

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.

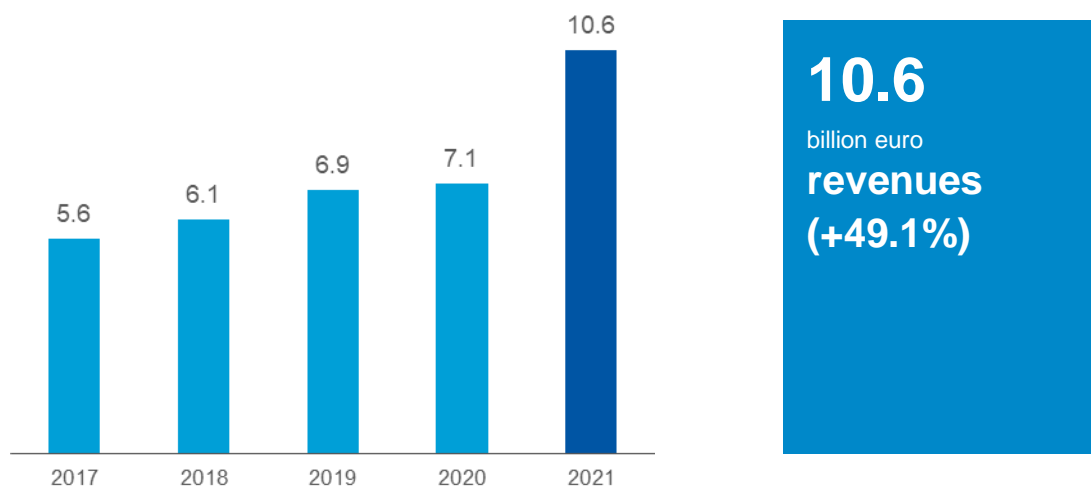
With respect to 2020, two companies were integrated into the Hera Group's waste management area, thus making a contribution towards increasing its commercial presence in the Central-Northern Italy: the acquisition of 70% of Recycla Spa, a Friuli-based company that manages three industrial waste platforms; 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€)**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.

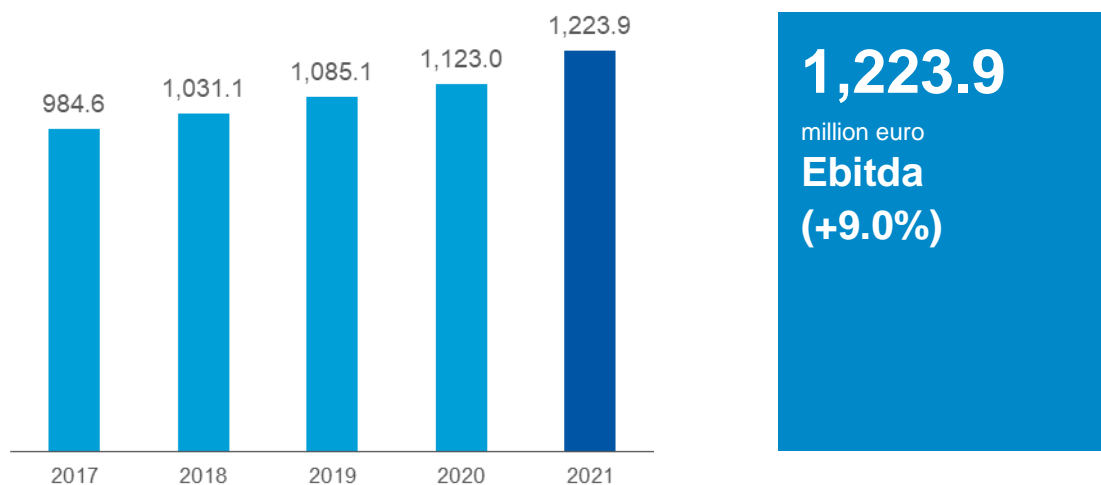
In addition, compared to the previous year, there was a resumption of work and site activities that had been blocked due to the lockdown following the Covid-19 pandemic.

**+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.

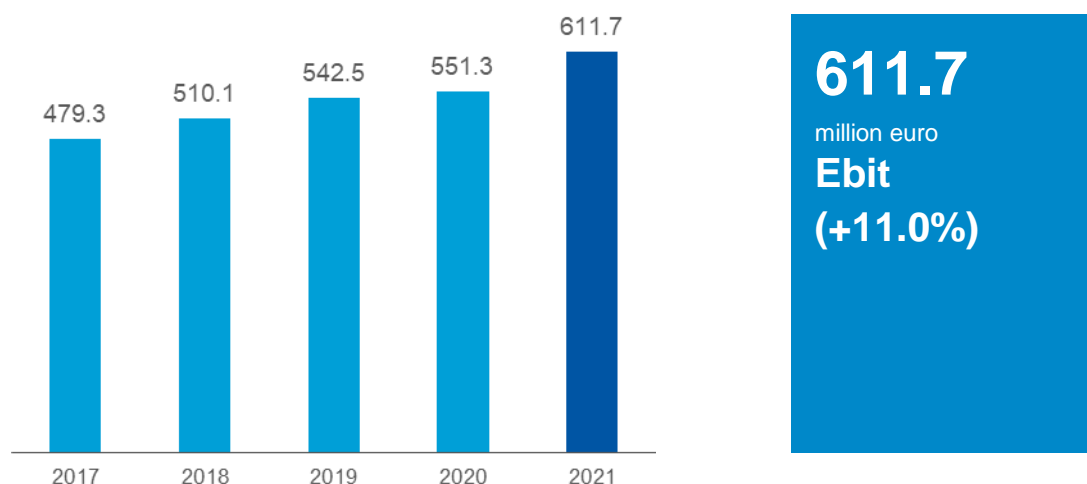
EBITDA (mn€)



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.

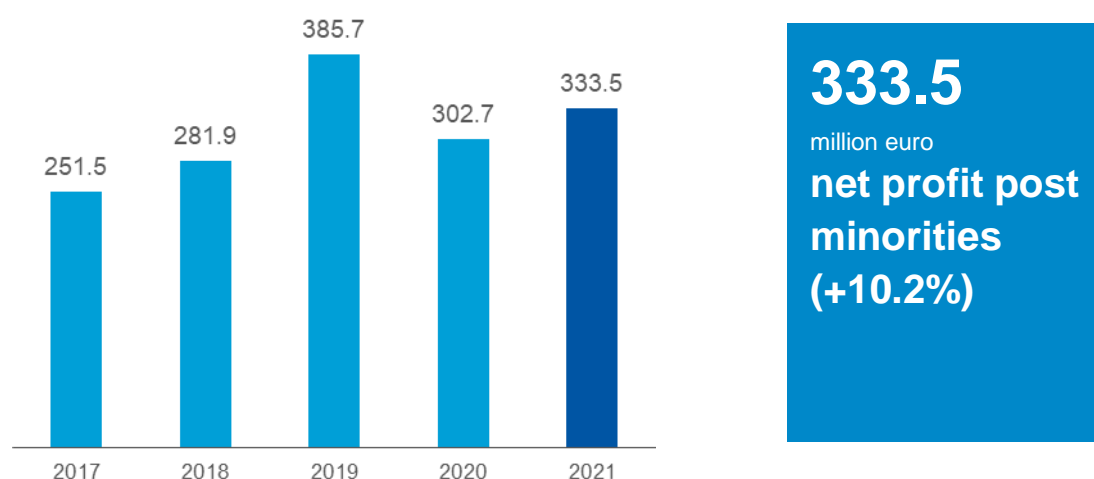
**+11.6%
net result**

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€)

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

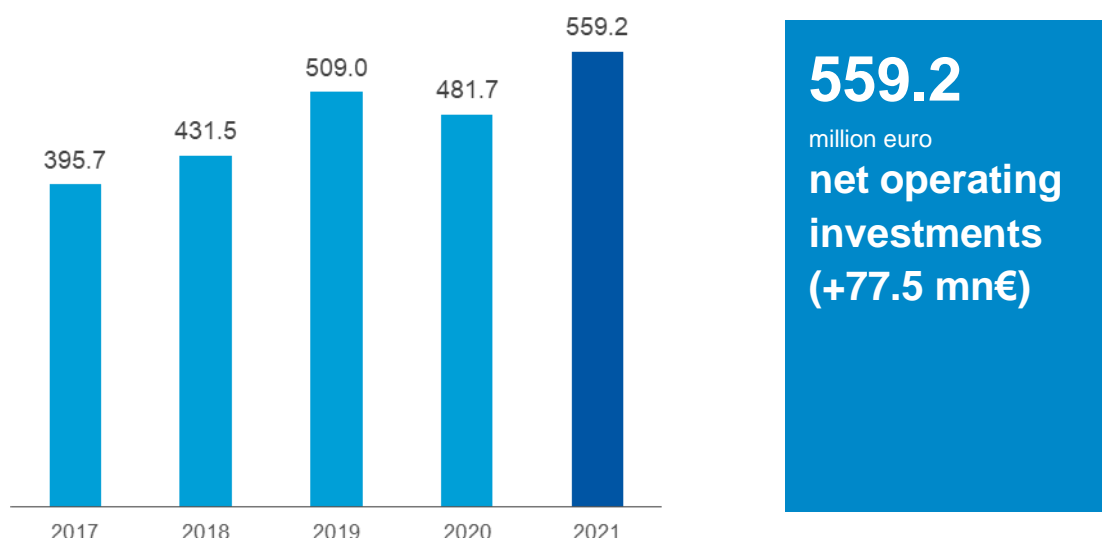
Net investments rise to 570.3 million euro

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€)

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 is 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.

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

633.4 million euro provisions