678.7	-	-	2.3	-	2.3	0.1%
Non-current lease liabilities	14.35	53.2	-	0.1	4.6	0.2	4.9	9.2%	73.5	-	-	5.6	0.3	5.9	8.0%
Post-employment and other benefits	27	105.4	-	-	-	-	-		116.7	-	-	-	-	-	
Provisions for risks and charges	28	528.0	-	1.5	-	-	1.5	0.3%	538.2	-	2.8	-	-	2.8	0.5%
Deferred tax liabilities	19	132.1	-	-	-	-	-		120.5	-	-	-	-	-	
Derivative financial instruments	20	13.5	-	-	-	-	-		20.1	-	-	-	-	-	
Total non-current liabilities		**4,548.2**	-	**1.6**	**6.4**	**0.2**	**8.2**		**4,547.7**	-	**2.8**	**7.9**	**0.3**	**11.0**	
Current liabilities															
Current financial liabilities	26.35	499.7	-	-	0.7	39.4	40.1	8.0%	616.9	-	-	0.8	-	0.8	0.1%
Current lease liabilities	14.35	43.4	-	0.0	1.2	0.1	1.3	3.1%	20.1	-	-	1.2	0.1	1.3	6.5%
Trade payables	29.35	2,356.6	-	31.8	16.7	24.6	73.1	3.1%	1,497.5	-	15.0	16.7	24.5	56.2	3.8%
Current tax liabilities	23.35	27.9	-	-	-	-	-		25.4	-	-	-	-	-	
Other current liabilities	30.35	1,435.6	-	4.8	4.8	0.4	10.0	0.7%	1,056.2	-	1.4	5.7	0.3	7.4	0.7%
Derivative financial instruments	20	1,703.3	-	-	-	-	-		115.7	-	-	-	-	-	
Total current liabilities		**6,066.5**	-	**36.6**	**23.4**	**64.5**	**124.5**		**3,331.8**	-	**16.4**	**24.4**	**24.9**	**65.7**	
TOTAL LIABILITIES		**10,614.7**	-	**38.2**	**29.8**	**64.7**	**132.7**		**7,879.5**	-	**19.2**	**32.3**	**25.2**	**76.7**	
TOTAL NET EQUITY AND LIABILITIES		**14,031.5**	-	**38.2**	**29.8**	**64.7**	**132.7**		**11,034.8**	-	**19.2**	**32.3**	**25.2**	**76.7**	

Column headings related parties: A non-consolidated subsidiaries, B Associated and jointly controlled companies, C Related companies with significant influence (shareholder municipalities), D Other related parties

2.04.03 Financial statement as per Consob resolution 15519/2006

	31 Dec 21	of which related parties
Earnings before taxes	**406.9**	
Adjustments to reconcile net profit to the cashflow from operating activities		
Amortisation and impairment of assets	469.9	
Allocation to provisions	142.2	
Effects from valuation using the net equity method	(13.2)	
Financial (income) expenses	218.0	
(Capital gains) losses and other non-monetary elements	25.5	
Change in provision for risks and charges	(31.2)	
Change in provision for employee and post-employment benefits	(12.6)	
Total cash flow before changes in net working capital	**1,205.5**	
(Increase) decrease in inventories	(196.7)	
(Increase) decrease in trade receivables	(893.8)	(19.9)
Increase (decrease) in trade payables	858.5	16.9
Increase/decrease in other current assets/liabilities	279.8	10.8
Changes in working capital	**47.8**	
Dividends collected	12.0	8.5
Interest income and other financial income collected	32.6	3.7
Interest expenses, net charges on derivatives and other paid financial charges	(96.2)	(2.5)
Taxes paid	(156.3)	
Cash flow from operating activities (a)	**1,045.4**	
Investments in tangible assets	(171.9)	
Investments in intangible assets	(416.8)	
Investments in subsidiary companies and business units net of cash holdings	(64.1)	
Other equity investments	(11.0)	(11.0)
Sale price of tangible and intangible assets	2.5	
Divestments of shareholdings and contingent consideration	0.2	(0.2)
(Increase) decrease in other investment activities	(1.5)	(2.5)
Cash flow from (for) investing activities (b)	**(662.6)**	
New issue of long-term binds	525.1	
Repayments of non-current financial liabilities	(519.8)	
Repayments and other net changes in financial liabilities	(252.9)	(0.5)
Lease payments	(22.5)	(1.4)
Acquisition of interests in consolidated companies	(21.0)	
Dividends paid out to Hera shareholders and non-controlling interests	(193.0)	(62.6)
Changes in treasury share	(0.2)	
Cash flow from (for) financing activities (c)	**(484.3)**	
Increase (decrease) in cash holdings (a+b+c)	**(101.5)**	
Cash and cash equivalents at the beginning of the year	987.1	
Cash and cash equivalents at the end of the year	885.6	

2.04.04 List of related parties

The values reported in the table at 31 December 2021 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries

-

Group B- Affiliated and jointly controlled companies:

Adria Link Srl
Aimag Spa
ASM SET Srl
Energo Doo
Enomondo Srl
Hea Spa
H.E.P.T. Co. Ltd
Natura Srl in liquidation
Oikothen Scarl in liquidation
SEA - Servizi Ecologici Ambientali Srl
Set Spa
Sgr Servizi Spa
Sinergie Italiane Srl in liquidation
Tamarete Energia Srl
Tre Monti Srl

Group C - Related parties with signficant influence

Municipality of Bologna
Municipality of Casalecchio di Reno
Municipality of Cesena
Municipality of Ferrara
Municipality of Imola
Municipality of Modena
Municipality of Padua
Municipality of Ravenna
Municipality of Rimini
Municipality of Trieste
Con.Ami
Holding Ferrara Servizi Srl
Ravenna Holding Spa
Rimini Holding Spa

Group D - Other related parties

Acosea Impianti Srl
Acquedotto del Dragone Impianti Spa
Aloe Spa
Amir Spa - Asset
Apa2 consulting Sas
Aspes Spa
Calenia Energia Spa
Co.ra.b. Srl
Cora costr. Resid. Artig. Srl
Dental invest Srl
Executive Advocacy Srl
Fiorano Gestioni Patrimoniali Srl
Fonderia cab Srl
Fonderia fomar ghisa Srl

Formigine Patrimonio Srl
Ire immobiliare riqualificazione ed
Maranello Patrimonio Srl
Medeopart 2 Srl
Medeopart 3 Srl
Medeopart 5 Srl
Medeopart associates Srl
Rabofin Srl
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Se.r.a. Srl servizi ristorazione
Serramazzoni Patrimonio Srl
Sis Società Intercomunale di Servizi Spa in liquidation
Società Italiana Servizi Spa - Sis Spa asset
Te.Am Srl
Unica Reti Spa- Asset
Vanpart Srl
Auditors, directors, strategic executives, family members of strategic executives

2.04.05 Commentary notes to relations with related parties

Service management

In most of the areas it serves competence and in almost all of the areas of the shareholding municipalities for the provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna, Rimini, Padua, Udine, Trieste, Gorizia and Pesaro, the Hera Group holds the concession for the local public services of economic interest (distribution of natural gas through local gas pipelines, integrated water service and environmental services, including sweeping, waste collection, transport and recovery and disposal). The electricity distribution service is carried out in the areas of Modena and Imola, and in the municipalities of Trieste and Gorizia. Other public utilities (including urban district heating, energy services and public lighting) are carried out in a free market regime or through specific agreements with the local authorities concerned. Through specific relations with the local authorities and / or local agencies, the Hera Group is also responsible for waste treatment and disposal services, not included in urban hygiene activities.

Water sector

The water services managed by the Hera Group are carried out in the areas served in the Emilia-Romagna, Veneto, Friuli-Venezia Giulia and Marche regions. It is carried out on the basis of conventions with the relevant local agencies, with a variable duration, which is usually twenty years.
The Hera Group's mandate for managing integrated water services refers to activities of water collection and drinking water treatment and distribution for civil and industrial applications as well as sewerage and sewage treatment. The agreements signed with the local area authorities also require the operator to carry out the planning and construction of new networks and plants aimed at providing the service. The conventions regulate the economic aspects of the contractual agreement, as well as the modes of managing the service, and the performance and quality standards.
Beginning in 2012, authority for rates was transferred from the state to the national agency ARERA which, as part of this task it has been assigned, approved a transitional rate method for the period 2012-2013, a two-year period of consolidation from 2014 to 2015 and a rate method in force for 2016-2019 and the current provision regime 2020-2023 (Mti-3).
The adjustment for 2020-2023 is in continuity with the 2016-2019 period with the introduction of a number of incentives connected to energy and environmental sustainability objectives as well as contract quality. Each operator is granted revenue (VRG) independently of the trends of the volumes distributed and it is established on the basis of operating costs (efficient and exogenous) and capital costs in relation to the investments made.
For the purpose of carrying out the service, the operator uses networks, facilities and other equipment owned by the company itself or the municipalities or asset companies. These assets, part of the inaccessible water stores, or granted or leased to the provider, must be returned to the municipalities, asset companies or local area authorities at the end of the concession to be made available to the

incoming provider. Any work carried out by the Hera Group for the water service must be returned to the above mentioned entities following payment or the residual value of the assets in question.
Hera's relations with users are regulated by provisioning regulations as well as Service Charters drafted on the basis of templates approved by local area authorities in compliance with provisions set out by Arera regarding the quality of the service and the resource.

Waste management sector

The municipal waste service managed by the Hera Group in the area it serves is provided on the basis of agreements with local authorities and comprises the exclusive management of the collection, transportation, sweeping and cleaning of streets, preparations for waste recovery or disposal and other minor services. Agreements concluded with local area authorities regulate the economic aspects of the contractual agreement, as well as the modes of organising and managing the service, and the performance and quality standards. Beginning in 2020, the considerations due to the operator for the services rendered, including municipal waste disposal/treatment/recovery activities, have been defined annually on the basis of the Arera new national rate regulation (Authority resolution 2019/433), as well as on the basis of the consideration resulting from competitive procedures already concluded, for the areas of new awarding of contracts.
The municipal waste management service is billed by the Hera Group to the individual municipalities in the case of the Tari regime or to the individual users in the case of the application of the punctual correspondent tariff (TCP).
To run treatment plants for municipal waste, the Hera Group is required to obtain provincial authorizations; furthermore, for 2021, the subsidiary Herambiente Spa signed with Atersir the service contract established by Article 16 of Regional Law 23 of Emilia Romagna, dated 2011, for the disposal of unsorted waste.
In compliance with the principle of continuity of public services, under the terms of the existing agreements, the operator is obliged to continue the service also in the territories in which the expiry date of the concession has already passed and until the start of the new assignments. For the Bologna and Modena concessions, the new assignments have already been started in 2022.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (so-called Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market. Inrete Distribution Energy Spa, an Hera Group company that took over natural gas and electricity distribution from Hera Spa, takes advantage of longer residual terms established for operators that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions issued by the agency in charge of this sector (Arera). The area in which Inrete Distribuzione Energia Spa provides gas distribution services is divided into rate zones in which a uniform distribution rate is applied to different categories of customers. The tariff regulations in force at the time these annual financial statements were approved are resolutions 596/2020/R/gas (Update of tariffs for gas distribution and metering services, for the year 2021), which replaced the 571/2019/R/gas of 27 December 2019 and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2021, as per Article 42 of the RTDG.
Beginning 1 January 2020, in fact, the new Regulation governing gas distribution and metering service rates for the regulation period 2020-2025 (Rtdg 2020-2025) came into force, approved with resolution 570/2019/R/gas.
Pursuant to Article 43 of the Rtdg 2020-2025, the mandatory natural gas distribution and metering tariffs are broken down into different rate areas:

- the northwest area, which includes the regions of Valle d'Aosta, Piedmont and Liguria;
- the northeast area, including the regions of Lombardy, Trentino - Alto Adige, Veneto, Friuli - Venezia Giulia, and Emilia - Romagna;
- the central area, comprising the regions of Tuscany, Umbria and the Marche;
- the central-south eastern area, including the regions of Abruzzo, Molise, Apulia and Basilicata;

- the central-south western area, including the Lazio and Campania regions;
- the southern area, including the regions of Calabria and Sicily;
- the Sardinia area, including the region of Sardinia.

With resolution 596/2020/R/gas compulsory tariffs for natural gas distribution, metering and marketing services were approved for the year 2021.
The value of the tariff components GS, RE, RS and UG1 referred to in paragraph 42.3, sections c), d), e), f) of the Rtdg 2020-2025 is subject to quarterly updating.
Beginning 1 January 2021 the values are those of Table 8 attached to Resolution 349/2020/R/com and beginning 1 March 2021 the values of Table 8 attached to Resolution 349/2020/R/com are applied from 1 July 2021 the values are shown in Table 8 annexed to Resolution 278/2021/R/com and from 1 October 2021 Table 7 annexed to Resolution 396/2021/R/com is applied.

With regard to electricity, the contracts (lasting thirty years and renewable pursuant to the current regulations) govern power distribution activities comprising, inter alia, the management of distribution networks and the operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development projects, and metering. The contract may be suspended or terminated, on the judgement of the national Authority, if defaults and violations occur on the part of the concessionary company that seriously affect the performance of the distribution and metering of electricity. The distribution company is obliged to apply to its customers (so called distribution users) the rates set by current regulations and resolutions adopted by the sector Authority. The rate regulations in effect at the time the annual financial statements were approved is that of the Authority's resolution 654/2015/R/Eel of 23 December 2015 (Rate regulations for electricity transmission, distribution and metering, for the regulatory period 2016-2023), which replaced the previous Authority resolution Arg/elt no. 199/2011 and subsequent amendments and additions (Official directives for the provision of electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions on economic conditions for the provision of connection services), in force until 31 December 2015.
With this resolution, the Authority issued the provisions on the tariff regulation of electricity transmission, distribution and measurement services for the 2016-2023 regulatory period, defining an eight-year regulatory period made up of two four-year semi-periods, also providing for an intra-period update between the first and second semi-periods.
The mandatory rate for distribution services covers the costs of transporting electricity along distribution networks. It is applied to all end customers, with the exception of low-voltage household customers. The rate has a trinomial structure and is expressed in hundredths of a euro per sampling point per year (fixed component), euro cents per KW per year (power component) and euro cents per kWh consumed (energy component).
The compulsory tariff for the distribution service is periodically updated by the national authority Arera by means of an appropriate provision, therefore, on 27 December 2019, resolution 568/2019/R/Eel was issued, approving the tariff regulation of electricity transmission, distribution and measurement services for the 2020-2023 regulatory semi-period.
For household customers for the year 2021, the update of tariffs for the delivery of electricity transmission, distribution and metering services has been established by Resolution 566/2020/R/Eel of 22 December 2020.

2.05 SHAREHOLDINGS

2.05.01 List of consolidated companies

Subsidiaries

Registered name	Registered office	Share capital (€) (*)	Consolidated percentage direct	Consolidated percentage indirect	Total interest
Acantho Spa	Imola (BO)	23,573,079	80.64%		80.64%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasApsAmga Servizi Energetici Spa	Udine	11,168,284		100.00%	100.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sarl	La Wantzenau (France)	1,025,000		75.00%	75.00%
Aliplast Iberia SL	Calle Castilla -Leon (Spain)	815,000		75.00%	75.00%
Aliplast Polska Spoo	Zgierz (Poland)	1,200,000 PLN		75.00%	75.00%
Amgas Blu Srl	Foggia	10,000		100.00%	100.00%
Aresenergy Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
AresGas Ead	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
Ares Trading Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
Asa Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Ascopiave Energie Spa	Pieve di Soligo (TV)	250,000		100.00%	100.00%
Ascotrade Spa	Pieve di Soligo (TV)	1,000,000		100.00%	100.00%
Atlas Utilities EAD	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
Biorg Srl	Bologna	3,000,000		75.00%	75.00%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Blue Meta Spa	Pieve di Soligo (TV)	606,123		100.00%	100.00%
Eco Gas Srl	Castel di Sangro (AQ)	100,000		100.00%	100.00%
EstEnergy Spa	Trieste	299,925,761		100.00%	100.00%
Etra Energia Srl	Cittadella (PD)	100,000		51.00%	51.00%
Feronia Srl	Finale Emilia (MO)	70,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Green Factory Srl	Pesaro	30,000		46.70%	46.70%
Herambiente Spa	Bologna	271,648,000	75.00%		75.00%
Herambiente Servizi Industriali Srl	Bologna	2,748,472		75.00%	75.00%
Hera Comm Spa	Imola (BO)	53,595,899	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		84.00%	84.00%
Hera Luce Srl	Cesena	1,000,000		100.00%	100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		67.61%	67.61%
Heratech Srl	Bologna	2,000,000	100.00%		100.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Hydro Mud Srl	Torrebelvicino (VI)	50,000		75.00%	75.00%
Inrete Distribuzione Energia Spa	Bologna	10,091,815	100.00%		100.00%

Marche Multiservizi Spa	Pesaro	16,388,535	46.70%		46.70%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		46.70%	46.70%
Primagas Ad	Varna (Bulgaria)	1,149,860 Lev		96.90%	96.90%
Recycla Spa	Maniago (PN)	90,000		100.00%	100.00%
Tri-Generazione Scarl	Padua	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Vallortigara Servizi Ambientali Spa	Torrebelvicino (VI)	330,000		75.00%	75.00%
Vallortigara Angelo Srl	Torrebelvicino (VI)	80,000		75.00%	75.00%
Vegri Scarl	Torrebelvicino (VI)	20,000		75.00%	75.00%
Wolmann Spa	Bologna	400,000	100.00%		100.00%

(*) unless otherwise specified

Jointly controlled companies

Registered name	Registered office	Share capital (€)	Percentage held		Total interest
			direct	indirect	
Enomondo Srl	Faenza (RA)	14,000,000		37.50%	37.50%

Associated companies

Registered name	Registered office	Share capital (€) (*)	Percentage held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
ASM SET Srl	Rovigo	200,000		49.00%	49.00%
SEA - Servizi Ecologici Ambientali Srl	Camerata Picena (AN)	100,000		31.00%	31.00%
Set Spa	Milan	120,000	39.00%		39.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

*The share capital of these companies consists of 67,577,681 euro of ordinary shares and 10,450,000 euro of related shares.

2.05.02 Key figures in the financial statements of subsidiaries and associated companies

Summary of key figures of the financial statements of subsidiaries pursuant to Article 2429, last paragraph, of the Civil Code

thous. €	Acantho Spa	AcegasApsAmga Spa	AcegasApsAmga Servizi Energetici Spa	Aliplast Spa	Aliplast France Recyclage Sarl
ASSETS					
Fixed assets	60,613	1,010,693	88,042	31,981	1,456
Circulating assets	26,750	163,386	105,058	89,825	2,104
Total assets	**87,363**	**1,174,079**	**193,100**	**121,806**	**3,560**
LIABILITIES					
Share capital	23,573	284,677	11,168	5,000	1,025
Reserves	8,385	271,377	27,356	33,398	76
Net profit /(loss)	7,316	25,168	4,395	17,854	429
Provisions	25	30,818	-	4,855	-
Severance pay provision	542	13,452	1,199	675	-
Payables	47,522	548,587	148,982	60,024	2,030
Total liabilities	**87,363**	**1,174,079**	**193,100**	**121,806**	**3,560**
INCOME STATEMENT					
Production value	75,873	359,387	94,656	157,539	6,596
Production costs	(65,305)	(318,597)	(95,158)	(132,018)	(6,166)
Financial income/ (expenses)	(629)	(6,977)	2,644	(725)	(1)
Extraordinary income/ (expenses)	-	-	-	(8)	-
Taxes for the year	(2,623)	(8,645)	2,253	(6,934)	-
Net profit /(loss)	**7,316**	**25,168**	**4,395**	**17,854**	**429**

thous. €	Aliplast Iberia Sl	Aliplast Polska SP O.O	Amgas Blu Srl	AresGas Ead	Aresenergy Eood
ASSETS					
Fixed assets	613	417	512	80,665	21
Circulating assets	965	1,265	19,920	6,985	389
Total assets	**1,578**	**1,682**	**20,432**	**87,650**	**410**
LIABILITIES			-		
Share capital	815	261	10	11,541	26
Reserves	7	459	5,057	13,688	(189)
Net profit /(loss)	77	176	2,642	3,173	(25)
Provisions	-	-	-	51	-
Severance pay provision	-	-	114	-	-
Payables	679	786	12,610	59,197	598
Total liabilities	**1,578**	**1,682**	**20,432**	**87,650**	**410**
INCOME STATEMENT			-		
Production value	1,813	3,045	29,222	36,959	932
Production costs	(1,776)	(2,836)	(25,582)	(31,983)	(947)
Financial income/ (expenses)	-	(4)	23	(1,483)	(10)
Extraordinary income/ (expenses)	52	-	-	-	-
Taxes for the year	(12)	(29)	(1,021)	(320)	-
Net profit /(loss)	**77**	**176**	**2,642**	**3,173**	**(25)**

As the companies AcegasApsAmga Spa and AcegasApsAmga Servizi Energetici Spa and Amgas Blus Srl apply the international accounting standards, the values stated comply with them.

thous. €	Ares Trading EOOD	Asa Scpa	Ascopiave Energie Spa	Ascotrade Spa	Atlas Utilities EAD
ASSETS					
Fixed assets	-	2,649	697	7,177	1,006
Circulating assets	1,233	14,249	78,191	183,625	126
Total assets	**1,233**	**16,898**	**78,888**	**190,802**	**1,132**
LIABILITIES					
Share capital	26	1,820	250	1,000	26
Reserves	-	622	9,659	26,339	1,017
Net profit /(loss)	169	-	8,414	21,411	(4)
Provisions	-	13,703	-	-	-
Severance pay provision	-	154	787	622	-
Payables	1,038	600	59,778	141,430	93
Total liabilities	**1,233**	**16,898**	**78,888**	**190,802**	**1,132**
INCOME STATEMENT					
Production value	3,821	1,704	181,989	369,647	3
Production costs	(3,628)	(1,854)	(170,345)	(339,985)	(7)
Financial income/ (expenses)	(5)	154	51	108	-
Extraordinary income/ (expenses)	-	-	-	-	-
Taxes for the year	(19)	(4)	(3,280)	(8,359)	-
Net profit /(loss)	**169**	**-**	**8,414**	**21,411**	**(4)**

thous. €	Biorg Srl	Black Sea Gas Company Eood	Blue Meta Spa	Eco Gas Srl	EstEnergy Spa
ASSETS					
Fixed assets	5,762	1,352	780	294	586,117
Circulating assets	2,127	2,334	47,881	6,347	178,836
Total assets	**7,889**	**3,686**	**48,661**	**6,641**	**764,953**
LIABILITIES					
Share capital	3,000	3	606	100	299,926
Reserves	4,000	2,013	6,260	2,066	268,036
Net profit /(loss)	(170)	89	6,158	10	45,984
Provisions	-	-	-	-	2
Severance pay provision	-	-	660	84	562
Payables	1,059	1,581	34,978	4,381	150,443
Total liabilities	**7,889**	**3,686**	**48,661**	**6,641**	**764,953**
INCOME STATEMENT					
Production value	223	9,073	80,026	5,477	382,563
Production costs	(528)	(8,944)	(71,614)	(5,451)	(364,271)
Financial income/ (expenses)	-	(30)	28	2	32,387
Extraordinary income/ (expenses)	-	-	-	-	-
Taxes for the year	**134**	**(10)**	**(2,282)**	**(18)**	**(4,695)**
Net profit /(loss)	(170)	89	6,158	10	45,984

As the companies Ascopiave Energie Spa, Ascotrade Spa, Blu Meta Spa and Estenergy Spa apply the international accounting standards, the values stated comply with them.

thous. €	Etra Energia Srl	Feronia Srl	Frullo Energia Ambiente Srl	Green Factory Srl	Hera Comm Marche Srl
ASSETS					
Fixed assets	22	2,292	53,490	3,269	25,541
Circulating assets	6,739	3,240	18,737	366	59,528
Total assets	**6,761**	**5,532**	**72,227**	**3,635**	**85,070**
LIABILITIES					
Share capital	10	70	17,139	30	1,977
Reserves	1,162	1,118	24,640	(5)	14,502
Net profit /(loss)	1,089	(558)	7,381	(34)	5,992
Provisions	-	4,338	4,990	-	-
Severance pay provision	74	-	1,745	-	553
Payables	4,427	564	16,331	3,644	62,045
Total liabilities	**6,761**	**5,532**	**72,227**	**3,635**	**85,070**
INCOME STATEMENT					
Production value	12,728	288	30,157	-	117,009
Production costs	(11,214)	(1,140)	(20,864)	(34)	(109,018)
Financial income/ (expenses)	8	22	(14)	-	56
Extraordinary income/ (expenses)	-	-	-	-	-
Taxes for the year	(433)	273	(1,897)	-	(2,056)
Net profit /(loss)	**1,089**	**(558)**	**7,381**	**(34)**	**5,992**

thous. €	Hera Comm Spa	Hera Luce Srl	Hera Servizi Energia Srl	Hera Trading Srl	Herambiente Servizi Industriali Srl
ASSETS					
Fixed assets	585,965	93,296	17,439	7,991	129,681
Circulating assets	1,694,488	55,603	432,585	3,691,816	56,064
Total assets	**2,280,453**	**148,899**	**450,023**	**3,699,807**	**185,746**
LIABILITIES					
Share capital	53,596	1,000	1,110	22,600	2,748
Reserves	53,596	46,689	14,096	17,770	21,464
Net profit /(loss)	135,523	7,086	11,516	14,574	3,911
Provisions	5,716	127	14,039	-	5,039
Severance pay provision	3,905	966	637	762	3,232
Payables	2,028,117	93,031	408,626	3,644,101	149,352
Total liabilities	**2,280,453**	**148,899**	**450,023**	**3,699,807**	**185,746**
INCOME STATEMENT					
Production value	3,556,126	87,301	289,224	6,393,955	145,788
Production costs	(3,432,438)	(80,265)	(243,853)	(6,372,366)	(146,267)
Financial income/ (expenses)	22,942	2,513	(28,033)	(313)	871
Extraordinary income/ (expenses)	24,412	-	-	-	-
Taxes for the year	(35,519)	(2,463)	(5,822)	(6,703)	3,519
Net profit /(loss)	**135,523**	**7,086**	**11,516**	**14,574**	**3,911**

The companies Etra Energia Srl, Frullo Energia Ambiente Srl, Hera Comm Marche Srl, Hera Comm Spa, Hera Luce Srl, Hera Trading Srl and Herambiente Servizi Industriali Srl apply the international accounting standards, therefore, the values stated comply with them.

thous. €	Herambiente Spa	Heratech Srl	HestAmbiente Srl	Hydro Mud Srl	Inrete Distribuzione Energia Spa
ASSETS					
Fixed assets	1,054,888	313	91,147	82	1,264,010
Circulating assets	336,814	65,051	17,230	593	111,117
Total assets	**1,391,702**	**65,364**	**108,377**	**675**	**1,375,127**
LIABILITIES					
Share capital	271,600	1,981	1,010	50	9,901
Reserves	33,671	4,198	16,136	406	543,169
Net profit /(loss)	51,807	2,690	1,118	103	60,488
Provisions	160,306	80	5,615	-	123,166
Severance pay provision	7,641	6,186	942	13	8,814
Payables	866,679	50,229	83,556	103	629,589
Total liabilities	**1,391,702**	**65,364**	**108,377**	**675**	**1,375,127**
INCOME STATEMENT					
Production value	462,574	152,168	63,179	686	287,504
Production costs	(416,116)	(148,034)	(59,964)	(543)	(218,408)
Financial income/ (expenses)	(20,793)	(293)	(1,734)	-	(15,760)
Extraordinary income/ (expenses)	-	-	-	-	-
Taxes for the year	26,143	(1,152)	(363)	(40)	7,152
Net profit /(loss)	**51,807**	**2,690**	**1,118**	**103**	**60,488**

thous. €	Marche Multiservizi Spa	Marche Multiservizi Falconara Srl	Primagas Ad	Recycla Spa	Tri-Generazione Scarl
ASSETS					
Fixed assets	222,351	2,964	2,231	11,609	264
Circulating assets	96,252	2,731	551	9,565	4,256
Total assets	**318,603**	**5,694**	**2,782**	**21,174**	**4,520**
LIABILITIES		-			
Share capital	16,389	100	588	90	100
Reserves	101,459	333	155	6,437	289
Net profit /(loss)	13,520	260	184	2,240	-
Provisions	34,918	318	-	703	-
Severance pay provision	5,431	949	-	923	-
Payables	146,887	3,734	1,855	10,781	4,131
Total liabilities	**318,603**	**5,694**	**2,782**	**21,174**	**4,520**
INCOME STATEMENT		-			
Production value	136,465	8,212	2,353	24,142	1,579
Production costs	(116,466)	(7,845)	(2,163)	(19,068)	(1,392)
Financial income/ (expenses)	(106)	(8)	(9)	117	(174)
Extraordinary income/ (expenses)	-	-	-	-	-
Taxes for the year	(6.374)	(100)	3	(2,951)	(13)
Net profit /(loss)	**13,520**	**260**	**184**	**2,240**	**-**

The companies Herambiente Spa, Heratech Srl, HestAmbiente Srl, Inrete Distribuzione Energia Spa and Tri-Generazione Scarl apply the international accounting standards, therefore, the values stated comply with them.

thous. €	Uniflotte Srl	Vallortigara Angelo Srl	Vallortigara Servizi Ambientali Spa	Vegri Scarl	Wolmann Spa
ASSETS					
Fixed assets	111,230	974	4,677	-	440
Circulating assets	35,456	4,608	13,444	8	6,256
Total assets	**146,686**	**5,583**	**18,121**	**8**	**6,697**
LIABILITIES					
Share capital	2,254	80	330	20	400
Reserves	25,994	3,095	9,595	(25)	(128)
Net profit /(loss)	5,866	456	1,430	(2)	(248)
Provisions	-	15	150	-	63
Severance pay provision	1,870	350	504	-	85
Payables	110,702	1,586	6,113	15	6,524
Total liabilities	**146,686**	**5,583**	**18,121**	**8**	**6,697**
INCOME STATEMENT					
Production value	92,322	6,065	25,623	-	4,522
Production costs	(83,054)	(5,624)	(23,678)	(2)	(4,685)
Financial income/ (expenses)	(2,380)	24	(8)	-	(107)
Extraordinary income/ (expenses)	-	-	-	-	22
Taxes for the year	(1,022)	(8)	(507)	-	-
Net profit /(loss)	**5,866**	**456**	**1,430**	**(2)**	**(248)**

The company Uniflotte Srl applies the international accounting standards, therefore the values stated comply with them.

Summary of key figures of the financial statements of joint ventures pursuant to Article 2429, last paragraph, of the Civil Code.

thous. €		Enomondo Srl
ASSETS		
Fixed assets		38,049
Circulating assets		26,818
Total assets		**64,867**
LIABILITIES		
Share capital		14,000
Reserves		22,649
Net profit /(loss)		4,855
Provisions		1,144
Severance pay provision		17
Payables		22,201
Total liabilities		**64,867**
INCOME STATEMENT		
Production value		27,956
Production costs		(21,328)
Financial income/ (expenses)		(93)
Extraordinary income/ (expenses)	-	
Taxes for the year		**(1,680)**
Net profit /(loss)		4,855

Summary of key figures of the financial statements of associated companies pursuant to Article 2429, last paragraph, of the Civil code.

thous. €	Aimag Spa	ASM SET Srl	SEA - Servizi Ecologici Ambientali Srl	Set Spa	Sgr Servizi Spa	Tamarete Energia Srl
ASSETS						
Fixed assets	317,574	25	11,417	116,567	1,615	56,165
Circulating assets	145,637	17,661	10,854	104,962	129,963	24,652
Total assets	**463,211**	**17,686**	**22,271**	**221,529**	**131,578**	**80,817**
LIABILITIES			-	-	-	-
Share capital	78,028	200	100	120	5,982	3,600
Reserves	133,643	69	9,369	71,455	40,677	1,958
Net profit /(loss)	15,102	2,906	4,352	1,463	10,429	(33)
Provisions	31,372	32	1,499	-	118	3,546
Severance pay provision	3,275	235	419	275	1,429	-
Payables	201,791	14,244	6,532	148,216	72,943	71,746
Total liabilities	**463,211**	**17,686**	**22,271**	**221,529**	**131,578**	**80,817**
INCOME STATEMENT			-	-	-	-
Production value	230,713	37,390	16,841	184,346	197,081	33,950
Production costs	(209,028)	(33,347)	(11,317)	(180,301)	(182,817)	(31,381)
Financial income/ (expenses)	(1,165)	19	129	(1,368)	448	(2,393)
Extraordinary income/ (expenses)	471		-	(255)	-	-
Taxes for the year	(5,889)	(1,156)	(1,301)	(959)	(4,283)	(209)
Net profit /(loss)	**15,102**	**2,906**	**4,352**	**1,463**	**10,429**	**(33)**

2.06 INFORMATION REQUIRED BY LAW 124 OF 4 AUGUST 2017 ART. 1 PARAGRAPHS 125-129 AND FOLLOWING AMENDMENTS

Law 124/2017, Art. 1, paragraphs 125-129 and following amendments established that companies must disclose in the explanatory notes to the financial statements the "subsidies, grants, benefits, contributions or aid, in cash or in kind, without consideration, remuneration or compensation" received from the Public administration, above the threshold of 10,000 euro and on a cash basis.

The following table shows the cases present within the Group:

Operating grants

Issuing entity	Description	Amount received (euro)
Atersir	Measures to reduce waste and increase separate waste collection	1,528,651
Municipality of Ferrara	Air Break	374,672
Emilia Romagna Region	Covid-19 emergency - Civil protection	298,860
Municipality of Ferrara	Covid-19 emergency grant	227,952
Emilia Romagna Region	Regular maintenance of networks in the municipality of Fiumalbo	150,000
Agenzia Nazionale Politiche Attive del Lavoro	"Alta formazione" advanced training project	144,319
Emilia Romagna Region	Measures to reduce waste and increase separate waste collection in the municipality of Bologna	126,965
Alma Mater Studiorum University of Bologna	Greening Energy Market and Finance (GrEnFIn)	52,659
Municipality of Castelfranco Emilia	Covid-19 emergency grant	46,309
Aster	BioMethER Life project - Regional Biomethane system in Emilia-Romagna	41,166
Municipality of Vignola	Covid-19 emergency grant	39,364
Emilia Romagna Region	Grant for damages due to adverse weather events in the municipalities of the province of Modena	35,895
Municipality of Budrio	Covid-19 emergency grant	28,400
Emilia Romagna Region	Construction of a by-pass for the sewerage system in the Municipality of Monghidoro	27,681
Atersir	Earthquake Relief Fund for the Municipality of Ferrara - year 2018	21,217
Municipality of Spilamberto	Covid-19 emergency grant	20,563
Municipality of San Giovanni in Marignano	Covid-19 emergency grant	17,689
Municipality of Bonporto	Covid-19 emergency grant	17,222
Municipality of Monte San Pietro	Covid-19 emergency grant	14,033
Emilia Romagna Region	Flood suction works in the Municipality of Modena	14,012
Municipality of Dozza	Covid-19 emergency grant	11,356
Municipality of San Cesario sul Panaro	Covid-19 emergency grant	10,542
Municipality of Bologna	Sustainable mobility and infrastructure projects	9,516
Municipality of Marano sul Panaro	Covid-19 emergency grant	8,199
Municipality of Bastiglia	Covid-19 emergency grant	5,946
Municipality of Guiglia	Covid-19 emergency grant	5,690

Plant investment grants

Issuing entity	Description	Amount received (euro)
Aato Marche Nord - Marche Region - Ministry of the Environment	Upgrading of water and sewerage networks	3,030,990
Authority for water and waste services - Friuli-Venezia Giulia region	Works for the purification plant of Servola, municipality of Trieste	2,212,182
Municipality of Rimini	Construction of the Ausa lamination basin and submarine pipelines	2,028,545
Emilia Romagna Region	Re-organisation of urban waste collection services	1,667,292
Authority for water and waste services - Friuli-Venezia Giulia region	Regional funds - purification plant of Servola, municipality of Trieste	784,687
Emilia Romagna Region	Dreinage work and upgrading of water and sewerage networks	572,085
Emilia Romagna Region	Upgrading of gas networks	313,828
Consiglio di Bacino Bacchiglione - Veneto Region	Extension of the sewerage system in the municipality of Piove di Sacco	130,315
Authority for water and waste services - Friuli-Venezia Giulia region	Extension of the sewerage system in the locality of Puglie di Domio	87,366
Ferrovie dello Stato	Water drainage works	63,934
Marche Region	Upgrading of water network	45,218
Centro Coordinamento Raee	Implementation Raee system	25,460
Municipality of Castello d'Argile	Drainage work and upgrading of water and sewerage networks	9,091

2.07 OUTLINE OF ARTICLE149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

thous. €	2021
Services provided to certify the financial statements	940
Provision of other services for the issue of an attestation by the independent auditor company	416
Provision of other services by the independent auditor	98
Total	**1,454**

2.08 DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENT PURSUANT TO ART. 154-BIS OF LEGISLATIVE DECREE 58/98

1 - I sottoscritti Stefano Venier, in qualità di Amministratore Delegato e Luca Moroni, in qualità di Dirigente Preposto alla redazione dei documenti contabili societari di Hera Spa, attestano, tenuto anche conto di quanto previsto dall'articolo 154-bis, commi 3 e 4, del Decreto Legislativo 58 del 24 febbraio 1998:

- l'adeguatezza in relazione alle caratteristiche dell'impresa e
- l'effettiva applicazione

delle procedure amministrative e contabili per la formazione del bilancio consolidato nel corso dell'esercizio 2021.

2 - Si attesta, inoltre, che:

2.1 - il bilancio consolidato:

a. è redatto in conformità ai principi contabili internazionali applicabili riconosciuti nella Comunità Europea ai sensi del Regolamento (CE) 1606/2002 del Parlamento Europeo e del Consiglio, del 19 luglio 2002;
b. corrisponde alle risultanze dei libri e delle scritture contabili;
c. è idoneo a fornire una rappresentazione veritiera e corretta della situazione patrimoniale, economica e finanziaria dell'emittente e dell'insieme delle imprese incluse nel consolidamento.

2.2 - La relazione sulla gestione comprende un'analisi attendibile dell'andamento e del risultato della gestione, nonché della situazione dell'emittente e dell'insieme delle imprese incluse nel consolidamento, unitamente alla descrizione dei principali rischi e incertezze cui sono esposti.

L'Amministratore Delegato
Stefano Venier

Il Dirigente Preposto alla redazione dei documenti contabili societari
Luca Moroni

Bologna, 23 marzo 2022

2.09 REPORT BY THE INDEPENDENT AUDITOR

Consolidated financial statements at 31 December 2021, approved by Hera Spa's Board of Directors on 23 March 2022, approved by the Shareholders Meeting on 28 April 2022.

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Subjects portrayed in the photos at the beginning of each chapter:
Introduction: SCART project installation and M.A.N. Gasometer no. 3,
Hera Group headquarters, Bologna
Directors' report: Water treatment plant at Pontelagoscuro, Ferrara
Consolidated financial statements: Cogeneration plant, Hera Group headquarters, Bologna

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Hera Spa Group Management for Administration, Finance and Control
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