2020
CONSOLIDATED FINANCIAL STATEMENT

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

SUMMARY

HERA GROUP CONSOLIDATED FINANCIAL STATEMENTS

READING KEY

Hera Group's 2020 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

TCFD

Task force on climate-related financial disclosures

Governance (TCFD)

Strategy (TCFD)

Risk and opportunity management (TCFD)

Metrics & targets (TCFD)

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 a year such as 2020, when the health emergency caused by the Coronavirus created serious difficulties for our country, as a Group we proved the full maturity of our business model and our own solidity. Even this complex context, indeed, we closed the year with positive results, after swiftly reorganising our activities and at the same time respecting our commitments towards all stakeholders.

The results included in our financial statements – submitted to your approval – were positive across the board, confirming once again the sustainable and uninterrupted growth we have shown since 2002, during each one of the years that make up the Group's history. This is also reflected by the improvement in our main indicators.

Ebitda rose to 1,123 million euro, with a 37.9 million (+3.5%) increase over the previous year, thanks to a balanced contribution coming from ordinary management and external growth. More specifically, internal growth came from developing a wide and diversified range of projects and from additionally enhancing efficiency in all business areas. As regards M&As, the extraordinary transaction with Ascopiave, that led to the integration of EstEnergy and AmgasBlu, contributed to rising results in the gas and electricity sectors and, even in its first year and despite the difficult external context, allowed significant synergies to be extracted, thus highlighting its potential in terms of creating value.
These results fully offset the effect of the mild temperatures, the transfer of some gas networks following the Ascopiave transaction and the latest revisions in tariffs introduced by the Authority, in addition to the health emergency, whose impact was felt above all in the lower demand from business customers during the period of complete lockdown concerning production activities.

Our growth benefitted from investments – coming to over 528 million euro, up 3.8% compared to 2019 – which also allowed us to contribute to recovery in the areas served. Thanks to the support provided by the Group, even suppliers with problems in liquidity were able to keep working and guarantee operations in full safety in their worksites, maintaining and developing our infrastructures in the areas served.

Results from operating management were flanked by attentive financial and fiscal management, which contributed to additionally optimising costs.
The Hera Group's 2020 financial statements thus confirmed a solid creation of value for our Shareholders: the net profit pertaining to them came to 302.7 million euro, up 0.6%, with a rate of return that continued to be high for both invested capital (8.6%) and equity (10.2%), both significantly above the average cost of financing.

As a whole, our activities led to a 40% increase in resource generation, which allowed us to entirely cover operating and financial investments, dividends for shareholders and the treasury shares purchased, while at the same time reducing debt. Aditionally, thanks to the double lever of higher Ebitda and lower net debt, the net debt/Ebitda ratio fell to 2.87x, considered reassuring as regards financial solidity by the rating agencies that monitor us.
The good cash flow seen in 2020 allows us on the one hand to propose increased dividends for our Shareholders – now coming to 11 cents per share, higher than the original estimate – and on the other to entirely cover our policy for rising dividends over the period covered by the Business Plan, reaching 13 cents per share in 2024. With this decision, we intend to reward those who continue to place their trust in us.

Even during such a complex year, we kept our eyes on the future, signing strategic agreements with outstanding partners in various sectors, to give further vitality to the projects in our Business Plan, from developing hydrogen to expanding our leadership in plastic recycling to include rigid plastics, and creating a new platform for waste treatment in order to promote an increasingly circular growth, respecting the direction set out by “Next Generation EU”.

Now that 2020 is closed, we can look calmly and with determination towards the targets in the new Business Plan, whose goals are even more challenging than those in the previous one. These targets have been positively received by the market, following our usual discussions with investors in recent months.

Our management further confirms the link with our stakeholders and our sustainable approach, with positive effects on the areas served, over the long term as well, showing improvement as regards our 2030 objectives for circularity and reducing our carbon and water footprint. We have always guaranteed continuity, safety, quality and efficiency in our services and, even during the health emergency, we introduced concrete actions supporting our stakeholders, first and foremost our customers. These initiatives were appreciated, as is confirmed by the recent customer satisfaction survey, with a high overall satisfaction rate coming to 73/100, and the evaluation of the management and supply of services during the emergency reaching 85/100.

Our activity in creating value for the areas served, supported by our responsible social and environmental policies and our constant attention to stakeholders, can be verified in detail by consulting the Sustainability Report, presented along with the annual financial statements. The amendment to article 3 of the Articles of Association also goes in this direction, introducing the concept of corporate “Purpose” and making explicit the reason our company exists, that is, our desire to create shared value and carry out business activities while also promoting social fairness and contributing to the regeneration of resources and the resilience of the service system. This attention was also confirmed in 2020 by our inclusion in the FTSE4Good and, even more so, the Dow Jones Sustainability Index, World and Europe, one of the most authoritative stock exchange indices for the evaluation of social responsibility, as “Industry leader” among the companies with highest capitalisation in the world.

I would like to close with a special thanks to our colleagues, who – despite the difficulties created by restrictions and the necessary organisational changes – proved able to carry out their duties with their usual responsibility and competence, continuing to guarantee that citizens receive quality services, all the more essential at this particular moment in time.

The strength of our Group comes from a model that has proven to be successful over the years – a mix of structural solidity associated with a winning profile and considerable resilience – and that represents, to this day, the most concrete guarantee of a future showing further development, for our company as well as the local areas and communities we serve.

Thank you for your attention

Tomaso Tommasi di Vignano
Executive Chairman

MISSION

HERA'S GOAL IS TO BE THE BEST MULTI-UTILITY IN ITALY

for its customers, workforce and shareholders. It aims 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 company will continue to generate economic value in full respect of social responsibility principles.

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.

STRATEGY

Hera pursues a multi-business growth strategy focused 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 lays the foundations for a path of steady growth even when facing increasingly frequent systemic crises.

The Group is distinguished by its search for excellent and innovative management models that embody the principles of a **circular economy** and the pursuit of **carbon neutrality**, making the most of the emerging technological innovations that ever more decisive in ensuring increasing efficiency and resilience in assets and services.

In much the same way, the Group's strategy continuously improves long-term **risk and opportunity** assessment and management, as required to guarantee the **fundamental services** it provides to the public even in extreme or extraordinary circumstances.

Measuring the shared value generated for the local area provides tangible, quantifiable evidence that Hera has adopted a **sustainable growth** model 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.

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 closing the circle to reduce our footprint and regenerate resources

O — OPPORTUNITIES

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

W — WELFARE

Creating **SHARED VALUE** for fair prosperity, spread across the local communities we serve to positively impact our stakeholders' wellbeing and prospects for future generations

T — TECHNOLOGY

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

H — HUMANS

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

OUR LEADERSHIP, BY BUSINESS AREA

1st WASTE SERVICES OPERATOR
by waste treated

6.6 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

285.9 MILLION M³ OF WATER SUPPLIED

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

3rd ENERGY SALES OPERATOR
customers served

3.4 MILLION ENERGY CUSTOMERS SERVED

4th GAS DISTRIBUTION OPERATOR
by volumes dispensed

2.6 BILLION M³ GAS DISTRIBUTED ☆

5° ELECTRICITY DISTRIBUTION OPERATOR
by volume dispensed

2.75 THOUSAND GWH OF ENERGY DISTRIBUTED ☆

4th PUBLIC LIGHTING OPERATOR

188 Municipalities

571 THOUSAND lighting points

Ranking updated on 30 September
☆ Activities regulated by Arera

MAIN OPERATING INDICATORS

EBITDA >1 BN€

MN€	2020	VS. 2019	%
Revenues	7,079.0	6,912.8	+ 2.4%
Ebitda	1,123.0	1,085.1	+ 3.5%
Net profits	322.8	317.1*	+ 1.8%
Investments	528.5	509.2	+ 3.8%
Net debt	3,227.0	3,274.2	- 1.44%
Net debt/Ebitda	2.87	3.02	- 4.97%

* Adjusted

TRENDS BY BUSINESS AND MARKETS EBITDA

1,123,000,000 EURO

53% free market → 595.2 mn€

47% regulated market → 527.9 mn€

GAS – 33%

mn€	2020	2019
Ebitda	374.4	341.6
Investments	135.3	138.3

More and more NexMeters installed: the 4.0 meter that reduces consumption, lowers CO_2 emissions and provides protection even in case of earthquakes. Green marketing offers with emissions compensation and **sustainable value-added services**.

WASTE SERVICES – 23%

mn€	2020	2019
Ebitda	258.0	264.2
Investments	68.3	81.8

Increase in **sorted waste** and **recovery of materials from waste** and only 3.4% of urban waste collected sent to landfills (European targets for 2035 already reached, 20 years ahead of schedule). Production of 68.8 thousand tons of **recycled plastic**.

WATER CYCLE – 24%

mn€	2020	2019
Ebitda	265.8	265.3
Investments	166.2	175.8

Further progress in advanced projects of leakage identification, including satellite scanning and cosmic ray surveys, to **protect the natural resource** most vulnerable to the effects of climate change.

ELECTRICITY – 17%

mn€	2020	2019
Ebitda	188.2	178.5
Investments	47.7	43.4

Green marketing offers with **fully renewable energy** accompanied by **sustainable value-added services**. **Electricity grid resilience** plan to increase service continuity even under adverse environmental conditions.

OTHER BUSINESSES – 3%

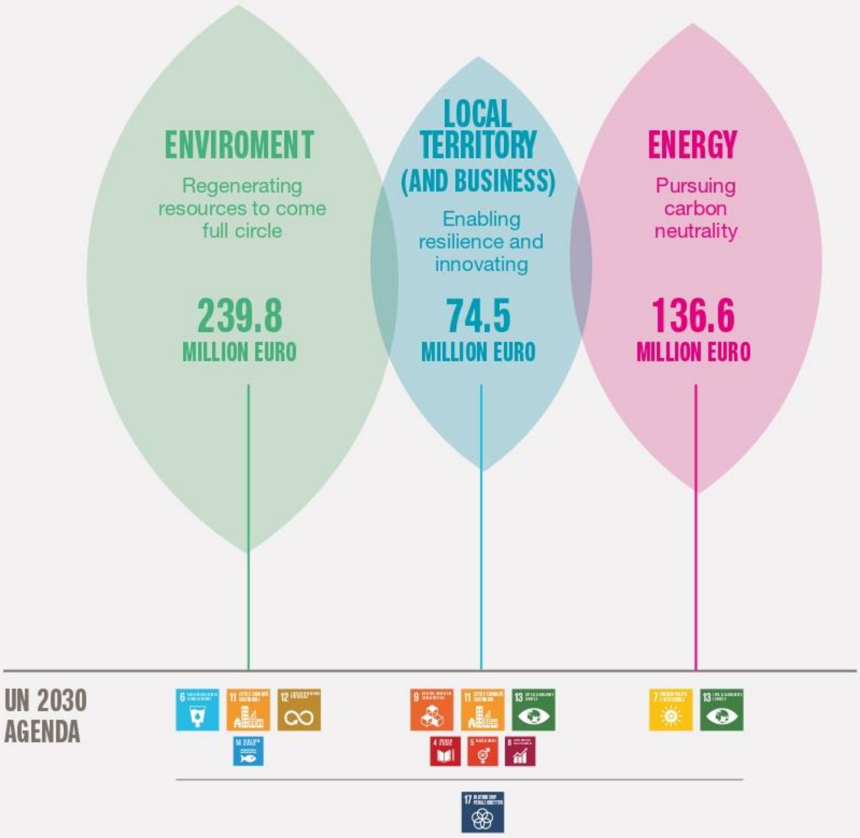
mn€	2020	2019
Ebitda	36.7	35.5
Investments	11.1	16.0

Efficient and low-consumption **public lighting**, including **circularity-measured** work sites, with high percentages of materials recycled after being used.

SUSTAINABILITY AND SHARED VALUE

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

DRIVERS OF SHARED VALUE

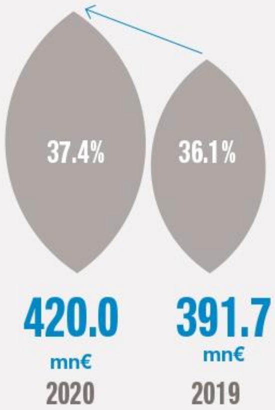


SHARED VALUE EBITDA

420.0
MILLION EURO

+7.2 %
+28.3 MN€
COMPARED TO 2019

37.4% OF TOTAL EBITDA



REDUCED CO_2 EMISSIONS CALCULATED WITH THE SBTi METHOD -5.4% (VS. 2019)

SORTED WASTE 65.3% (64.6% in 2019)

REDUCED INTERNAL WATER CONSUMPTION -11.9% compared to 2017

PLASTIC RECYCLED AND SOLD BY ALIPLAST 68.8 K TONS (+16% compared to 2017)

HERA'S POSITIONING WITH RESPECT TO ESG STANDARDS

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

FTSE4GOOD

IN Index inclusion

In July 2020, Hera stock was included in the FTSE4Good Index Series, a series of ethical indices conceived by FTSE Russell to bring together the best companies worldwide actively moving towards sustainable development.

CDP

A-

Improved rating compared to 2019 (previously B), with better scores in Governance, Opportunities disclosure, Risk disclosure, Risk management process, and Value chain engagement.

SUSTAINALYTICS

79 Outperformer

Rating unchanged compared to 2019.

MSCI

A

Rating unchanged compared to 2019, with outperformance in carbon footprint assessment.

INTEGRATED GOVERNANCE INDEX

6th place in global ranking

1st place green finance

In 2020, Hera ranked first for ESG integration in corporate finance and sixth in the global classification.

STOCK AND RATING

S&P BBB POSITIVE OUTLOOK

MOODY'S BAA2 STABLE OUTLOOK

4.45 BILLION EURO

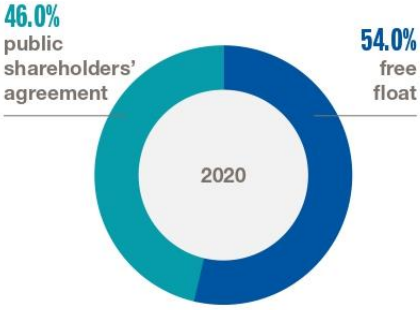
capitalisation at 31/12/2020 highest in the local utilities sector

4.494 EURO/SHARE

record high on 20 February 2020

SHAREHOLDER BREAKDOWN

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



DOW JONES SUSTAINABILITY INDEX

In November 2020, Hera joined the Dow Jones Sustainability Index, World and Europe, as "Industry leader" of approximately 3,500 companies with the largest capitalisation in the world assessed by DJSI. In particular, with a score of 87/100, Hera was recognised as the best multi & water utility worldwide. At the beginning of 2021, S&P Global awarded the multiutility with the Gold Class 2021, the highest recognition reserved for companies included in the DJSI, and the special mention of "industry mover".

PEOPLE E STAKEHOLDERS

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.

INTERNAL

235,854 HOURS OF TRAINING
(26 hours per capita, with most of the training provided by the Group digitally re-planned)

1,584 NEW HIRES
in the last three years, with a 6.2% turnover

4.52 MILLION EURO
dedicated to **WELFARE FOR EMPLOYEES**

REMOTE WORKING EXTENDED TO 4,100 EMPLOYEES
amounting to 77% of total employees (45% in 2019)

29.9% FEMALE EMPLOYEES
in roles of responsibility

124 ACTIONS TAKEN TO IMPROVE HEALTH AND SAFETY
over the course of the year

-22% DAYS OF INJURY LEAVE IN 2020
(compared to 2013). Increasing orientation towards health and safety among employees

EXTERNAL

OVER 2 BILLION EURO IN ECONOMIC VALUE
distributed to **LOCAL AREAS**

+6% AMOUNT OF SUPPLIES SOURCED FROM LOCAL BUSINESSES (compared to 2019)

86 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 from an increasingly complex context, in order to continue growing and, at the same time, to further consolidate the close links with the area served that have distinguished the Group since its establishment. Constant communications 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 **Code of ethics**, ensure that all those interacting with Hera have their expectations 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
INTERNAL CONTROLS AND RISKS COMMITTEE

EXECUTIVE CHAIRMAN
CEO
VICE CHAIRMAN

BOARD OF DIRECTORS

MEMBER	OFFICE	EXECUTIVE COMMITTEE	REMUNERATION COMMITTEE	INTERNAL CONTROLS 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

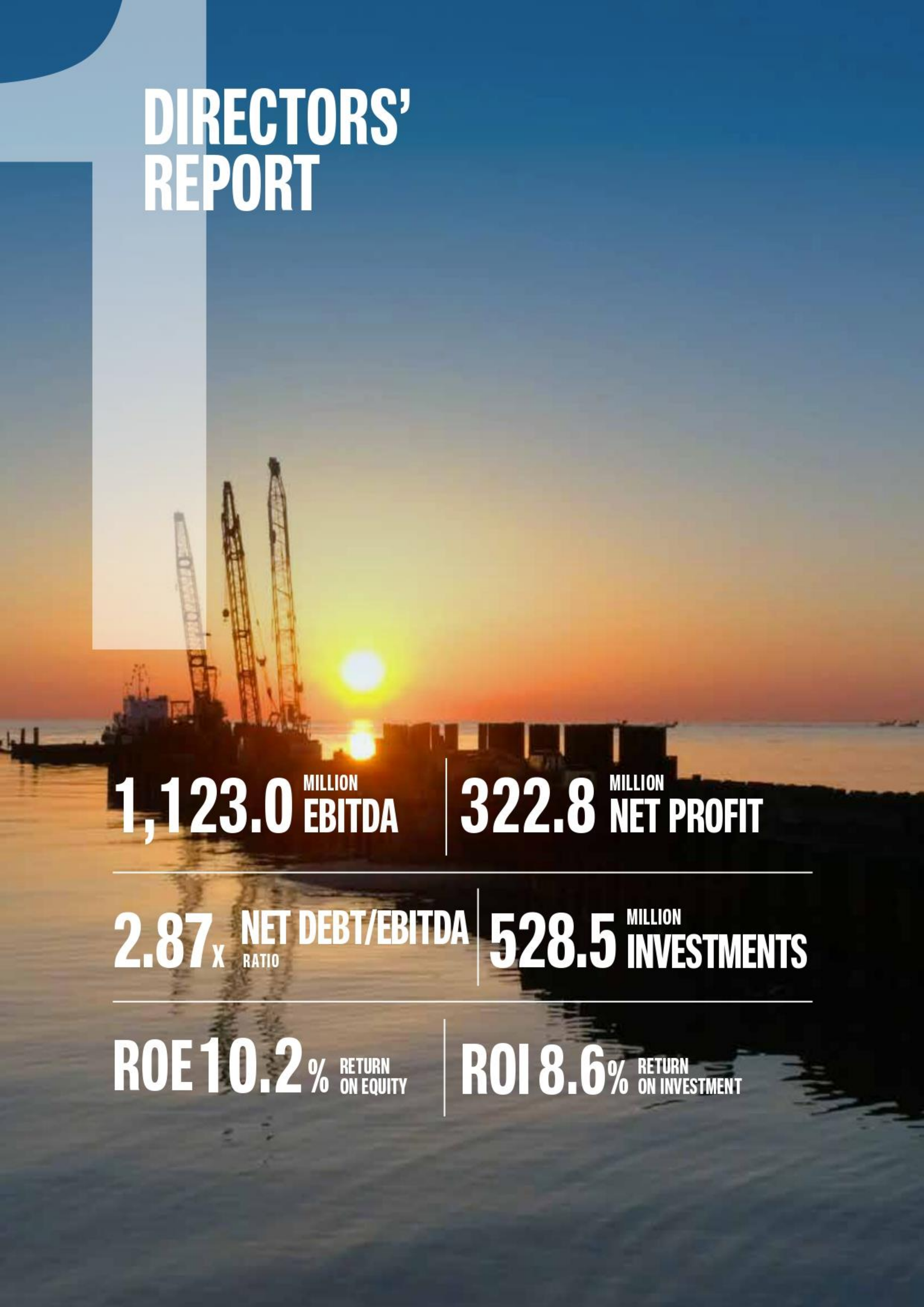
INDEPENDENT AUDITING FIRM

DELOITTE & TOUCHE SPA

KEY

C Chairman of the Committee
VC Vice Chairman of the Committee
M Member of the Committee
* Newly appointed
° Lead Independent Director

DIRECTORS' REPORT



1,123.0 MILLION EBITDA

322.8 MILLION NET PROFIT

2.87x NET DEBT/EBITDA RATIO

528.5 MILLION INVESTMENTS

ROE 10.2% RETURN ON EQUITY

ROI 8.6% 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 factors of sustainability (concerning the environment, technology and human capital).

Macroeconomy and finance

World economy: trends at year-end

The global economy contracted sharply in 2020, largely owing to the effects of the Covid-19 pandemic on the economic and social fabric. The most recent estimates prepared by the International Monetary Fund (IMF) show a decrease in **global wealth** coming to 3.5% compared to 2019. Advanced economies accounted for much of this result (-4.9% compared to 2019), while the decline in developing economies was less pronounced (-2.4%). Particularly negative figures appeared in the Eurozone and the United Kingdom, which show reductions in GDP going from -7% to -10%, while the United States showed a -3.4% drop compared to the previous year. Positive figures were instead seen for China, which reported economic growth coming to 2.3% in 2020. The measures aimed at containing the spread of the epidemic over the year, at varying degrees of intensity, interrupted economic activities and obstructed the planning capacity of many players, bringing production and global trade almost to a standstill which was only partially unblocked by the notable recovery recorded over the summer months. This reversal in trends is due to the extraordinary measures adopted by all major world economies, intended to provide stimulus.

European economy: trends at year-end

In the **Eurozone**, the economic downturn was significant (-7.2% compared to 2019) and especially concentrated in the second and fourth quarters of the year. The drop in GDP was higher in Spain, France and Italy, coming close to -10%, and more contained in Germany (-5.4%).
Household spending plummeted, as a result of the measures taken to contain the virus and an increase in European households' inclination to save. Exports also suffered, having to deal with limitations on the flow of goods imposed by the restrictive measures introduced, in addition to the drop in demand.
Average inflation for 2020 was negative and settled at -0.3%, weighed down by the drop in energy prices and the weaker prices for services and non-energy industrial goods.

World and European economies: forecast trends

For the **upcoming two years**, the IMF has projected a general recovery worldwide (+5.5% in 2021 and +4.2% in 2022), still to be confirmed on the basis of the evolving health situation, the global distribution of vaccines and the effectiveness of the extraordinary economic and financial stimuli adopted in Europe. The **Eurozone** is expected to follow the same path of recovery: more specifically, growth rates coming to 4.2% in 2021 and 3.6% in 2022 are expected, which, however, will not make it possible to recover the amount of GDP seen at the end of 2019 within 2021.

National figures: year-end and forecast trends

Most of the considerations made regarding the Eurozone also apply to the **economic situation in Italy**: the restrictive measures, in fact, led to a significant reduction in GDP in the second and fourth quarters (by 13.0% and 3.5%, respectively, compared to the previous quarter), while the third quarter – during which the restrictive measures were eased, on the whole – saw a solid recovery (+15.9% compared with the second quarter). This, however, was not enough to prevent **national GDP** from **contracting** by around 9% over the entire year.

In 2020, **exports** fell by 9.7% and **household consumption** also dropped sharply. The employment rate, thanks to the extraordinary measures adopted by the Government, stood at 58.3% in November

2020, relatively close to the figure seen at the beginning of the year (58.9%): the freeze on redundancies and the extensive use of social welfare programs, in particular, made it possible to temporarily stop the negative impact coming from the external context.

The most recent projections prepared by the IMF estimate that Italy may see **recovery** coming to 3.0% in 2021 and 3.6% in 2022, provided, however, that the pandemic is effectively contained and that the extraordinary resources allocated at European level are used equally effectively.

Volatility on financial markets

Furthermore, 2020 was marked by **uncertainty and volatility on global financial markets**. Although the Covid-19 pandemic was undoubtedly the dominant event, the effects of the trade war between the US and China, as well as those related to the US presidential elections, should not be forgotten. In the first quarter of 2020, in particular, market volatility reached levels comparable to those recorded during the 2008 financial crisis, but had already fallen by the second quarter. As regards the main emerging economies, on the other hand, the Chinese stock market reacted more moderately, owing to certain structural characteristics of this financial centre and the robust monetary and fiscal measures adopted by Beijing to support economic activity.

Support provided by Central Banks

Public debt felt the effects of the crisis, which appeared more immediately than in the past, thus exposing countries to the need to deal with the combination of an increase in current spending and a related reduction in tax revenues. The stock of debt in advanced countries averaged over 100% of GDP, a sharp increase over the 74% recorded in 2007.
In order to cope with the economic recession and consequent deflationary spiral, central banks adopted **extremely expansive monetary policies**, which reduced interest rates to zero or to negative levels through **credit easing and quantitative easing measures** aimed at providing liquidity to support loans to households and businesses. The growth rate of global liquidity consequently increased from an annual average of 7% to over 26%.
Following the pandemic, in particular, the ECB immediately introduced an extraordinary program for purchasing public and private securities (Pandemic Emergency Purchase Programme, PEPP), aimed at restoring the correct functioning of European securities markets and ensuring the effective transmission of monetary policy impulses. This measure, which will be in effect until the end of the crisis, has eased tensions on secondary markets for government bonds, which showed a rapid reduction in yields compared to the peak at the beginning of March. In this area, the ECB announced that it will continue to provide economic and monetary support, while stressing the importance of coordinated fiscal policies to cope with the contraction of the Eurozone economy, as well as the key role to be played by the Next Generation EU fund, approved by the European Council, which will provide decisive support (750 billion euro for recovery and resilience in European economies) by leveraging the Union's budget and lending capacity.

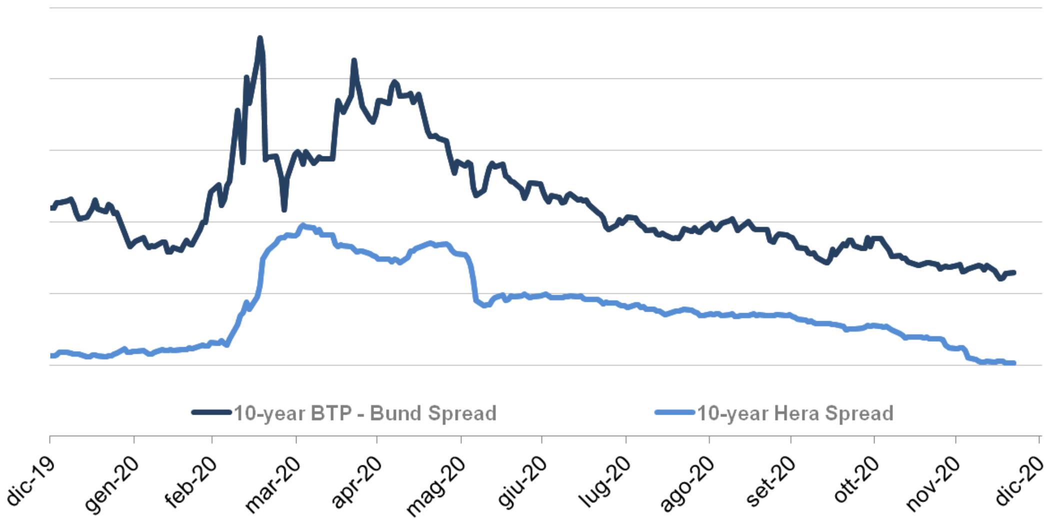
Ongoing downward trend in interest rates

These monetary policies led the downward trend in **interest rates** to continue, concerning long-term maturities as well; the Euro swap interest rate curve, in particular, showed an average reduction of roughly 40 basis points compared to the previous year, reaching negative levels even on maturities up to 15 years, with a forward trend that does not point in an upward direction. The ECB, within a medium-term projection timeline, expects rates to remain at current levels or lower, until inflation outlooks converge sufficiently close to 2%.

In this context, the **Italian stock market** showed similar trends to those seen worldwide. In the first half of 2020, the FTSE MIB indeed fell by 18%, but then slowly recovered following the announcement of significant measures to combat the crisis at European and national level. Furthermore, according to the content of the Bank of Italy's Financial Stability Report, Italy's public debt remains sustainable, also in view of the temporary nature of the expansionary budget measures. The **national support measures** adopted until present, including the expansion of payroll subsidies, a moratorium on loans, a postponement of tax compliance, non-repayable grants and guarantee mechanisms for new financing, are believed to contain situations of economic and financial stress for households and businesses. In March, bond markets began to discount the debt of companies in all sectors of activity, but the monetary policy measures introduced in the meantime met their need for liquidity and helped mitigate the economic consequences of the pandemic. The Italian market for bonds issued by private companies showed a fall in prices, and the increase in yields on Italian government bonds was particularly strong; yields on bonds with a 10-year maturity came close to 2.5%, up compared to the 1.3% recorded at the beginning of the year. The spread between yields on Italian government bonds with a 10-year maturity (BTP) and the German benchmark rose rapidly in mid March, reaching a peak of almost 300 basis points (from an average of around 145 basis points recorded during the previous two months); similar trends were observed with reference to credit default swaps (CDS) on sovereign debt.

National support measures

Hera's bond spreads were also affected by the pandemic, showing a rapid rise. The ten-year spread, shown in the following graph, in fact reached a maximum of 150 basis points, with an increase of roughly 100 bps compared to the previous year. However, thanks to the Group's good credit rating, it always remained at levels lower than the Btp-Bund spread with the same duration, while at the same time showing less volatility.



Businesses and regulations

Business trends

Among the health emergency's effects on the national production system, a decline was also seen in **electricity consumption**. The most recent estimates prepared by the national grid transmission company (Terna) show nationwide energy demand coming to 302.8 TWh in 2020, down 5.3% compared to 2019. Approximately 90% of overall demand was met by domestic production, down 3.8% from the previous year, while the balance with foreign countries settled at 32.2 TWh.
In 2020, **renewable sources** accounted for 41.7% of total net electricity generation, coming to 114.0 TWh, up 1% compared to 2019. This contribution corresponds to an increase in the amount of final consumption met by renewable sources (up to 38%, more than 2 percentage points higher than the contribution in the previous year): in this sense, a significant contribution was made by photovoltaic production (+9.6% compared to 2019) and, albeit to a lesser extent, by hydroelectric production (+0.7% over 2019). Taken together, these two sources more than offset the overall drop seen in other renewable sources.

A similar trend occurred in **natural gas** consumption in 2020, with nationwide volumes in 2020 – according to the data provided by the Energy Market Management (GME) – decreasing by 4.4% compared to 2019, with a total of 70.7 billion cubic meters consumed. This trend is mainly due to the weaker **demand** recorded during the months when the lockdown was in effect. Consumption in the industrial and thermoelectric sectors stood at 24.4 and 13.2 billion cubic meters respectively (-5.7% and -6.1% compared to the previous year). Conversely, the decline in demand coming from the civil sector was slighter, settling at 31.0 billion cubic meters (-2.4% compared to 2019).

As regards the **waste sector**, the Istituto Superiore per la Protezione e la Ricerca Ambientale (ISPRA) had estimated a national production of municipal waste coming to 30.1 million tons in 2019, with a slight 0.3% drop compared to the previous year, and a national production of special waste amounting

to 143 million tons, up +3.3% over the previous year. Special waste came primarily from the construction and waste treatment/redevelopment sectors (which respectively accounted for 42.5% and 26.5%), and 20% was covered by the manufacturing sector.
No data is currently is available regarding the production of municipal and special waste in 2020, but considering its correlation with traditional socio-economic indicators (above all GDP and consumer spending) and the extraordinary effects of the health emergency, a decline in national **waste production** can in all likelihood be expected.

The most recent ISTAT report containing statistics on the **national water sector** confirms a total usage coming to approximately 9 billion cubic meters of water, equivalent to 419 litres per day per inhabitant. Almost 85% of this resource is taken from groundwater, roughly 15% from surface water and a minor amount from sea and brackish water. The latest update of the Blue Book shows that about half of the water consumed in Italy is used for agriculture, which is thus confirmed as the most water-intensive economic sector, followed by industry. This clearly indicates the importance of interventions aimed at encouraging **reuse of water resources** in agriculture and industry.

Competitive context

The **strong competitive pressure** that has defined for several years now the sectors typically served by utilities, as regards both free market and regulated businesses, was confirmed in 2020 as well.
In the **energy market**, intense **competition** among sellers to increase their customer base is confirmed by increasingly high churn rates, as has been noted by the Regulatory Authority for Energy, Networks and the Environment – Arera. In order to respond to the challenges and difficulties caused by the pandemic, many companies have rapidly adopted new digital solutions for customer management and relations, in many cases accelerating certain previously ongoing trends. Sales companies have added value-added services sales to their offer of commodities. Lastly, in the fall of 2020 tenders were held for the assignment of **Last Resort services** in the gas sector (annually defined Default gas and Last resort gas suppliers) and in the electricity sector (safeguarded services, defined on a two-year basis).

In the area of **industrial waste treatment and recovery**, the competitive scenario now includes major European players. The market for urban and special urban waste management and treatment is marked by a **strong demand**, linked above all to the emergency seen in central and southern Italy, capable of producing volumes that attract the attention of international competition. In the industrial waste market, currently existing **treatment plants** are often involved in acquisition strategies, following a trend that – in leading to a more pronounced industrialization of services – can be expected to benefit larger operators. In the **recovery market**, the sector is evolving towards a more industrial structure, which is the only way the challenging targets indicated by the EU can be adequately met.

As regards regulated businesses, Hera carries out its activities in the businesses falling under the responsibility of the Regulatory Authority for Energy, Networks and the Environment, which defines the conditions for access to and operating procedures within these businesses, in compliance with obligations concerning transparency.
In 2020, activities continued in **tender procedures** for the assignment of gas distribution, municipal waste and water cycle services. As far as **gas distribution** is concerned, the number of tenders actually awarded nationwide is still small (mainly including the Milan 1, Turin 2 and Belluno ATEMs), and almost all the tenders awarded have been subject to appeal. Concerning the areas in which the Group currently provides services, Arera has completed the assessment process for the tender documentation prepared by the granting authorities for the Forlì-Cesena, Modena 1, Rimini and Trieste ATEMs, while the bids submitted for the Udine 2 ATEM are still being assessed. With regard to the **municipal waste** business, a procedure was completed with the service awarded to the Group in the Ravenna-Cesena area, while the procedures for the Modena and Bologna areas are still open. Finally, in the **water cycle**, examination is underway for the bids made by competitors participating in the tender for the integrated water service in the province of Rimini, with the exception of the Municipality of Maiolo.

Changes in the regulatory framework

In regulated businesses, the measures approved in 2020 having the most significance for the Hera Group are as follows:

- the legislative and regulatory measures adopted to face the Covid-19 emergency;
- the measures introduced by the 2020 national Budget and adopted by the Regulatory Authority for Energy Networks and Environment (Arera);
- the redefinition of the stages involved in eliminating protected electricity supply, by way of the Ministry of Economic Development's Decree and Arera's related resolution on the new service with gradual protection for small businesses.

Faced with a situation of nationwide lockdown, Arera intervened with measures first in favour of end customers in energy and water services, and later in favour of sellers and distributors in energy sectors.

Covid-19 emergency: Measures taken along supply chains

For the period going from 10 March to 3 May 2020, end users benefited from a **temporary suspension of the procedures for interrupting supply due to arrears**, a form of support that from 4 to 17 May 2020 was reserved solely for household users (resolution 60/2020/R/com and subsequent supplements). In the energy sector, in order to mitigate the effect of the support granted to customers experiencing difficulty, sellers were granted the possibility of partially paying the bills issued by electricity and gas distributors due in the months of April-June (limited to a minimum of 70% and 80% respectively) and thus avoid non-fulfilment procedures introduced by distributors (resolution 116/2020/R/com). Lastly, by way of resolution 248/2020/R/com, Arera established the methods and terms through which sellers must pay the amounts still outstanding to distributors.
With resolution 190/2020/R/eel and in implementing the Relaunch Decree, Arera reduced **electricity bills** for non-household users connected at low voltage with power greater than 3 KW. In other words, in order to reduce the expense incurred by small businesses, tradespeople, bars, restaurants, laboratories, professionals and other service providers, for the amounts pertaining to the months of May, June and July 2020, the Authority provisionally redefined fees and tariff components per unit. Through the Energy and Environmental Services Fund (CSEA), Arera has already taken steps to compensate distributors for their lower revenues. With resolution 432/2020/R/com, Arera then introduced non-recurring changes regarding output-based regulation of electricity and gas distribution services. For electricity, the changes involve bonus-penalty regulations relating to the duration and number of interruptions, resilience and modernizing obsolete transformers; for the gas sector, the changes involve replacing sections of the network in non-compliant material, reducing the replacement target within 2022 from 40% to 30% and, lastly, postponing requests for waivers. In other words, for both sectors, Arera formalized the applicability of the force majeure clause for commercial quality.
Finally, with resolution 501/2020/R/gas, Arera also intervened in obligations concerning the installation of **G4-G6 smart gas meters**: achieving an 85% roll-out obligation was postponed to 31 December 2021 for large companies (with more than 200 thousand delivery points) and to 31 December 2022 for medium-sized companies (with between 100 and 200 thousand delivery points).

Covid-19 emergency: measures in the integrated water cycle

As regards the **integrated water service**, resolution no. 235/2020/R/idr introduced a number of **exceptions** to current regulations regarding both tariffs and service quality, in order to safeguard operators' economic and financial balance.
With regard to **tariffs**, the reduction in recognised financial charges for assets under construction relating to non-strategic works was postponed to 2022, maintaining the coverage rate equal to the one used for strategic works for the tariff years 2020 and 2021. For 2020, specific components were also introduced to cover costs linked to the emergency, including those involving deferrals and payments by instalments granted during the emergency period. Lastly, as part of the efforts made towards higher tariff sustainability, regional authorities may postpone to subsequent years (but not after 2023) the recovery of the portion of charges eligible for 2020 tariff recognition, with the related possibility of a financial advance paid by CSEA.
With reference to **service quality** regulations, technical and contractual quality objectives will be considered cumulatively over the two-year period 2020-2021.

As for the other sectors under its responsibility, with resolution 443/2019/R/rif Arera introduced changes and additions to the tariff regulations for the **integrated waste service**. In particular, to ensure the necessary continuity of waste services, it introduced a series of levers aimed at guaranteeing the **social and economic sustainability of the tariff system**. The deadline for defining tariffs and the Tari was extended to 30 June 2020 (Decree 18/2020, so-called Cura Italia, converted into Law no. 27 of 24 April 2020), creating, as an exception, the possibility of approving for 2020 – until October 31 – the tariffs or the Tari adopted for 2019. Arera also introduced tariff facilitation measures

Covid-19 emergency: waste service measures

for non-household end users penalized by the closure of economic activities, reshaping the variable quotas for waste services, as well as other forms of protection for household users undergoing economic hardship (resolution 158/2020/R/rif). With resolution 238/2020/R/rif, in order to guarantee operators' economic and financial balance, Arera then completed the emergency regulation framework by introducing temporary changes to the waste tariff method, guaranteeing mechanisms covering the economic and financial charges incurred to adopt the measures protecting users. In addition, the possibility was granted to acquire in advance, within 2020 tariffs, payment of the differential charges incurred to deal with the emergency.

Covid-19 emergency: district heating regulations

Once again as a result of the health emergency, regulations for the technical quality of services in the district heating sector (resolution 548/2019/R/tlr), which should have come into effect on 1 July 2020, were postponed to 1 January 2021 (resolution 188/2020/R/tlr).

2020 national budget

The **national budget for 2020** (Law 160, 27 December 2019) introduced some significant measures for energy and water services. The cause of exclusion from the two-year statute of limitations for credits resulting from adjustments for consumption dating back more than two years, for example, was removed even in the case of ascertained **responsibility of the customer** in failure to measure. In regulations for the energy sectors, moreover, Arera subsequently implemented this legal provision with resolution 184/2020/R/com. The situation in the water sector is similar, where this measure was implemented with resolution 186/2020/R/idr, also introducing specific information obligations in favour of end users. Other interventions concern the notice period for **suspension of supply** due to arrears, which was increased to 40 days from receipt of the notice by the end user. For the energy sectors, the rules governing the indemnification system were strengthened in favour of operators in order to prevent customers from excessively changing provider, and at the same time this provision was implemented by Arera with resolution no. 219/2020/R/com. In turn, resolution 221/2020/R/idr, with which this measure was also applied to the water sector, provided for appropriately monitoring the effects resulting from its adoption, ultimately going towards the interest of operators' economic and financial balance. Finally, Law no. 160/2019 provided for the introduction of specific penalties in favour of end users in cases of violations relating to the methods of recording consumption, execution of adjustments or billing by sellers or managers.

Elimination of protected electricity customers: methods for assigning and regulating "gradual protection in services" introduced

As regards the market framework for sales to end customers in energy supply chains, the methods for eliminating protected prices are currently prefigured only for the electricity sector. With Decree 162/2019, so-called **Milleproroghe**, converted with Law 8/2020, the stages for **eliminating protection in electricity** were redefined, postponing them to January 1, 2021 for small businesses and January 1, 2022 for household customers and micro-businesses.

Arera intervened within this legislative framework: with resolution 491/2020/R/ee, in fact, it defined regulations for the economic and contractual conditions in service supply with gradual protection intended for small businesses that do not have a contract on the free market and, as of 1 January 2021, the procedures for assigning the service itself. The parties providing the service must be defined following competitive procedures (period of definitive assignment) and, considering the time required to complete the procedures necessary to carry out the assignment, this period will be preceded by a transitory period in which the supply is provided by operators providing protected services (period of provisional assignment, running until June 30, 2021). The portions will be awarded by means of a double round auction mechanism, awarding the area to the operator offering the lowest price, within the limits of a minimum floor and a maximum cap on the price offered, established by Arera.

In the provisional assignment phase, the economic conditions of the gradual protection service will be essentially in line with those of the protected service, thus ensuring basic continuity in remuneration for the provisional operators. In the definitive assignment phase, the end customer will be charged a price corresponding to the sum of the following items:

- a variable fee subject to periodic updates for supply;
- specific fees to cover imbalance costs and marketing costs, prudentially defined by the Authority before the competitive procedures are carried out;
- a single price defined nationally on the basis of the results of the award prices that emerged during the tender (which incorporates the remaining cost items).

Operators in the gradual protection service will therefore receive remuneration in line with the price offered during the tender, by means of a specific equalization mechanism with respect to the single price applied to the customer.

The Ministry of Economic Development's Decree 31 December 2020 sets out the methods for encouraging an informed entry into the free market and those for eliminating regulated prices for small businesses. It furthermore defines that each participant in the tender procedures must be awarded a maximum amount of 35% of the assignable volume over the entire nation. In order to bring the regulations into line with the aforementioned decree, with resolution 14/2021/R/eel the Authority ordered the publication of the regulations for the tender for assigning the service by Acquirente Unico Spa to be temporarily postponed until the end of January 2021.

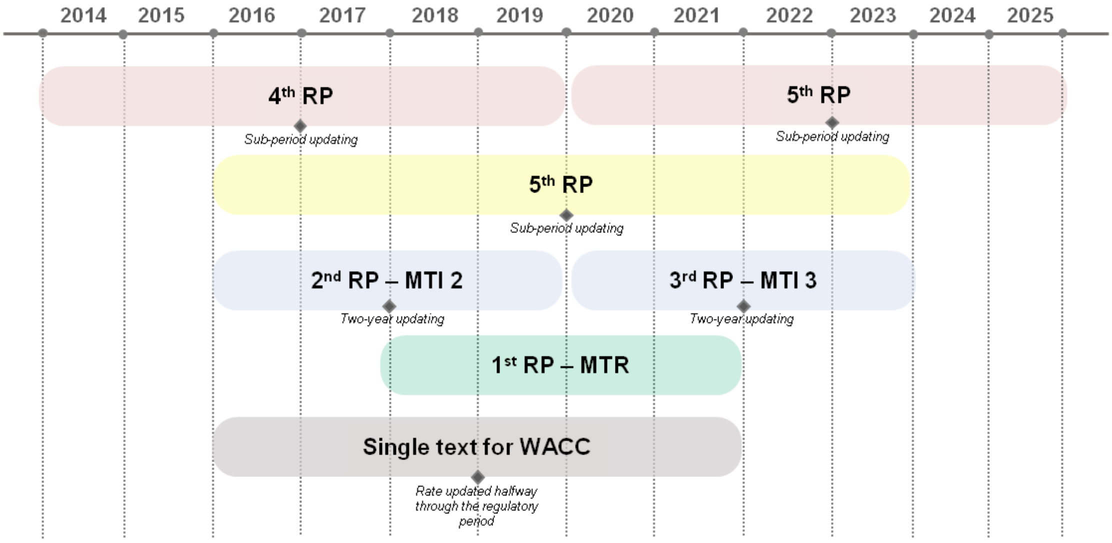
Reintegration of OGDS charges

With consultation document 445/2020/R/eel, Arera made known its final guidelines regarding the mechanism for recognising any failure to collect the tariff components covering general system charges (OGDS). This initiative is aimed at complying with the rulings of the administrative courts, which have established that sales companies do not have to bear economic charges relating to these charges which, after being paid to the distribution companies, have not been collected from end customers due to the latter's arrearage.

Measurement quality regulations for district heating

Lastly, Arera has almost completed regulations for the district heating service (TLR), also approving the Integrated district heating measuring text (TIMT) with resolution 478/2020/R/tlr, which will come into effect on 1 January 2022 and will apply to the three-year period 2022-2024. These regulations deal with various issues including meter reading, methods of estimating and reconstructing meter data and quality standards, as well as automatic compensation.

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 2020 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 1st 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)
Regulatory governance	Single level (Arera)	Single level (Arera)	Double level (Ega, 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 for 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 (2) (real, pre-tax)	2019 6.3% Distribution 6.8% Measurement 2020-2021 6.3% Distribution and measurement	2019-2021 5.9%	2018-2019 5.31% 2020-2021 5.24% +1% for investments as of 2012, covering the regulatory lag	2020-2021 6,3% +1% for investments as of 2018, covering the regulatory lag
Recognised operating costs	Average value of actual costs by company grouping (by size/density), based on 2011 (for revenues until 2019) and 2018 (for revenues as of 2020) (3) Sharing for efficiencies achieved compared to recognised costs Update with price-cap	Average values 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)
Annual efficiency factor for operating costs	Annual X-factor 2019 Distribution: 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%	Annual X-factor 2019 Distribution: 1.9% Measurement: 1.3% As of 2020 Distribution: 1.3% Measurement: 0.7%	Efficiency-applicable mechanism based on: sharing manager's 2016 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 economic and financial balance	Asymmetric, based on the presence of: -changes in scope -quality improvement (only for 2020) continuity-maintenance of service quality following the Covid-19 emergency Possibility of motion guaranteeing economic 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 tariffary regulation of compensation for plants falling outside this scope has been postponed. This measure will be effective as of the 2020 tariff year, following the application procedure foreseen in the measure itself, without prejudice to the derogations foreseen by Law Decree 18/2020 Cura Italia, commented on in the section with further details.

(2) 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.

(3) 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: objectives and policies introduced

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); 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. The changes called for by the Green Deal and, hence, in the new Circular Economy Action Plan (CEAP), provide further significant indications moving in this direction.

A further lever comes from civil society and consists in the growing number of people who, showing increasing sensitivity to environmental issues and social inclusion, give voice to a rising demand for green & digital interventions, in line with the European Union's recommendations for economic recovery and resilience.

The funds made available by the Next Generation EU to address the crisis caused by the Covid-19 pandemic can be accessed by member states provided that they submit a **plan for recovery and resilience** that meets certain eligibility conditions.

The adoption of the **Green Deal**, i.e. the set of initiatives aimed at tackling climate change and environmental problems in order to achieve carbon neutrality, is in turn subdivided into eleven actions aimed at creating a society that manages resources in a fair and competitive way. These actions include adopting an industrial strategy that implements **circular economy** principles in all sectors, starting with the most resource-intensive ones, and promoting **clean energy**, crucial to ensuring the supply of green, economic and safe energy.

The Circular Economy Action Plan: European directives and national implementation

The new circular economy action plan, presented by the Commission in March 2020, outlines a renewed strategic framework to bring together the economic development of the European Union in a circular sense and, in doing so, accelerate the transition and make possible the changes towards which the Green Deal is aimed.

Among the initiatives foreseen by the CEAP, particular significance goes to measures encouraging not only reusable and recyclable products but also a reduction of "over-packaging", as well as rules for bioplastics.

The new CEAP also calls for developing additional policy measures that indicate minimum recycled plastic content requirements for certain product categories and evaluate the possible introduction of prevention (for packaging waste) and recycling measures (for additional categories of plastic waste).

Waste management policies aimed at reducing the environmental impact of plastic products, on the other hand, apply to stakeholders across the entire value chain, thus including the design, production and consumption phases of these products, in order to achieve The target to be achieved consists in putting at least 10 million tonnes of recycled plastics per year into new products on the EU market by 2025.

Above and beyond the plastics sector, promoting circular economy principles is also encouraged in the wastewater management area.

In order to promote a **more sustainable use of water**, as well as to alleviate water shortages within the European Union, Regulation (EU) 2020/741 has been adopted, which contains requirements for water reuse, encourages purified wastewater reuse for irrigation in agriculture and defines minimum requirements for the use of reclaimed water.

European regulations have been incorporated into national legislation and substantial changes have been made to the **Consolidated Environmental Act**, with the aim of improving performance in waste management and increasing circularity. These changes include a new electronic recording for waste traceability, an updated definition of municipal and similar waste based on qualitative rather than

quantitative criteria, and an extended producer responsibility, now having minimum administrative, financial and data requirements. These measures are accompanied by the implementation of European recycling and landfill targets for municipal waste, as well as a reform of the landfill admissions system.
The innovations seen in this area will be accompanied by the adoption of a sustainable management system for **water resources** that combines the need for storage and conservation, efficient consumption and the possibility of reusing wastewater, while at the same time allowing for the regeneration of natural ecosystems. The depletion of water resources is indeed one of the main threats to economic growth, and energy production itself is one of the major causes of freshwater resource consumption.

System integration strategy: decarbonising the energy sector

In order to achieve full decarbonisation of the energy sector by 2050, the European Commission has released its **system integration strategy**, set out based on six pillars that aim to overcome opposition between individual energy sectors, in order to introduce a virtuous system which is able, as such, to make the different infrastructures communicate with each other.
The strategy adopted aims to develop:

- a circular energy system driven by energy efficiency, according to a rationale built around saving materials;
- the electrification of consumption, through increased generation from renewable sources (Fer EE);
- promoting biofuels (including hydrogen) in sectors that are difficult to electrify (e.g. industry with high gas consumption, or heavy transportation);
- energy markets able to encourage decarbonisation and decentralization of energy production;
- integrating and full exploiting the various existing energy infrastructures (electricity, gas and district heating systems), aimed at avoiding the risk of technological lock-in related to the introduction of new technologies;
- a digital and innovative energy system.

Opportunities in the utilities sector

The inevitable nature of climate change has led the European Commission to reconsider its targets for reducing emissions by 2030, with the hope of achieving full decarbonisation by 2050. These global trends, along with the health emergency and the ensuing economic-social crisis, have also forced local authorities to reconsider their priorities and lines of action. The pandemic has made it all the more urgent to implement initiatives capable of making cities more resilient and, for this very reason, local programs are increasingly consistent with circular economy, sustainable mobility, climate adaptation and digitalization initiatives. This scenario is challenging and offers new opportunities to the utility sector. All types of customers will be called upon to introduce technological improvements capable of reducing their energy needs: household customers, businesses and public administrations.
The initiatives incentivised include promotion and sales of products and services for efficiency in energy consumption, and support for the energy efficiency of buildings.

Environmental, socio-economic and social factors

Stakeholders, financial and otherwise, are showing increasing attention to **sustainability** issues and, therefore, also to companies' sustainability ratings. It follows that financing opportunities will be increasingly focused on green products, able to raise money on the capital market at rates that are potentially lower than the alternatives.
When aiming at **sharing value between companies and communities**, oriented towards a search for solutions that benefit both, the engagement of the community and individuals now plays an increasingly important role. The main megatrends are those shaped around the UN's 2030 Agenda, alongside theoretical reference points and successful experiences involving approaches based on shared value and new business opportunities.
These new lines of development cannot disregard a full exploitation of data (understood as a true business asset) and a greater attention to cybersecurity, to protect the company and its data. The speed of change makes it essential to define training plans that enable the company's workforce to manage change (especially digital change) in the best possible way, including – where necessary – training programs that, while provided individually, are able to guarantee the necessary continuity ("self-development").

Technology and human capital

The main **trends in ICT** consist in artificial intelligence, automation and therefore software, robotic process automation, data collection and management (Internet of things, data governance and data analytics), cloud platforms and, lastly, cybersecurity. These are all enabling elements, capable of accelerating digital technological evolution.

Technological evolution

Technological evolution, in its most "disruptive" aspects, produces changing paradigms for economic and social contexts. At an increasing speed, it thus alters entire segments of the market and patterns for social relations. The risk underlying this accelerating trend is a widened gap between players who keep pace with technological evolution and those who, due to resources or skills, are unable to do so in all sectors.
Investments in telecommunications, networks, software and automation as well as other technological infrastructures have become increasingly urgent, and must be accompanied by growth in knowledge and **training**, which plays an enabling role for new technologies, which in turn are oriented towards a sustainable and circular economy and revolve around **digitization** and **artificial intelligence**. Metaphorically, these two directions can be represented by green and blue: green for the environment, to be protected with extensive and pervasive sustainability initiatives, and blue for electronics, which takes on all the nuances of information & communication technology (ICT).
Robotisation and artificial intelligence can enhance the ability of human capital in terms of efficiency and productivity, allowing people to be assigned enterprising and high value-added activities, in which human thought proves to be the best possible resource. This undeniably includes activities that must be undertaken to rethink organizational and methodological scenarios in the light of new technologies, while taking challenging environmental and social objectives into account.

The advance of **digital technologies** has been accelerated by the pandemic, which has increased the need for connection and security in remote working, making it no longer a negligible right but as a strategic means to achieve flexibility, productivity and work-life balance. All this has increased infrastructural needs, orienting the demand for investment towards connectivity and remote collaboration tools. This has led the boundaries of an organization to be reconceived, no longer reduced to the physical boundaries of a company's offices or those of its business in a narrow and logical sense. They now extend, rather, to the interrelationships that affect the organization itself in relation to its objectives in sustainable development.
Utilities, in particular, are called upon to seize digital opportunities in terms of procedural efficiency and workforce management, but also with respect to multi-channel interactions with customers, without forgetting the management and "sensitization" of infrastructures across the area served.
The widespread presence of digital technology now concerns all aspects of business operations, extending the changes affecting them to the point of producing new, additional value-added services.

The need for **IT security** has become more acute with the spread of computerization, and with the pandemic last year saw an exponential increase in attacks and their ensuing risks. Operational technology (OT), or remote management, which in the past had developed as a niche area, limited to plant effectiveness and with little attention to IT security, has had to deal with the lack of training in users and the vulnerability of many components of its technological infrastructures. Another area of utility infrastructures potentially subject to security risks consists in objects connected by sensors, such as smart objects and smart meters, where leniency in communication protocols may lead to illegal intrusions.
In order to respond to the growing demand for IT security, companies can no longer postpone an increase in investments that, by reducing the fragility of systems, are the only possible way to recover ground in the unbalanced situations that gradually developed in the past.

The increase in the amount of data produced and its rapid availability is a source of potential for companies: **the internet of things and digital interaction with people** (of which the automation of the most standardized customer relations through chatbots is one example) can in fact enable a continuous and rising flow of data, which not only allows various situations to be rapidly diagnosed (real time analytics) but also means that the decisions and actions to be taken can be more precisely profiled, often with the support of artificial intelligence.
Customers in each sector, in turn, are increasingly inclined to interact through digital channels, and therefore expect real-time responses and uninterrupted service availability. Suppliers are expected to

be more proactive in terms of attention to behaviour and optimised consumption, and additional services such as smart homes and e-mobility become increasingly rewarding.

As regards the more technological aspects of digitization, **cloud platforms** are the main enabler and accelerator of the entire ecosystem. The availability of high-performance connectivity has made it possible to achieve significant infrastructural scale economies with an exponential development of technology. Across the world, this has cumulatively given systems the ability to express a processing capacity that until a few years ago was not even conceivable. The rapid spread of cloud technologies and the growth of large companies operating in this sector can be explained by the benefits these infrastructures bring to users. At a low cost, they are indeed able to optimize the use of time, currently one of the most precious resources available.
The increasing emphasis going to "as a service" and "pay for use" IT services, for this very reason, appears an unstoppable process, statistically headed towards becoming the only one that is actually feasible, with the exception – at the most – of extremely specific applications.

This availability of processing power explains and encourages a wider spread of **artificial intelligence and robotic process automation applications with integrated artificial intelligence** (IRPA), useful for making the most appropriate decisions on the actions to be taken. These innovations will lead to a progressive automation of processes, especially for processes consisting of activities that have finite rules and/or procedures. Identifying and formalizing hybrid operational processes, which combine human and automated activities, balancing them according to the value added to the process, is therefore one of the issues to which all organizations will have to pay particular attention, not only in terms of organizational design, but concerning training and operational monitoring.

The added value of a resilient workforce

Valorising the human component is also fundamental for achieving a balance between technology and people, and thus focusing human efforts on value-added activities, working towards an intelligent integration that is not limited to mere cost efficiency and replacement considerations. **Digital workplace transformation** and interconnection on a single platform allow us to interact, share information and "earn" knowledge and skills. The technological ability to acquire huge amounts of data makes it even more important to invest in the human ability 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 changes in our 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 current historical period and the health emergency have emphasized the need for added value provided by a resilient **workforce** that is urged to continuously develop the skills allowing it to face changing and not always predictable future scenarios. Faced with the need to redesign **people organization**, including spaces to be adapted according to the indications given by health authorities, the reinforcement of **remote working** has proven to be crucial. Trends in economic, political, environmental and social systems – along with strong acceleration in digital transformation and the progressive technological literacy of people – also require an increasingly sensitive approach towards **relational aspects**. Research by the World Economic Forum has shown that future roles will depend on skills related to technology, but also problem solving and self management. Reskilling, active and adaptive lifelong learning, as well as designing training activities themselves, are becoming key to increasing the resilience of organizations. The uncertain external environment places increasing responsibilities on individuals, and it is essential for the **link between individual contributions and organizational impact** to become increasingly noticeable, giving greater strength to orienting all resources towards a common goal. Individual empowerment, accompanied by a new conception of working methods and people's wellbeing, is therefore aimed at enhancing the value of people and, in so doing, increasing productivity. In this regard, **diversity and inclusion policies** also translate into a fight against discrimination on the workplace and, when accompanied by a commitment to the promotion and creation of fair and inclusive environments, are becoming increasingly essential elements for the responsible financial community.

1.01.02 Strategic approach and management policies: areas

Scenario analysis is a method for defining the input useful for strategic plans, to increase the effectiveness of a business model over time.
This type of analysis provides a process aimed at testing the resilience of the strategy under different hypotheses describing possible future states. For the Hera Group, it is fundamental to analyze the potential impact, positive or negative, of various economic-financial, business, regulatory, competitive, environmental, technological and human capital scenarios that differ from each other, but are equally plausible and internally consistent.
These scenarios were also studied with reference to climate change, in order to understand how physical and transitional climate opportunities and risks may plausibly affect the Group's business, in its different areas, over time.

The reference framework within which the Group's strategy has been developed in the various fields brings together three areas:

- **the environment,** in order to concretely respond to the threats coming from climate change, by regenerating resources and enhancing the resilience of the assets managed, favouring an energy transition and reaching carbon neutrality;
- **socio-economic factors,** in order to match developments in the Group's size with an increasing amount of shared value, to have a positive effect on the wellbeing and prosperity of stakeholders and the areas served;
- **innovation,** to drive changes in the Group's activities, thanks to the opportunities offered by the most advanced technologies and digitisation, with the goal of increasing the efficiency and quality of the services offered, creating further occasions for stakeholder engagement and accelerating the introduction of behaviour and skills capable of meeting challenges in a continually evolving context.

Macroeconomy and finance

The debt structure towards which the Hera Group is oriented serves its business needs, not only as regards the duration of loans but also exposure to interest rates. Its financial strategy, in turn, is adequate for the risks and aimed at maximising its return profile.

Financial planning

The scenario, which shows negative rates even for long-term maturities, will allow Hera to increase its amount of fixed-rate debt. The Business Plan presented in January 2021, in this sense, shows that the Group's financial structure will include 83% of **fixed-rate debt** by 2024, respecting the limits indicated in its financial risk policy. These projections are part of an attentive long-term planning concerning the necessary financial resources, which Hera carries out through by analysing and monitoring cash flows, also paying attention to its debt structure. The **average cost of debt**, in particular, is constantly made more efficient, both through financial risk management, which includes the use of derivative instruments, and by evaluating liability management operations aimed at grasping favourable market opportunities. In this sense, the Plan expects the Group's financial requirements to be met by **issuing fixed-rate bonds**, including green and/or sustainable bonds, along a path that aims at optimising the average cost of debt through a proactive management of the aforementioned operations, in such a way that by 2024 the average rate of debt will reach 2.6%. Moreover, particularly favourable issuance conditions will enable the Group to respond with additionally increased efficiency to its investment needs, above all to ensure the implementation of innovative and sustainable projects in the waste, water and energy sectors.

Credit ratings

The Group's **rating** is closely linked to Italy's rating, along with the latter's macroeconomic trends and political scenario, since most of its business is concentrated within the country. Despite the economic and financial crisis triggered by the pandemic, however, the actions and strategies implemented by the Group should allow adequate rating levels to be maintained and improved. Furthermore, during the year the Group's usual communication activity with the rating agencies Moody's and Standard & Poor's (S&P) continued and, considering the economic situation, encouraging feedback was provided. Indeed, the Group's **risk profile** was assessed positively in terms of the solidity and good balance of its business portfolio, as well as its good operating performance, liquidity risk and resilient creditworthiness indicators. Both agencies maintained a positive opinion of the Group's rating, respectively coming to Baa2 with a stable outlook and BBB/A-2 with a positive outlook. These assessments also benefited from the positive results achieved in 2020 with regard to credit metrics.

Sustainable financial reporting

Over the period covered by the Plan, continually adopting best practices in sustainable **financial reporting** will support the Group's green financing and ratings. Hera, already committed to green funding, will continue along a path that began some time ago: it was the first Italian company to issue a green bond, in 2014, which was followed by ESG-linked financing in 2018. After this, in 2019 the Group provided itself with a complete green financing framework, accompanied by a further green bond issue. The expected, additional improvement in its sustainability ratings, in turn, will make it even easier to access lines dedicated to sustainable financing, which are interesting also because they have potentially lower costs than traditional credit lines. Following these guidelines, implementation of the recommendations of the **Task Force on Climate-Related Financial Disclosure (TCFD)** of the Financial Stability Board is also underway, which call for a definition of climate scenarios, risks and opportunities linked 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 that covers the financial performance of the world's leading companies in terms of sustainability, proves the validity and credibility of the path taken by Hera Group, and also opens up further developments. Recognitions such as this, above all act as a stimulus and allow Hera to identify the areas to be developed to further improve its **performance** and, at the same time, to include in its set of investors those who are engaged in socially responsible investing (SRI), a segment that is undergoing considerable and continuous expansion.

Business areas and industrial strategy

The strategy presented in the Group's latest Business Plan projects a path of fully sustainable economic and industrial growth, in line with the objectives of the UN's 2030 Agenda and the guidelines of the most recent European policies.
The pursuit of sustainable development requires circular economy principles to be applied not only to the Group's businesses, but also to its external stakeholders, in order to influence the context in which it operates as well.

Free market businesses

As regards **free market businesses**, the Group's strategy calls for its customer base and set of plants to be further developed, with a view to decarbonisation and contribution to a circular economy.

For free market businesses in the **energy sector**, the goal of 4 million customers by 2024 has been set, a target that will be pursued by enhancing of the customer base in North-Eastern Italy and grasping the opportunities offered by the elimination of protected customers in the electricity market. Commercial development will be driven by offers including new value added services, which will enrich the Group's sales proposals and provide customers a range of complementary services for energy saving and waste reduction. Some examples include sales and installation of photovoltaic panels, the offer of LED devices and smart thermostats or sales of efficient boilers combined with the supply of energy commodities.
Personalised sales offers will be further improved through the progressive introduction nationwide of new-generation energy meters (2G), which make it possible to monitor the consumption habits of customers and, therefore, define commercial offers that increasingly reward sustainable behaviour (green loyalty).
The offer to apartment building customers, moreover, will be able to integrate the range of energy services proposed, already reinforced by activities in energy requalification for buildings and heating systems, which benefit from the tax measures foreseen by the government.
Finally, the Group intends to renew its commitment to participating in future tenders for **last resort markets**, with the aim of continuing to act as one of the national reference figures, leveraging the many years of experience it has already gained.

In the **waste treatment and recovery** free-market business, the Group's strategy will be directed to developing its current set of plants, essential to continue following the path undertaken by Hera towards **circular** waste management, in line with international best practices.

In this sense, **new solutions for plants** are being developed for producing biomethane from the organic portion of solid municipal waste. A new plant, for example, will be built in the Marche region, with the aim of meeting the treatment and recovery needs coming from the geographical area of the mid-Adriatic and central Italy as well.
Specific initiatives are also planned in the plastics recycling sector, in order to increase the use of recycled plastic and respond to the introduction of the Plastic Tax. Aliplast, the Group's reference company in this area, will in fact continue to increase its treatment capacity, now entering the market for so-called rigid plastics.

Regulated businesses

As regards **regulated businesses**, significant investments will be dedicated to further increasing the resilience, efficiency and business continuity of the Group's assets and implementing a wide range of **sustainable and circular solutions**, which will define the management of Hera's networks in the coming years. Part of the Group's financial efforts will also be dedicated to its participation in tenders for assigning **concessions for regulated services** that will affect some network businesses (municipal waste collection, gas distribution and the water cycle) in areas already served by the Group.

In the **water cycle**, the Group's commitment to finding solutions for **reusing** and regenerating water resources will continue. The project involving the reuse of water leaving the Idar purification plant for agricultural purposes or to maintain the hydro-geological balance of the local area, already implemented in Bologna, will be extended to other localities. Moreover, the actions taken to contrast water leakage will continue, consolidating an integrated approach that focuses on increasingly advanced technologies and detection methods, but also predictive maintenance of networks. In order to protect the **quality of the water resource**, new technologies will be used for controlling and removing pollutants: the "Water Fingerprint" project, for example, calls for the creation of a specific water fingerprint, creating a spectrum linked to various substances in the organic field, thanks to which it will be possible to note any situations in which water does not display its regular properties. Also in line with the rationale underlying a circular economy, the Group will work on installing electrolysers at its purification plants, with the aim of producing green hydrogen (or synthesis gas in the power-to-gas configuration), making full use of the existence of "circular" flows of materials between the purification plants and the electrolysers themselves.

For the **gas and electricity** businesses, over the next few years the Group will renew its focus on digitization of the distribution networks and strengthening them in terms of preventing and mitigating external risks, thus ensuring business continuity. For both businesses, an important plan of meter replacement has been planned: in the electricity sector, second-generation energy meters (2G) will be installed, while in the gas sector the new smart meters – named NexMeters – will be installed, able to interrupt gas flow and to make users' systems safe if significant earthquakes, gas leaks or smaller latent losses occur.

For the **district heating** business, an investment plan has been put together aimed at strengthening business continuity in this service, aimed at digitalising assets and further extending the network in key areas, as with the interconnection between two district heating systems in the city of Bologna.

For the **municipal waste collection** business, the Group's efforts will focus on improving the quantity and quality of sorted waste and containing the costs of this service. With this aim, projects such as communication campaigns, digital tools and smart bins will support citizens in developing better and more correct waste collection and sorting habits. In order to guarantee the quality and efficiency of this service, new solutions will also be developed, such as the remote control of containers equipped with specific technology.

Group indicators

The strategy adopted will enable the Group to increase its Ebitda by 215 million euros between 2019 and 2024, reaching the 1.3 billion euro mark. This growth will be driven in a balanced way, by both internal and external components. The economic and industrial objectives foreseen will be achieved thanks to a volume of investments estimated at around 3.2 billion euro over the 2020-2024 five-year period, an amount significantly higher than the average of the last five years. These resources will be allocated to the areas served in a way that is consistent with the Group's current scope and will be concentrated above all in regulated activities, due to their capital intensive nature.

The earnings generated over the period covered by the Plan, along with an attentive financial policy, will enable the Group to manage the volume of investments allocated, while aiming to reduce the net debt/Ebitda ratio to 2.8x by 2024.

Sustainability continues to be an objective fully integrated within the Group's strategy. In particular, it is expected that by 2024 about half of its Ebitda will come from activities that create shared value, reinforcing Hera's commitment to the goals set out in the UN's 2030 Global Agenda, but also to an effective implementation of the most recent European guidelines (Next Generation EU). In addition, the Group has established a set of industrial objectives leading to 2030, in order to design a path of development consistent with the lines of action required by a circular economy and decarbonisation.

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. "Next GenHERAtion Growth", in particular, offers an overview of the Group's strategy, and is subdivided into various areas of action:

The projects included in "Next GenHERAtion Growth"

- 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 hydrogen**, an opportunity that goes beyond the energy chain;
- the extension of laboratories towards the external market, exploiting the experience and know-how gained;
- **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

Framework for shared value

Hera's **framework for shared value**, introduced in 2016, has oriented the Group's strategy towards growth based on responses given to problems coming from the external context, capable of maximizing shared value for both the company and the community. In the 2020 revision of this model, **the topics of resilience and adaptation to climate change, drinking water** (within the area concerning a sustainable management of the water resource, along with the purification already present) **and biodiversity have been included**. The Group has been committed working on these issues for years, and they now integrate the other areas into which Hera's framework is subdivided (such as circular economy and a sustainable management of the water resource). The Group's objective is to create shared value through business activities that generate operating margins and that respond to the drivers on the global agenda, i.e. the "calls to action" for change indicated by policies at a global, European, national and local level. 2020 confirmed the validity of the initiatives already launched by the UN's Global Agenda to 2030 to respond to the existing megatrends: "fragile planet", "technological disruption" and "accelerated urbanization" were considered the most closely related to Hera's businesses, having a direct impact on the company's activities. **Hera's contribution is very significant in**

seven sustainable development goals on the 2030 Agenda: 6) clean water and sanitation, 7) clean and accessible energy, 9) business, innovation and infrastructure, 11) sustainable cities and communities, 12) responsible consumption and production, 13) fight against climate change and 17) partnership for the goals.

See the Group's website (in the Sustainability section) and its Sustainability Report (in the Sustainable Strategy and Shared Value section) for further details on the actions the Group intends to promote by contributing in a broad sense to the 169 targets or 10 Goals on the UN's 2030 Agenda, mapped during 2017, to which Goal 17 was added (the only one that cuts across the three drivers of shared value). Also note that during 2020 an internal training event was organized, focusing on Goal 12 of the SDGs dedicated to a circular economy, and the UN agenda was included in training for all new employees. The main actions taken include those aimed at promoting energy efficiency, sustainable management of water resources, selection of suppliers with qualifications in terms of environmental and social sustainability issues, development of employment and new skills, and more widespread innovation and digitisation. In order to ensure that the principles of the Green Deal, operationally organised in the circular economy action plan and in Next Generation EU, increasingly become factors of which all the people in the Group are aware, specific training programs will be provided, which will enhance internal skills to develop projects consistent with the SDG framework.

web

The circular economy in the areas served

The Group's approach to a circular economy, in addition to guiding specific supply chain projects, has become a paradigm operating across the board, which does not simply concern waste and is capable, as such, of inspiring and guiding wide-ranging projects in which different businesses participate.
As an example, in the upcoming years the design and execution phases of engineering works will be increasingly attentive to the issues of sustainability, reducing the environmental footprint and minimising the use of virgin soil. Building information modelling (BIM) technology will allow to conduct material analyses to be carried out and maximise **recycling and reuse** (so as to extend the circular approach even to the end the work). As part of the revamping project for the Lavezzola water purifier, for example, material analysis has already been carried out using the Bim model of the plant, identifying the materials for which there are opportunities for internal and external recovery and those for which the economic viability of recovery must be assessed. The Business Plan has extended this approach to a range of decommissioning and demolition interventions concerning Hera plants, aiming at obtaining the maximum possible recycling/reuse/recovery. Among the interventions expected in this area, particular relevance goes to the objectives set out in the Plan for developing plastic recycling activities and increasing biomethane production, intended to give new value to the organic portion of urban solid waste. The rationale of circularity will then be applied to the Group's main **purchases**, with increasing attention paid to materials or goods that comply with the principles of a circular economy, while the adoption of minimum environmental criteria (CAM) with which the characteristics of the various components of water supply connections are defined will also be extended to other standard elements of the networks, such as gas and water reducers and sewer lifts.
With the aim of encouraging the adoption of circular business models in the area served, new initiatives and projects aimed at reusing materials will be launched through collaborations with important partners in the local area. The pilot projects for these initiatives based on sustainability will be regulated within specific multi-year framework agreements.
To work towards a higher presence of circular models, greater attention will also be paid to the various **customer engagement tools**, using different communication channels according to the features of the various areas served, as well as improving and expanding the existing tools to maximize engagement with different types of customers.
The campaign to raise awareness on environmental challenges will also involve schoolchildren (environmental education projects), including forms of remote learning designed for the health emergency, and will be carried out through the main local media (press tour on environmental issues).

Contribution to energy transition

In order to support the energy transition to which the entire Company is called, the Hera Group has continued to plan interventions aimed at increasing the incidence of **energy efficiency** among the various categories of users, and internally as well, in addition to making the most of every possible form of renewable energy.
The actions taken to reduce energy consumption within the Group (-7% by 2024 compared to 2013), as well as those involving industrial customers, household customers and public administrations, will therefore continue, even more vigorously. The legislative framework, in fact, offers interesting opportunities in the household sector, easing building renovation interventions considered necessary

for a fully effective energy transition. Similarly, the real estate assets of public administrations will also have to progressively upgrade efficiency in energy consumption.

Decarbonising the industrial sector, on the other hand, may also be based on the exploitation of new renewable forms of energy, such as **clean hydrogen**. In this regard, the Group is studying and testing the opportunities involved in developing the hydrogen chain for the assets of its set of plants.
In this sense, one circular solution involves purification plants: by installing electrolysers at purification sites, it is possible to obtain clean hydrogen (or synthesis methane gas) and feed circular material flows. Purified water becomes feedstock for the electrolysis process, oxygen resulting from electrolysis becomes input for the purification process, biogas from purification sludge becomes input for the clean hydrogen methanation process.
The opportunities linked to hydrogen also concern other Group assets, such as waste-to-energy plants: the electricity produced by combustion of the biogenic portion, considered renewable, can be used to fuel electrolysis plants and obtain green hydrogen, to be used by industrial customers, mobility, or be injected into the distribution network.
Once again following the rationale of fully exploiting renewable opportunities, in the next few years all processes transforming sources of waste, discards or products in the agricultural chain into biomethane, fully compatible with the existing methane networks, will become more important.
The Hera Group will therefore be able to **valorise** some of the **waste and residues** of its activities and obtain biomethane, through different technological processes depending on the waste source/feedstock used (e.g. purification sludge, clippings and pruning, organic waste from municipal collection, eluates from organic waste).
By fully exploiting the opportunities offered by **biomethane production**, the Group will also contribute to gradually decarbonising the gas supply chain, thus working towards creating a motivated and resilient consensus around a sector that is particularly important in our country.

In other words, the Hera Group wishes to grasp the opportunities offered by technological evolution and digitisation in order to achieve innovations, operational improvements, cost efficiencies and synergies related to data management, so as to meet the needs of the area served and its stakeholders, take a leading role in providing services and accompanying cities towards new models of development, overseeing each technological upgrade through the analysis of its impacts and the mitigation of its side effects.

Technology and human capital: innovation

Strategy for "green innovation"

Advances in the chemical and engineering industries are at the forefront of technological development and concern the waste management (plastics first and foremost) or the 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 CO2).

Digital strategy

Hera's strategy for introducing new technology revolves around four areas:
- **data governance**, i.e. roles, policies, standards and metrics aimed at establishing processes and responsibilities that ensure data quality and security;
- **data platform**, tools and technologies enabling the realization of data analysis projects;
- **data culture**, a digital community (made up of 162 members) for sharing and networking methodologies and experiences related to data analysis;
- **data factory**, i.e. elaborating an organizational structure for grounding data analysis initiatives (model, roles, change management).

This data strategy is designed towards transforming the Group into a **data-driven** company, where decisions are guided by data, valorised as a corporate asset and subject, as such, to an ethical and responsible reading. The growing importance of data management, indeed, also requires the amount of attention and resources dedicated to data protection to evolve coherently.

The Group's organisational model has renewed its management of **cyber risks**, increasing the number of participants; in particular, it has defined a paradigm for relations between the company's various businesses and employees involved in cybersecurity, favouring increased controls for accesses in virtual private network mode (VPN) as well as planning future changes in automatic controls.
Hera's model is focused on three main aspects:

- increased awareness among Group employees regarding cybersecurity, achieved by introducing, through dedicated platforms, awareness policies and ethical phishing campaigns;
- the transition from a reactive way of managing cybersecurity incidents to a model that is as predictive as possible, significantly increasing the area monitored and extending this service to aspects of operation technology;
- identifying and adopting targeted and constantly evolving technological solutions, such as the new Web application firewall platform (WAF), advanced tools for the protection of workstations (EDR - Endpoint Detection & Response) and servers (ATP - Advanced Threat Protection) and functions aimed at making the management of digital identities and related IT access increasingly secure, such as multi-factor authentication, conditional access and identity protection.

These activities reduce overall risk, significantly increase the company's awareness of cybersecurity and the related risks and give the Group a "posture" with respect to possible attacks, that gives it higher speed in acting and reacting.
As regards the details of cyber risk management, see paragraph 1.02.03 "Risk areas: identification and management of risk factors".

Towards "blue innovation"

The evolution of **technology** and **digitisation** also calls for continuous development in employee skills and the related **training programs**. This latter aspect proved to be strategic during the pandemic, with a compulsory large-scale use of alternative work and communication tools, which enabled activities to be carried out remotely. To respect growing need for remote working (already introduced for hundreds of employees), opportunities in technological evolution and digitisation have been accompanied by **devices provided** to the entire company workforce and in-depth training.
The strategic decision to introduce **cloud-based platforms**, to increase individual productivity and act as the main tools for collaboration, proved to be timely and fruitful, efficiently achieving all the challenging objectives suddenly introduced by the health emergency. In order to accelerate the digital transformation, at any rate, cooperation between humans and technology requires continuous evolution in our way of working and in both physical and virtual spaces, making it possible to reduce contributions with less added value. The evolving relationship between people and technology within the Group will therefore continue to be addressed with process automation projects, favouring broader knowledge of technological integration, virtual factories and digital labs focused on initiatives for applying artificial intelligence and strengthening the community of those who introduce change, using the tools of the digital workplace. Digital tools open up new development opportunities in businesses: operating processes, if rendered more fluid and digital, provide the prerequisites for new solutions based on artificial intelligence, and can furthermore assess and measure the benefits expected from these solutions themselves. The Group intends to use data to generate value for people and for its business; some examples include the progressive digitisation of human resource processes, or again the creation of the reference architecture for integrating the systems and data available in "prescriptive analytics".
During the year, the Group created a new data analytics and intelligent automation structure, designed to collect data and support its analysis. This was done in order to guide Hera's **data** strategy, and to increase experience and knowledge by way of workshops and partnerships with external companies, observatories and universities on artificial intelligence issues.

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Human capital at Hera

The extension of **remote working** to more than 4 thousand employees, now a consolidated working method for Group employees, was accompanied by a series of measures aimed at **health, safety and responsibility** towards themselves and others, or intended to enhance and enrich services for employees. In order to deal effectively with the current context, in which many workers are experimenting with new **ways of working**, the Group's strategy has recognised that it is increasingly important to make everyone feel that their work and their **sense of belonging** are related to the company's results and overall performance. The Group continues to pursue a strategy of human capital development that aims to **generate value** over time: for individuals and for the entire organization. In order to encourage continuous improvement and the propensity to innovate, Hera has activated **listening initiatives**, for example, that lead to an in-depth analysis of the degree of employee satisfaction on issues related to the working environment and company values. The data that came to light, once analysed through means including digital tools and artificial intelligence, can be translated into corrective actions for the department of single employees or through internal mobility between several departments. The Group's strategy also contributes to creating value by accelerating processes for re-designing training activities, turning to the perspective of **blended learning**, consolidating the implementation of professional academies, creating a HerAcademy learning centre as a reference point for **knowledge sharing inside and outside the Group**, not to mention other projects intended to further improve the degree of employee engagement. All this takes place within a harmonious relationship between people and machines, in order to make the automation and digitalization process involving all company employees fully operational. The various training initiatives are therefore integrated within **reskilling** paths aimed at enhancing the employability of resources acting in situations characterized by a significant amount of automation and high technological intensity.

The Hera Group is also committed to the continuous development of specific training programs to ensure that the **principles of the Green Deal, Circular Economy Action Plan and Green Recovery Fund** become part of the values shared by all Group employees and, in a necessarily long-term way of thinking, those who will join them. The objective of achieving results in terms of Green Economy and reducing the Group's carbon footprint, only to mention one example, can be reached by increasing the contribution coming from remote working, or by reinforcing the Green portion of Hera's corporate welfare offer, or again by raising awareness of green issues even during recruitment.

From a more general point of view, a consolidated use of **strategic workforce planning** adapts changing skills and roles to the company's needs, through a strategic dialogue between the lines of business and human resources. This makes it possible to analyse the most significant ongoing trends, share the meaning of the challenges that will arise over the period covered by the Business Plan, and also gain a sense of the risks and related opportunities. The objective is to translate all human resource processes into a coherent plan of action, which then proves to be capable of identifying the best solutions in directing its own implementation and thus covers the gaps in terms of quality, quantity, timing and location of the workforce, as well as facing the risks potentially introduced by adoption these very solutions.
Human resource management and development processes are designed to conserve the skills and distinctive values built up over time, while also developing individual talents, regardless of **gender** and **age**, seeking innovation in all aspects that can generate an added value that is sustainable over time. Hera's strategy is based on continuously developing an inclusive culture of **diversity**, understood as a driving force for change. In this context, employees can benefit from a positive balance between the development actions assigned to them by the manager and those in which the initiative, instead, comes from themselves. It is no coincidence that, in addition to retaining the figure of the **Diversity Manager** (introduced in 2011), Hera, that signed the "Utilitalia Agreement – Diversity makes the difference", promotes inclusive policies at all levels of its organization. In addition to this, it progressively refines measures for achieving life-work balance, and adopts a merit management which is not only transparent but above all neutral with respect to gender, age and cultural differences, by adopting systems aimed at monitoring the progress achieved and at the same time introducing internal and external awareness-raising policies.

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

1.02 RISK FACTORS: ACTORS, METHODOLOGIES AND MANAGEMENT AREAS

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 7 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 2020, 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:

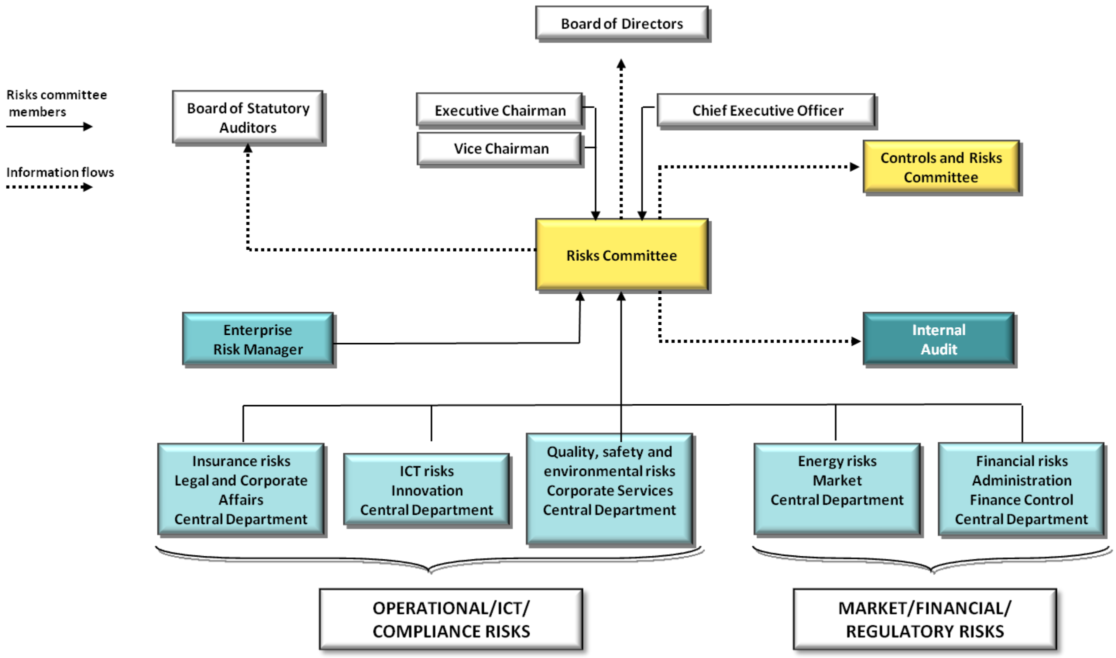
- the role of risk management, entrusted to the risk owners in charge of the different organizational sections;
- the role of risk guidance and control, entrusted to the Risks Committee, which relies on risk specialists who carry out second-level controls, i.e. who are responsible for defining, applying 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, to 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 CEO supervise, within their ambits, the internal control and risk management functionality; The Vice President oversees coordination between the Risks Committee and the Controls and Risks Committee;

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 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**, defining 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 13 January 2021, the sixth Enterprise Risk Management report on the 2021-2024 Business Plan was presented to the Board of Directors.
Over the course of 2020, 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, particularly with regard to the Covid pandemic;
- 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 2021-2024 business plan;

- the relevant risk scenarios for the Group were re-mapped, based on the risk structure identified by the World Economic Forum (WEF) in its customary annual analysis, aimed at identifying the degree of relevance of WEF top risks in the context of Hera;
- the identification of climate change (physical and transitional) risk scenarios relevant to the Group's activities was carried out, 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).

The 2020 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 economic-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. It should also be noted that the risk deriving from the critical materials of the gas networks present last year has been eliminated, while the context affected by the Covid-19 emergency, i.e. the economic-financial weakening of individual entities and consequent greater exposure to non-virtuous conduct on which the company’s monitoring has limited effectiveness, leads to less reliability on the part of the entities to whom part of the works are subcontracted.

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 regard to climate change and sustainable development. Paragraph 1.01 “Trends and contexts, 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, Hera carries out the specific analysis, measurement, monitoring and management activities described below.

RISK TREATMENT AND MANAGEMENT

AREA	TYPE	IDENTIFICATION
ECONOMIC - FINANCIAL	DEBT MARKET	Fluctuations 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 of 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 levels (Covid-19); ▪ Reduced production of volumes of waste treated at Hera's plants, which affects the achievement of targets.
	REGULATORY - LEGAL	▪ Interventions by the regulatory authorities of the sectors in which Hera operates; ▪ Regulatory developments with possible impact on both network and market businesses.
	STRATEGIC	▪ Failure to achieve the strategic objectives set in the long-term planning process; ▪ Loss of the necessary licenses, authorizations and permits for the regular performance of company activities.
CLIMATIC-ENVIRONMENTAL, TECHNOLOGICAL AND HUMAN CAPITAL-RELATED	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 offering;
- 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: entering the process of recovering and recycling polymeric materials and the production of biogas.

- Dialogue activities 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 of energy from renewable sources and reduce energy consumption;
- Supporting clients to reduce their greenhouse gas emissions;
- 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.

- 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-financial area

Identification of commodity price risk

Price volatility

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.

Commodity price risk management

Unified procurement and hedging management

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

Liquidity and credit rating

The economic and financial environment, 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 the rating agencies plays a key role, as it influences the possibility of accessing funding sources and 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, rather than the termination of the publication of the rating.

Managing risks associated with the debt market

Responding to financial needs

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 87% of the Group’s financial debt is long-term (more than five years) and 80% of this is represented by bonds with repayment at maturity.
Moreover, the Group’s activities and strategies are particularly focused on ensuring that the highest rating level (one notch above the sovereign rating) is maintained.
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 2020, the Group’s exposure to the risk of interest rate fluctuations was 10.4%, while the remaining 89.6% of debt is at a fixed rate.

Sensitivity analysis

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 per year.

Identifying risks from counterparties

Hera operates with counterparties that might fail to fulfil their obligations, failing to comply with both economic terms and 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

Origination process

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. Please refer to paragraph 1.08 "Covid-19 emergency management" for further details on additional assessment activities regarding the model for forecasting the expected loss from customer receivables.
In the 2020 financial year, the 24-month unpaid ratio of the Group's main sales companies amounted to 0.87%.

Regulatory and business area

Identifying competition and economic risks

Decline in consumption

Hera operates mainly in Italy, where an uncertain economic environment persists and energy consumption and waste disposal volumes are stagnant, in part as a result of the epidemic. The decrease in energy demand is putting pressure on sales margins which, combined with increased competition on the free market, may impact the Group's profitability. Additionally, changes in end customers' energy consumption levels may require Hera to buy or sell extra energy on unfavourable terms.

Environment business

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 environment business related to the management of its set of plants are centralised under the Herambiente Group.

Managing competition and economic risks

High flexibility in procurement

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, partly thanks to the lack of long-term gas supply contracting ("Take or Pay" provisions), thus ensuring ongoing alignment with the market and maximising natural hedging.

Plant equipment and recycling opportunities

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 – 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 economic 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 inflation rate compared with the business plan scenario would lead to an average annual drop in EBITDA of approximately 12 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

The evolution of the legislative and regulatory framework

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 environment 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, integrated water service, waste collection and sweeping scheduled in the plan determine the risk of losing some of the areas currently managed, especially when there are significant competitive contexts. 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 category market, both in terms of the way in which the transition to the free market will take place and the safeguard mechanisms envisaged for customers, and in terms of implementation timeframe.

Managing regulatory risks

The proactive approach to regulatory frameworks

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, integrated water service and collection and 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 designed to gauge the soundness of a business plan against a variety of adverse risk scenarios, which supports an integrated risk projection from an enterprise-wide viewpoint. The system performs 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-catastrophy, 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 environmental risks resulting from climate change are particularly important, as well as accidents to the Group's plant equipment which in turn may generate potential environmental damage. In this respect, in 2020 the Group 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 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-catastrophy risks

Environmental footprint and essential customer services

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 CO2 emissions, emissions of other substances produced by combustion, water discharge and the handling of hazardous and solid waste. Non-compliance with CO2 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-catastrophic risks

Generally, pro-active investments aiming at a lower 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 the legislator and 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 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 bathing safety plan currently underway which, in addition to maintaining the quality of marine resources, increases the resilience of the stormwater drainage infrastructure in the face of extreme events. For further details on the specific initiatives, please refer to the section "Reducing greenhouse gas emissions" in the Hera Group Sustainability Report. BS

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. BS 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. BS

The strengthening of the resilience of the Group's water supply and distribution system initiated in 2019 in a medium to long-term outlook is still 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

Physical and transition risks and their effects on business

The physical and transition risks from climate change scenarios pertinent to its activities have been classified according to their potential consequences on business, and were submitted to further impact and mitigation assessments in relation to their criticality (some examples are 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. 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). Based on this latter scenario, eight physical risks and eight transition risks were identified, associated with related business impacts.

- Physical hazards are generated by heat waves, abnormal winter temperature changes, flooding and floods resulting in landslides and mudslides, extreme weather phenomena, rising temperatures, rising sea levels, changes in the timing of annual and average rainfall, and the drying out of soils. The risk associated with the decrease in gas consumption and district heating for residential use as a result of the increase in temperature was also assessed as significant in the long term.

- Transition risks are generated by the electrification of energy consumption and the development of renewable energy sources, the 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, the stigmatisation of the sector in which the company operates and limited access to the capital market, the absence and/or obsolescence of the highly specialised skills required by the market to develop new technologies or replace existing products, legal disputes and the obsolescence of existing plants and the associated need to introduce new, more sustainable solutions/technologies.

For the physical and transition risks assessed as having a higher priority level, a further in-depth analysis is underway to estimate their economic and financial impacts.

Managing climate change risks

Hera has launched a series of initiatives to mitigate the effects of climate change, aimed at reducing its carbon footprint.

- To offset risks arising from climate change, the Group has adopted multiple measures. Just a few examples include reducing internal energy consumption through investments in energy efficiency and expanding renewable energy production with specific actions and investments, such as the biodigester in Sant'Agata Bolognese and initiatives aimed at creating electrolysis plants for the production of green hydrogen, selling electricity to customers with offset emissions and offering photovoltaic generation systems, providing energy efficiency services to retail and institutional customers, and the drive to reuse raw materials through polymer recovery and regeneration activities with a consequent reduction in CO_2 emissions.
- On the adaptation front, Hera initiated actions to consolidate the resilience of its infrastructure to climate change, increasing its ability to adapt to adverse physical conditions. In this regard, the optimised Rimini bathing safety plan will ensure that the integrated water service infrastructures have an improved capacity to cope with extreme rainfall events in the area. Additional project hypotheses are being developed for the integration and partial replacement of water sources, as well as for the construction of interconnections between them, in order to cope with emergency conditions by 2030 (including the project to draw water from the Emilia-Romagna canal). Hera has also made agreements and investments to reuse purified wastewater, reducing the pressure on primary water resources and thus water stress at the local level, an element that will be exacerbated by climate change in the coming decades.

Identifying operational and ICT security risks

Exceptional events and service provision rules

Despite careful planning and insurance protection, the 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 premise systems (hosted in corporate 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, both business-critical information and personal information (i.e. any data relating to natural persons, as more fully defined by the privacy code Legislative Decree 196/03) may result in serious financial losses with consequent damage to market image. To identify and assess this risk, the Group has adopted a methodology based on the international Magerit framework, assessing the three security parameters of availability, integrity and confidentiality.

Managing operational and ICT security risks

Physical security and monitoring of plan sites

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.

Attention to information confidentiality

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.

In 2020, actions continued to be taken to ensure the integrity and availability of Hera systems; the main initiatives, which are subject to constant technological opdating, are aimed at increasing ICT security to protect infrastructure, devices and personal identities and are carried out by introducing the best technologies on the market and the use of continuous monitoring and control services (24 hours a day, 365 days a year). Actions to enhance IT security control, implemented through the role of owner of the quality, safety and environment process (in charge of regulatory compliance and risk analysis) and the owner of the ICT security process (in charge of operational strategy, definying ICT security procedures and requirements and intervention and risk mitigation plans) continued during the year. Analysis of data traffic on the internal network also provides additional protection. Optimisation of the intrusion detection system goes beyond merely signalling intrusion attempts by automatically blocking them. Activities to detect vulnerabilities in systems or applications that may be exploited by an attacker were also intensified.

A Threat Intelligence service has been set up that monitors the main bulletins provided by the various private and public bodies and, through a direct relationship with the national Computer Security Incident Response Team (CSIRT), allows the status of these bulletins to be monitored. Given that the management of corporate information and information systems influences the Hera Group's reputation, the executive management has set up an information security management process in accordance with the lines set out in the ISO/IEC 27001:2005 standard, which involves the participation and support of all Group employees. During 2020, the Group did not receive any complaints from its customers concerning privacy issues or data loss.

Identifying people's safety and development risks

Individual health and safety and social risks

People and their behaviour are the common denominator in the areas of climate, environment, technology and human capital, 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 is continually focusing on the emerging needs and requirements of different categories of employees.

Managing people's safety and development risks

Training, prevention and protection

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. Focusing on these aspects is an essential element of operations in order to maintain a steady decrease in the number of injuries, the injury frequency index, the severity index and the number of absence days 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 Ohsas 45001. 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.

People's ongoing commitment 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 they interact with. 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 and the related links available on

Hera's Corporate Information Portal. In particular, this procedure provides that each employee promptly report and halt any risky situation or unsafe behaviour.

With reference to social wellbeing, Hera has created a welfare system based on a focus on people aimed at fostering a positive working environment. This system includes monetary and quality-of-life related actions, such as services for family, education, work-life balance, wellbeing, leisure and health.

1.03 MAIN EVENTS OCCURRED

01.01.2020

Following the Hera Group-Ascopiave partnership, the integration process began to form the new scope of operations of EstEnergy, which became **North-Eastern Italy’s largest energy operator**.

24.01.2020

The Hera Group was included in the Bloomberg Gender Equality Index, which examines, internationally, the listed companies most committed to promoting and creating fair and inclusive workplaces.

18.06.2020

The Hera Group completed a series of acquisitions leading it to hold **4.9% of Ascopiave shares**.

29.09.2020

The Hera Group completed its **acquisition of Wolmann Spa**, and thus moved into the residential market for photovoltaic systems.

29.10.2020

Aliplast, a company part of the Herambiente Group, signed an agreement with **NextChem** (belonging to the Maire Tecnimont Group) for the creation of a **plant able to produce 30 thousand tons of high-quality recycle polymers** from rigid plastic waste.

20.11.2020

The Hera Group and Eni signed an agreement aimed at creating, in the Ravenna industrial area, an **avant-garde environmental platform, able to manage up to 60 thousand tons of special waste per year** and maximise materials and energy recovery.

06.07.2020

The Hera Group included in FTSE4Good, a series of ethical indices created by FTSE Russell that brings together the best companies in the world who actively move towards sustainable development.

16.09.2020

The Hera Groups rises in the Refinitiv Diversity & Inclusion Index: first among multi-utilities, second among Italian companies and 12th globally.

28.09.2020

The Hera Group joins the Alliance for a circular economy, a network made up of 18 important companies that symbolise Made in Italy and make efforts in this area.

23.11.2020

The Hera Group becomes part of the Dow Jones Sustainability Index, World e Europe, classified as Industry leader out of the roughly 3,500 companies with the highest capitalisation worldwide assessed.

03.12.2020

The Hera Group successfully issues a bond on the **Eurobond** market, intended for qualified investors, having a nominal amount of **500 million euro** and a time to maturity of ten years, to finance its projects in the waste management, water and energy sectors.

09.12.2020

Thanks to its initiatives in combating climate change and reducing greenhouse gas emissions, **the Hera Group achieves level A – in the report released by the Carbon Disclosure Project (CDP)**, an organization that promotes reporting and disclosure of corporate strategies for sustainable development.

Business and financial events

Hera - Ascopiave partnership

Following the agreement signed on 19 December 2019 with Ascopiave Spa, the Hera Group manages, through the newly established EstEnergy Group, over one million energy customers in the Veneto, Friuli-Venezia Giulia and Lombardy regions. EstEnergy Spa, controlled by the Hera Group, brings together the commercial activities carried out by both the Ascopiave Group (including subsidiaries Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa, Etra Energia Srl and the associated companies Asm Set Srl and Sinergie Italiane Srl, in liquidation) and by the Hera Group through its subsidiary Hera Comm Nord-Est Srl. During 2020, within the overall framework of the Ascopiave Group partnership transaction, the Hera Group acquired, in a sequence of transactions agreed upon, shareholdings in Ascopiave Spa amounting to 4.9% of the share capital.

In order to immediately generate an added value from the partnership transaction for the Group, activities aimed at integrating the various business areas were initiated in 2020. As regards marketing policies, the process of bringing offers for customers into line was begun, giving priority to proposals focused on green energy coming exclusively from renewable sources; furthermore, guidelines were defined for developing sales channels, especially concerning producing and publicising offers, and communication strategies. Particular attention also went to rationalising costs, thanks to synergies with the Group's central structures. As regards the procurement phase, sourcing strategies were integrated, extending the Group's policies in terms of defining requirements and subdividing volumes by contract cluster. Also note that the new scope of operations was fully integrated into the Group's model for energy risk control. Lastly, work on the IT integration process was begun, and the companies were fully included in the Group's accounting and planning processes.

Dow Jones Sustainability Index

In November, the Hera Group became the first Italian multi-utility to be included in the Dow Jones Sustainability Index (DJSI), one of the world's most authoritative stock market indices evaluating social responsibility, managed by S&P Global, which selects the most important companies worldwide based on the best sustainability performances in all ESG (environment, social, governance) areas.

The Hera Group was included in both the Dow Jones Sustainability Index World (250 best companies out of the 2,500 largest in the world), and the Dow Jones Sustainability Index Europe (120 best companies out of the 600 largest in Europe). With an overall score of 87/100, the Group ranked as best multi-utility worldwide and also figured among the 61 "Industry leaders" of their respective sectors (out of a total of roughly 3,500 companies evaluated with the highest capitalisation in the world). With respect to the other companies included in the index, Hera stood out above all for its environmental and economic aspects and for its governance.

Bond issuance

On 3 December, the Hera Group placed a bond intended for qualified investors with a nominal amount of 500 million euro, a ten-year time to maturity and a yield coming to 0.348%. The orders received made it possible to define the price at Mid Swap Rate +60 basis points, with a coupon set at 0.25%, the lowest amount for an Italian corporate bond with the same duration. The bonds were issued as part of the Euro Medium Term Notes Program (updated with an increase to 3.5 billion euro in the maximum principal amount of bonds that may be issued at the same time) and are listed on the regulated markets of the Irish Stock Exchange and the Luxembourg Stock Exchange. The bond was given the same rating as the Hera Group: Baa2 with stable outlook by Moody's and BBB with positive outlook by Standard & Poor's.

This new issuance aims is aimed at financing the Hera Group's investments in projects in the waste management, water and energy sectors, to implement innovative interventions in line with the attention towards sustainability that has always characterized the Group's activities.

Significant corporate transactions

On 29 September, the acquisition by Hera Comm Spa of 90% of the company Wolmann Spa was closed. This company specializes in creating customized investment solutions in solar power as an energy source for homes or businesses. Fully respecting the Group's strategic guidelines, this acquisition was aimed at expanding its commercial offer by providing these solutions as accessory services in energy sales contracts.

Significant events occurred after the reporting period

Following the partnership agreement between Hera and Eni signed in November, on 3 March 2021 Herambiente Servizi Industriali Srl and Eni Rewind Spa established HEA Spa, owned to an equal degree by the two partners, with the aim of building a new environmental platform for solid and liquid, hazardous and non-hazardous waste located in the Ponticelle area (Ravenna).

Due to the variants of the Covid-19 virus that began to appear in early 2021, a third wave of the pandemic unfortunately occurred. See paragraph 1.08 “Covid-19 emergency management” for further details.

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 5 October 2015 by the European securities and markets authority (Esma/2015/1415) and in keeping with the provisions of Consob communication no. 92543 of 3 December 2015, the content of and the criteria used in defining the APMs used in this financial statement 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 (overall 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 management 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 1.04.01 and notes 14, 16, 17, 18 of paragraph 2.02.05 "Commentary notes to the financial statement formats".

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 Consob communication 15519/2006, 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.

Adjusted net debt is a measure of the financial structure, calculated as net financial debt minus the effect of the Ascopiave transaction.

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

Operating-financial APMs

The Adjusted 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;

(1) 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; net of any entries with adjustments on changes in NWC with no impact on operating cash flow (9.6 million adjustment for inventories; see the notes to paragraph 22).
(2) minus releases from provisions and increases caused by modifications in estimated future expenses following revised appraisals for operating landfills. In addition, this includes a 10.0 million euro reduction in provisions for risks due to the closure of the valuation process for the acquisition of Pistoia Ambiente Srl, which took place in the first half of 2020.
(3) minus the effects of updating 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).
(4) amounting to 0.9 million euro.

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

Operating APMs and investments (mn€)	Dec 20	Dec 19	Abs. change	% change
Revenues	**7,079.0**	**6,912.8**	**166.2**	**+2.4%**
Ebitda	**1,123.0**	**1,085.1**	**37.9**	**+3.5%**
Ebitda/revenues	15.9%	15.7%	+0.2 p.p.	+0.0%
Ebit	**551.3**	**542.5**	**8.8**	**+1.6%**
Ebit /revenues	7.8%	7.8%	-	+0.0%
Net profit	**322.8**	**402.0**	**(79.2)**	**(19.7)%**
Net profit/revenues	4.6%	5.8%	(1.2) p.p.	+0.0%
Net investments	**528.5**	**509.2**	**19.3**	**+3.8%**

Financial APMs (mn€)	Dec 20	Dec 19	Abs. change	% change
Net non-current assets	6,983.6	6,846.3	137.3	+2.0%
Net working capital	53.6	87.0	(33.4)	(38.4)%
Provisions	(654.9)	(649.1)	5.8	+0.9%
Net invested capital	6,382.3	6,284.2	98.1	+1.6%
Net debt	**(3,227,0)**	**(3,274.2)**	**(47.2)**	**(1.4)%**

Operating-financial APMs	Dec 20	Dec 19	Dec 19 adjusted	Abs. change
Net debt/Ebitda	**2.87**	**3.02**	**2.48**	**(0.15)**
FFO/Net debt	**25.2%**	**23.8%**	**29.0%**	**+1.4 p.p.**
ROI	8.6%	8.6%	9.4%	-
ROE	10.2%	10.5%	10.4%	(0.3) p.p.
Cash flow	159.6	28.7	28.7	130.9

Special item / balance sheet reconciliation

The following table provides a reconciliation between the income statement used for the remarks on operating performance in chapter 1 "Directors' report" (DR) and the income statement published in chapter 2 "Consolidated financial statements".

	2020			2019		
mn€	DR statement	Special items	Published statement	DR statement	Special items	Published statement
Revenues	**7,079.0**		**7,079.0**	**6,912.8**		**6,912.8**
Other operating revenues	467.8		467.8	530.8		530.8
Raw and other materials	(3,410.6)		(3,410.6)	(3,458.2)		(3,458.2)
Service costs	(2,424.9)		(2,424.9)	(2,318.2)		(2,318.2)
Personnel costs	(572.7)		(572.7)	(560.4)		(560.4)
Other operating expenses	(58.9)		(58.9)	(59.3)		(59.3)
Capitalised costs	43.3		43.3	37.6		37.6
Ebitda	**1,123.0**		**1,123.0**	**1,085.1**		**1,085.1**
Amortization, depreciation and provisions	(571.7)		(571.7)	(542.6)		(542.6)
Operating profit (Ebit)	**551.3**		**551.3**	**542.5**		**542.5**
Financial operations	(116.7)		(116.7)	(100.0)	(26.0)	(126.0)
Other non-operating revenues (costs)	-		-	-	111.6	111.6
Pre-tax profit (Pre-tax result)	**434.6**		**434.6**	**442.5**	**85.6**	**528.1**
Taxes	**(111.8)**		**(111.8)**	**(125.4)**	**(0.7)**	**(126.1)**
Net result	322.8		322.8	317.1	84.9	402.0
Result from special items	-		-	84.9	(84.9)	-
Net profit for the period	**322.8**		**322.8**	**402.0**	**-**	**402.0**
Attributable to:						
Parent company shareholders	302.7		302.7	385.7	-	385.7
non-controlling interests	20.1		20.1	16.3	-	16.3

No events leading to special items occurred in 2020, while detailed information for the period under comparison is provided below.

The special items for financial operations in 2019 concern the loss of value resulting from the valuations carried out during impairment tests for electricity generation assets:

- financing to Tamarete Energia Srl amounting to 11.6 million euro;
- shareholding in Set Spa amounting to 9.1 million euro;
- shareholding in Calenia Energia Spa amounting to 5.2 million euro.

The special items for non-recurring operations in 2019 include the effects related to the partnership transaction with the Ascopiave Group, specifically:

- revaluation at fair value of the shareholding previously held in the company EstEnergy Spa, of which the Group had joint control, in relation to the acquisition of control of the same, amounting to 81.4 million euro, pursuant to the content of the IFRS 3 standard for business combinations carried out in several stages (step acquisition);
- a net capital gain coming to 30.2 million euro resulting from transferring control of the newly established company AP Reti Gas Nord Est Srl, into which the corporate branch Distribuzione Reti Gas had been conferred.

The special items for fiscal operations in 2019 involve the effects of non-recurring taxes strictly related to the partnership transaction with the Ascopiave Group.

1.04.01 Operating results and investments

Growth reflects strategy

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

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

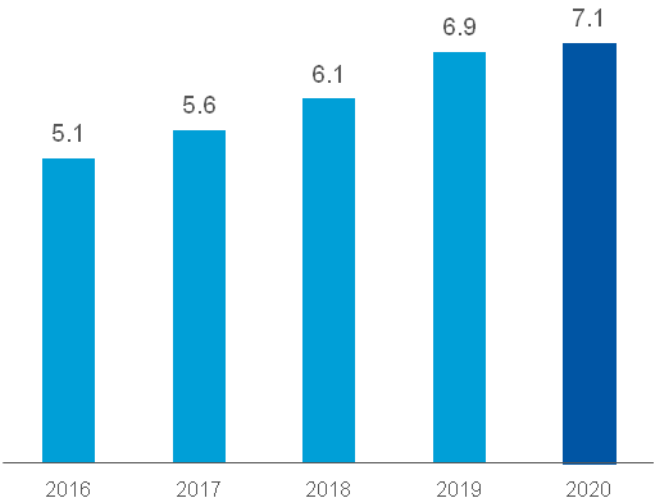
The companies that became part of the Group's scope of operations thanks to the transaction with Ascopiave Spa, not consolidated in the income statement for the previous financial year, and the consequent transfer of the gas distribution branch in some areas of the Veneto and Friuli regions, are considered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

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

Constant and increasing growth

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

REVENUES (BN€)



7.1
billion euro
revenues (+2.4%)

Revenues increase thanks to changes in the scope of operations

Revenues were up 166.2 million euro, or 2.4%, compared to the same period in 2019. With regard to activities in the energy sectors, note the change in the scope of consolidation, which brought a 548 million euro increase, growth in the heat management business, thanks to activities related to insulation incentives and energy efficiency works, which contributed approximately 50 million euro, and the drop in revenues related to services in trading, production and sales of electricity, gas and district heating coming to approximately 275 million euro, due to lower commodity prices and lower volumes, partially linked to the ongoing health emergency; in addition, a reduction was seen in revenues from off-grid transmission and system charges coming to approximately 148 million euro, with an equal effect on costs.
Revenues from the water cycle for third-party contracts fell by approximately 13 million euro and revenues from water supply were down, due to the reduction in adjusted costs, by approximately 11 million euro.
Revenues from the waste management area were also down, due to lower energy production revenues and a reduction in the amount of waste treated, coming to approximately 19 million euro.
Finally, roughly 35 million euro in revenues from the sale of materials recovered through sorted waste collection were reclassified from other operating revenues to revenues.
For further details, see the analyses of each business area.

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

Costs for raw materials in line with trends in revenues

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

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

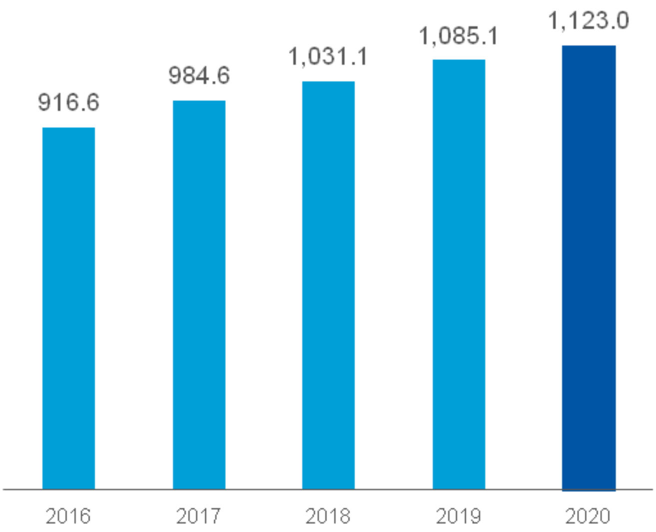
incremental improvements to assets under concession totalling approximately 11 million euro and lower costs for off-network transmission and system charges coming to roughly 148 million euro..
Finally, related to the ongoing health emergency, higher costs were seen for sanitization, cleaning and the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

+1.3% personnel costs

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

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

EBITDA (MN€)



1,123.0
million euro
Ebitda (+3.5%)

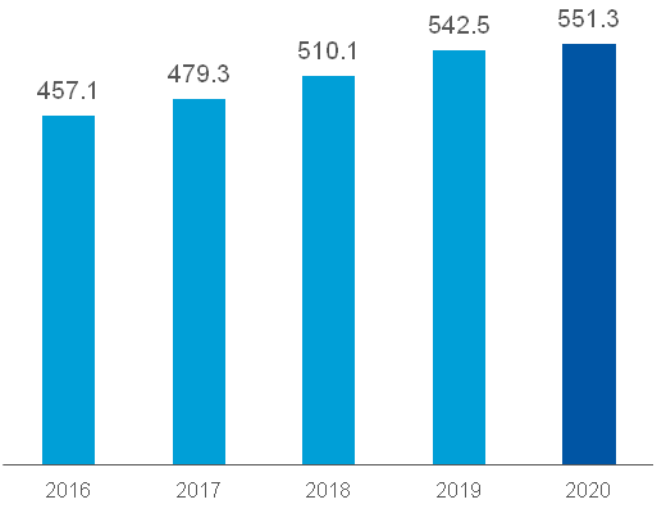
Ebitda rose by 37.9 million euro, or 3.5%. This increase in Ebitda is due to the performance of the energy areas, which grew by a total of 42.5 million euro, primarily owing to the entry of companies in the EstEnergy Group. The other services area grew by 1.2 million euro, while the water cycle area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

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

Higher amortisation for changes in the scope of operations

Amortisation, depreciation and provisions increased by 29.1 million euro. Higher amortisation coming to 16.7 million euro was mainly due to changes in the scope of operations, owing to amortisation for customer lists recorded following the transaction involving the acquisition Ascopiave sales companies, and the delta price for waste disposed of in landfills, partially offset by the revision carried out during the previous year of technical-economic useful lifetimes of assets in the integrated water cycle area, carried out in collaboration with a company working in asset valuation; following this revision, amortisation rates for the integrated water cycle were essentially in line with the ones set by Arera for the 2020 – 2023 tariff period. Excluding changes in the scope of operations, allocations to the doubtful debt provision increased slightly, by 0.6 million euro, while considering the entire Group the increase came to 2.9 million euro.

EBIT (mn€)



551.3
million euro
Ebit (+1.6%)

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

Financial operations +16.7%

The result of financial operations showed net charges rising by 16.7 million euro, or 16.7%, compared to 31 December 2019. The increase is mainly due to the higher notional charges related to the Put option held by Ascopiave Spa for the 48% shareholding in EstEnergy (19.4 million euro) and the loan recorded following the sale of 3% in HeraComm (3.2 million euro).
A positive impact came from lower charges ensuing from efficiencies in the financial structure, amounting to approximately 7.1 million euro, and non-recurring income coming to 8.8 million euro (of which 3.4 million euro deriving from dividends and subsidiary trading and 2.3 million euro in interest income related to the refund granted by the tax authorities in July 2020), which more than offset the increase in notional charges for discounting landfill post-mortem costs and lower profits from joint ventures, due to lower results owing to the Covid-19 health crisis.

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

Tax rate falls

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

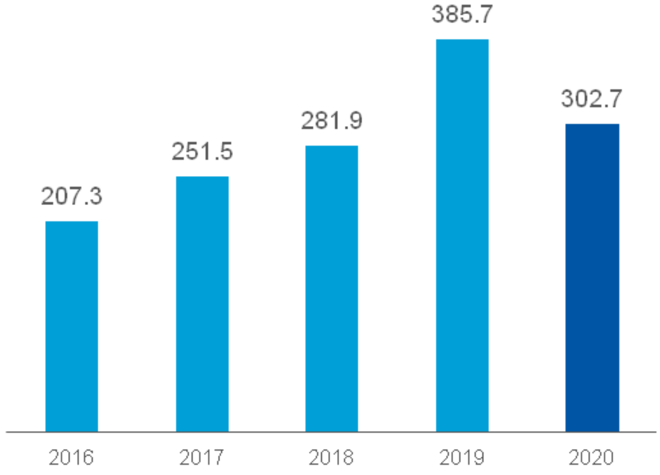
+1.8% Net result

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

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

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

NET PROFIT POST MINORITIES (MN€)



302.7

million euro

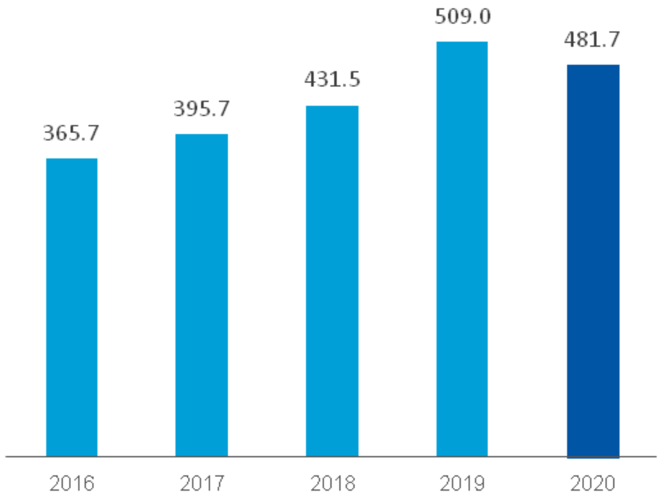
net profit post minorities (-21.5%)

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

Net investments at 528.5 million euro

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

TOTAL NET OPERATING INVESTMENTS (mn€)



481.7

million euro

net operating investments (-27.3 million euro)

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

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

Including capital grants, the Group's operating investments came to 506.4 million euro, down 27.1 million euro compared to the previous year, and mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale metre substitution, and the purification and sewerage areas.
Remarks on investments in each single area are included in the analysis by business area.
At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall, investments in structures decreased by 0.3 million euro compared to the previous year, with a reduction in the vehicle fleet and increased interventions on the Group's IT systems.

1.04.02 Financial structure and adjusted net debt

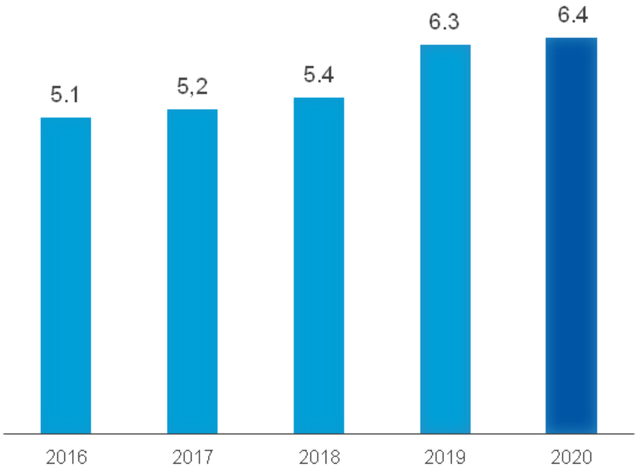
What follows in an analysis of trends in the Group's net invested capital and sources of financing at 31 December 2020.

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

Group solidity increases

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

NET INVESTED CAPITAL (BN€)



6.4
billion euro
net invested capital in 2020

53.6 million euro net working capital

The decrease in net working capital seen in 2020 is mainly due to the good performance of trade receivables, thanks to a continuous and careful control of credit management processes. The impact of the health emergency was not significant; for further details, see paragraph 1.08 "Covid-19 emergency management".

654.9 million euro provisions

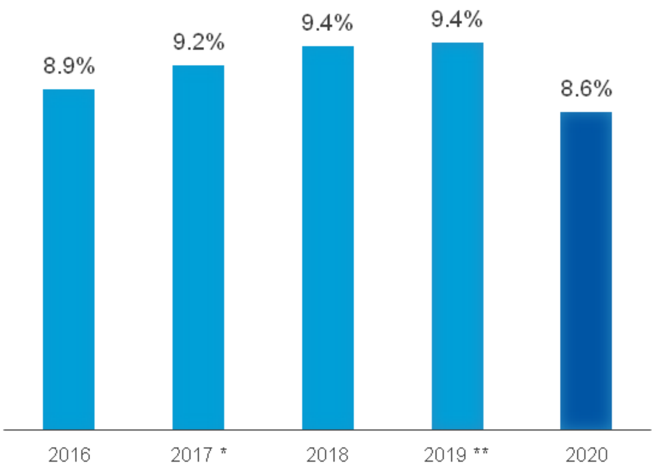
The change in provisions compared with the previous year is a consequence of period-specific provisions and post-mortem landfill provision adjustments and reinstatements of third-party assets, which offset expenses for usage. For details on changes in provisions, see the information contained in paragraph 2.02.05 "Commentary notes to the financial statements".

3.2 billion euro equity

Equity reinforced the Group's solidity thanks to the positive net result achieved by management in 2020, coming to 322.8 million euro, partially offset by the impact coming from dividend payment, movement in treasury shares and a drop in minority interests .

Return on net invested capital (ROI) settled at 8.6% in 2020, as compared to adjusted ROI for 2019, which came to 9.4%, adjusted for the operating and financial impact of the Ascopiave transaction.

ROI (%)

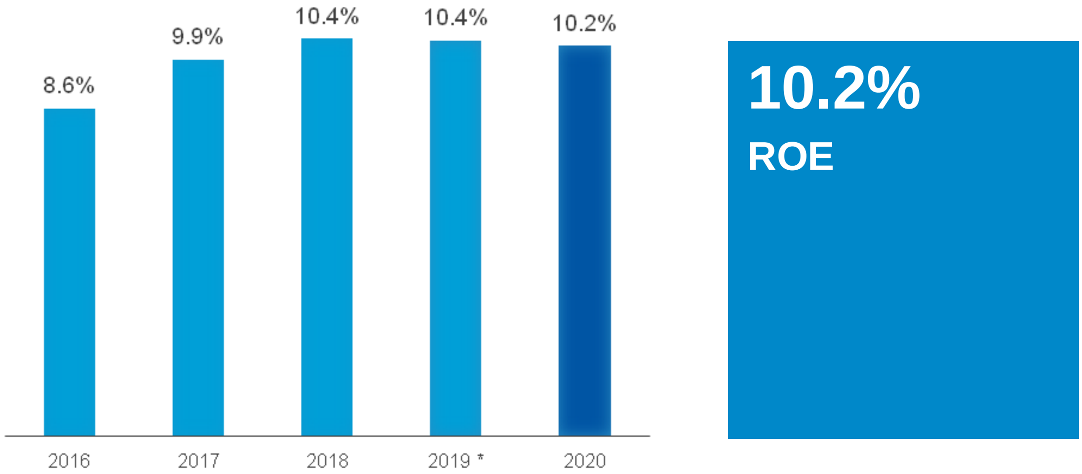


8.6%
ROI

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

Return on equity (ROE) stood at 10.2%, essentially in line with the figure seen in 2019.

ROE (%)



* adjusted for non-recurring entries and the Ascopiave transaction

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

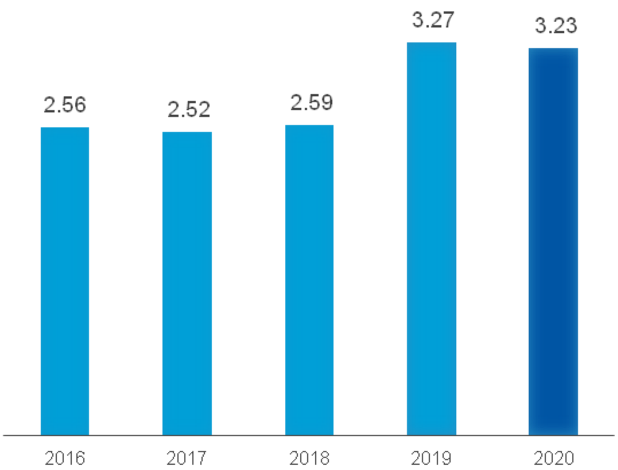
mn€		31 Dec 20	31 Dec 19	31 Dec 19 adjusted
a	**Cash and cash equivalents**	**987.1**	**364.0**	**345.9**
b	**Other current financial receivables**	**32.8**	**70.1**	**53.7**
	Current bank debt	(188.6)	(111.5)	(111.5)
	Current part of bank borrowings	(307.1)	(63.1)	(63.1)
	Other current financial liabilities	(114.0)	(130.9)	(130.9)
	Current lease payments	(20.1)	(19.4)	(18.3)
c	**Current financial debt**	**(629.8)**	**(324.9)**	**(323.8)**
d=a+b+c	**Net current financial debt**	**390.1**	**109.2**	**75.8**
	Non-current bank debt and bonds issued	(3,047.3)	(2,815.1)	(2,815.1)
	Other non-current financial liabilities (excluding put option)	(27.7)	(20.2)	(13.2)
	Non-current lease payments	(73.5)	(76.1)	(73.6)
e	**Non-current financial debt**	**(3,148.5)**	**(2,911.4)**	**(2,901.9)**
f=d+e	**Net financial position**	**(2,758.4)**	**(2,802.2)**	**(2,826.1)**
g	**Non-current financial receivables**	**140.8**	**135.3**	**135.3**
h=f+g	**Net financial debt (excluding put option)**	**(2,617.6)**	**(2,666.9)**	**(2,690.8)**
	Nominal amount - fair value put option	(456.4)	(450.6)	
	Net financial debt with adjusted put option (Net debt adj put option)	**(3,074.0)**	**(3,117.5)**	**(2,690.8)**
	Portion of future dividends - fair value put option	(153.0)	(156.7)	
	Net financial debt (Net debt)	**(3,227.0)**	**(3,274.2)**	**(2,690.8)**

The overall amount of adjusted net financial debt came to 3,227.0 million euro, 47.2 million euro decrease compared to the previous year. The adjusted figures referring to 31 December 2019 reflect the adjustments made during 2019 to guarantee a better comparison as regards the Ascopiave partnership transaction. For further details on this matter, see the consolidated financial statements at 31 December 2019.

The Group's financial structure shows current debt coming to 629.8 million euro, of which 307.1 million euro are related to the current portion of debt, which includes 249.9 million euro linked to the bond maturing on 4 October 2021, as well as 58.8 million euro related to the portion of medium-term bank loans reaching maturity within the year. The portion of current debt owed to other financial institutions amounts to 114.0 million euro, while the 188.6 million euro due to banks includes 49.6 million euro in interest payable on loans and approximately 139 million euro in current lines of credit.
The current portion of operating leases amounts to 20.1 million euro, while the non-current portion comes to 73.5 million euro, both essentially in line with the amount recorded in 2019.
The amount relating to "non-current bank debt and bonds issued" increased compared to the previous year, due to the issuance of a 500 million euro bond maturing in ten years, as described in paragraph 1.3 "Main events occurred". This increase was offset by the restatement of the bond maturing in 2021, amounting to 249.9 million euro, under current debt, as mentioned above.
As a result of the bond issuance, carried out to take advantage of the favourable market scenario, cash and cash equivalents increased from 364.0 million euro in 2019 to 987.1 million euro at 31 December 2020.

At 31 December 2020, 80.3% of medium- and long-term debt was consisted in bonds with repayment at maturity, 79% of which was listed on European markets. Total debt showed an average time to maturity of over six years, with 63.8% maturing after over five years.

NET FINANCIAL DEBT (BN€)



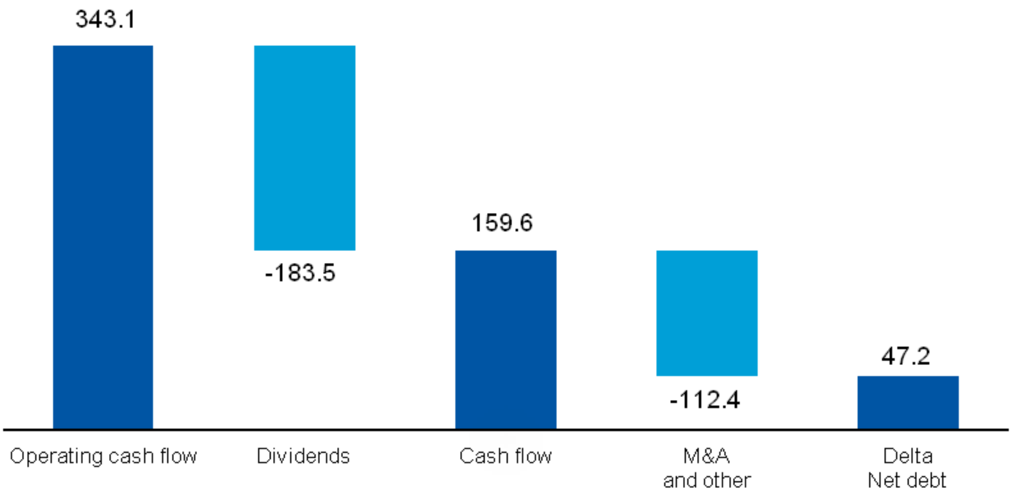
3.2

billion euro

net financial debt in 2020

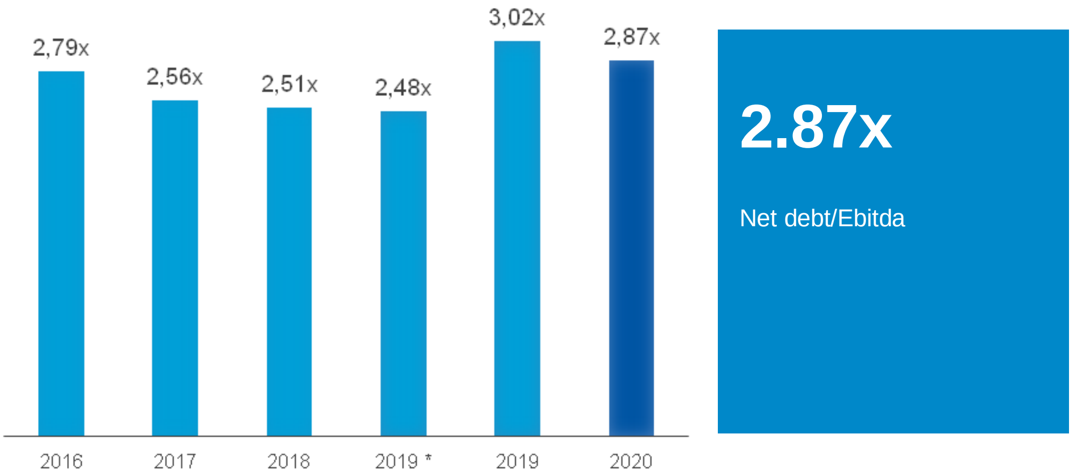
Net financial debt fell by 47.2 million euro, going from 3,274.2 million euro in 2019 to 3,227.0 million euro in 2020.

CASH FLOW (MLN/EURO)



The Group's characteristic management generated positive operating cash flows coming to 343.1 million euro, which entirely financed dividend payments and shareholding acquisitions, in particular 4.9% of Ascopiave Spa and 90% of Wolmann Spa, by Hera Spa and Hera Comm Spa respectively.

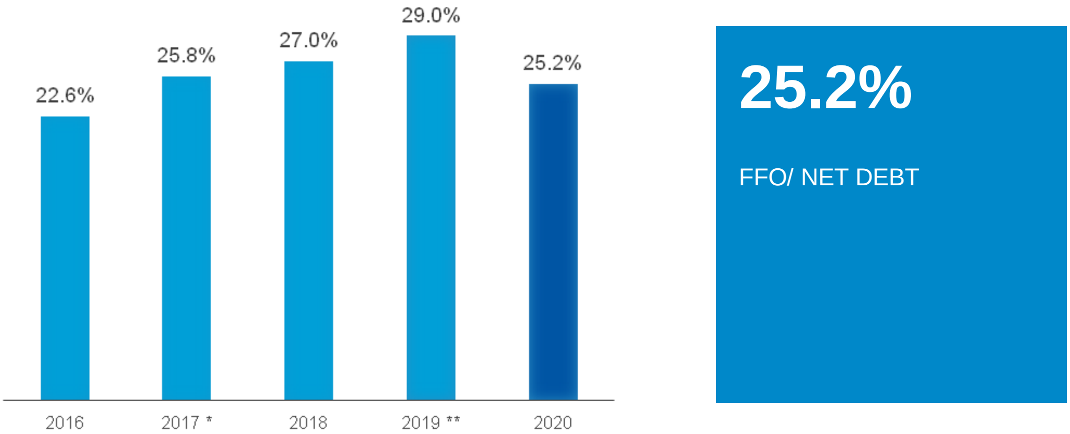
NET DEBT/EBITDA (X)



* adjusted for non-recurring entries and the Ascopiave transaction

The Net debt/Ebitda ratio for 2020 increased slightly, coming to 2.87, as compared to the 2.48 del 2019 ratio as adjusted to account for operating and financial impact of the Ascopiave transaction. The figure for 2020 does not reflect the financial adjustment linked to the Ascopiave transaction, which on the contrary had been carried out on the figure for 2019, in order to ensure that it was comparable with the previous year. As of the current year, the fair value of the put options granted to monitory shareholders is therefore included in the amount of "Net debt".

FFO/NET DEBT (%)



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

The Funds from operations (FFO)/Net debt ratio settled at 25.2%, confirming the Group's financial solidity and its ability to meet its financial obligations, thanks to the positive trend in operating cash flow.

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€)	2020	2019	Abs. change	% change
Revenues	1,344.5	1,395.7	(51.2)	(3.7)%
Ebitda	252.1	269.4	(17.3)	(6.4)%
Operating profit	105.8	118.8	(13.0)	(10.9)%
Net profit	217.0	166.3	50.7	30.5%

To understand this performance and its changes as compared 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; see also the description in paragraph 1.07 "Analysis by business area".

The decrease in operating profit compared to the previous year is mainly due to the economic consequences of the Covid-19 pandemic on the economic and social fabric, as analysed in detail in paragraph 1.01 "Trends and contexts, strategic approach and Group management policies".

A summary of the adjusted financial information at 31 December 2019 compared to the 31 December 2019 data is provided below:

Analysis of invested capital and sources of financing (mn€)	31 Dec 20	%	31 Dec 19	%	Abs. change	% change
Net fixed assets	3,650.9	109.3%	3,542.7	109.0%	108.2	3.1%
Net working capital	(128.5)	(5.3)%	(120.3)	(5.0)%	(8.3)	6.9%
Gross invested capital	**3,522.4**	**105.5%**	**3,422.5**	**105.3%**	**99.9**	**2.9%**
Other provisions	(182.4)	(5.5)%	(171.6)	(5.3)%	(10.7)	6.3%
Net invested capital	**3,340.0**	**100.0%**	**3,250.8**	**100.0%**	**89.2**	**2.7%**

Total equity	2.411.8	72.2%	2,390.4	73.5%	21.4	0.9%
Net financial debt	928.2	27.8%	860.5	26.5%	67.8	7.9%
Sources of financing	**3,340.0**	**100.0%**	**3,250.8**	**100.0%**	**89.2**	**2.7%**

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

- Research and development activities:
  - see paragraph 1.06 "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 2019, in addition to changes in these that occurred in 2020, 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. "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 1.04. "Overview of operating and financial trends and definition of alternative performance measures".
- 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

Markets volatile in 2020; recovery in stock prices at year-end following hopes for a return to normal thanks to vaccines

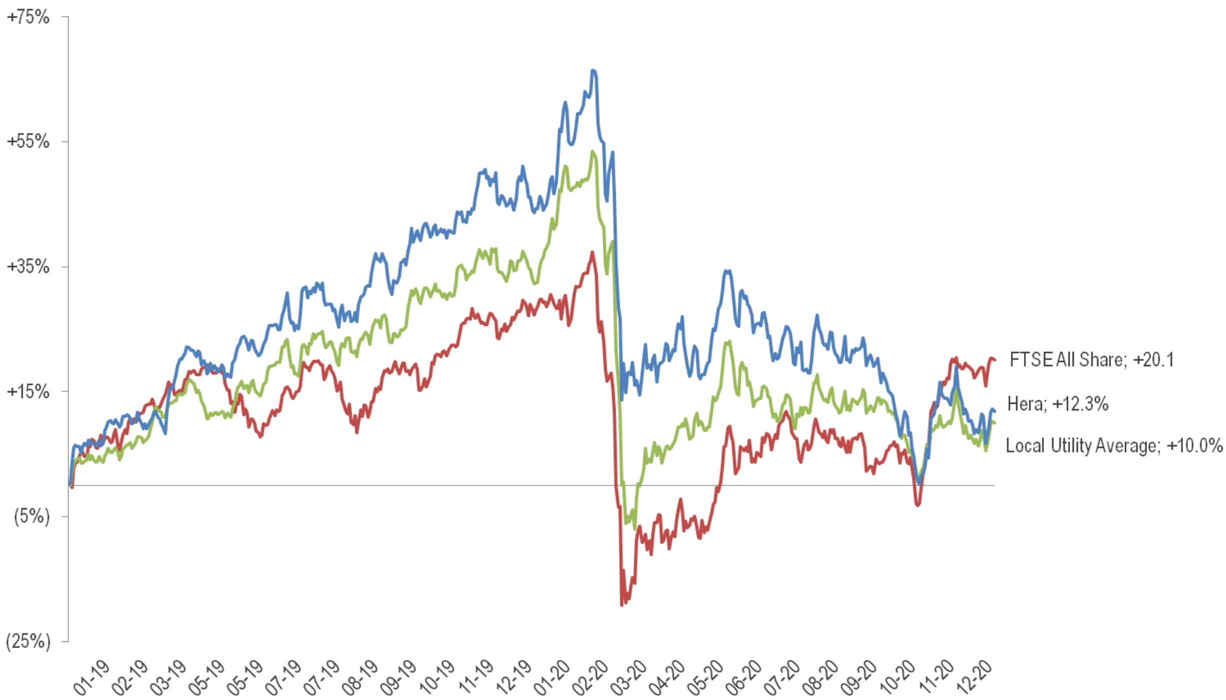
After 2019 came to an end with all global stock markets rising, supported by prospects of solid economic growth, the early months of 2020 also began on a positive note, ignoring the alarm coming from China about the spread of an unknown virus. In late February, when the first cases of Covid-19 came to light in Europe, the continent's main governments introduced unprecedented social distancing measures, with extraordinarily negative implications for overall economic activity. Faced with an economic slowdown and uncertainty over the time required to return to normality, volatility increased on financial markets and sharp declines were seen on stock exchanges worldwide. The exceptional measures introduced by governments to support national economies, along with the almost unlimited liquidity guaranteed by central banks, led stock markets to gain confidence again. Beginning in mid-March, prices therefore recovered, also partially due to the slower spread of the virus during the summer months. As of the end of the third quarter, however, the number of infections began to rise rapidly again and governments were forced to take restrictive measures once more. The market reacted quickly, with intense sales of all risky assets. It was only in November, with the American elections and the announcement of positive results in testing for some vaccines, that world stock markets regained confidence that the economy would rapidly normalize in 2021, increasing exposure to cyclical stocks, the main beneficiaries of recovery in the economic cycle, to the detriment of more defensive stocks such as utilities.

In 2020, the Italian Ftse All Share index showed a performance coming to -5.6%, after having reached its maximum fall of -36.2% in mid-March, in line with the average of the other main European stock exchanges. In this context of extraordinary uncertainty and volatility, Hera shares closed the period with an official price of 2.990 euro, down -23.5%, in line with the performance of the country's main comparable stocks.

In 2019-2020, Hera showed a resilient and consistently positive performance

Considering the 2019-2020 two-year period, Hera stock showed its usual resilience under these conditions as well, with a fall in share prices that was slower than the market. Throughout the period in question, it furthermore maintained a positive performance compared to values seen in early 2019, higher than the reference sector.

2019-2020 HERA STOCK, LOCAL UTILITY SECTOR AND ITALIAN MARKET PERFORMANCE COMPARISON



10.0 cent dividend paid, respecting the targets set out in the Business plan

On 6 July 2020, following the indications contained in the business plan, Hera Spa paid a dividend coming to 10.0 cents per share, the eighteenth in a series of uninterrupted growth since being listed.

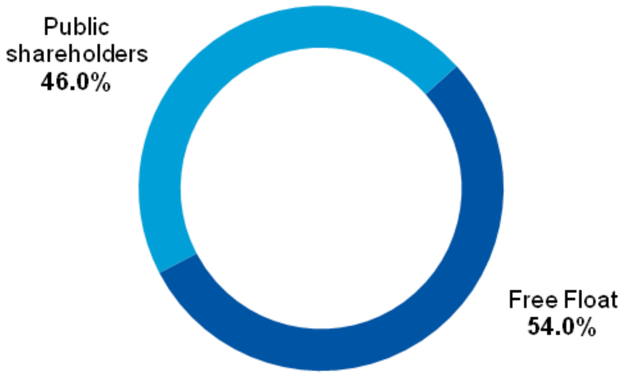
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
Dps	0.035	0.053	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095	0.10	0.10

+253% total shareholders return since the IPO

The joint effect of continuously remunerating shareholders through dividends and a rise in the price of the stock 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 +253%.

The financial analysts covering the company (Banca Akros, Banca Imi, Equita Sim, Intermonte, Kepler Cheuvreux, Mediobanca and Stifel) all expressed positive or neutral opinions, with no negative opinion. At the end of the year, the consensus target price came to 3.93 euro, higher than the 3.87 euro recommended at the end of 2019.

SHAREHOLDER BREAKDOWN AT 31 DECEMBER 2020



46.0% share capital pertaining to the public stockholders agreement

At 31 December 2020, the shareholder breakdown showed its usual stability and balance, with 46.0% of shares belonging to 111 public shareholders located across the areas served and brought together by a stockholders agreement effective from 1 July 2018 to 30 June 2021, and a 54.0% free float. The shareholding structure is highly fragmentary, with a 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.

Treasury shares cover almost all M&As included in the Business Plan

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders Meeting held on 29 April 2020 for 18 further months, for an overall maximum amount of 270 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 2020, Hera Spa held 28.9 million treasury shares, up 14.7 million compared to the end of 2019. The solid cash generation seen over the year, along with the market situation, made it possible to build up a portfolio of treasury shares covering almost all the shares that the Business Plan expects to pay out to counterparties in M&As, with the aim of counter-diluting shareholders by increasing earnings per share.

In 2020, Hera received an extraordinary international recognition: after an in-depth assessment of 28 criteria, subdivided into 141 questions related to environmental, social and governance issues, S&P Global declared Hera to be the best multi-utility in the world, assigning it the gold medal for sustainability and including it in the Dow Jones Sustainability Index, World and Europe, the two most prestigious global indices followed by sustainable investors. S&P Global furthermore rewarded the clear improvement in Hera's rating, which rose by 19 points, by giving it the title of Industry Mover. Hera is additionally unprecedented in being included in the two above-mentioned indices after only two years of evaluation, considering that on average companies require 8.5 years to be included in this basket. This assessment provided an opportunity to highlight the sustainable approach shown by the

Hera named best multi-utility worldwide by S&P Global, and included in the Dow Jones Sustainability Index as Industry Leader

Group’s strategy over the last 18 years, which is now a competitive advantage allowing it to grasp the market opportunities offered by the scenario. The Group can furthermore play a leading role in the areas of circular economy and carbon neutrality, also contributing to achieving the goals defined by the United Nations and European institutions, to which the capital made available by the Recovery Fund will also refer.

Constant communication with the market in 2020 as well

The Group’s top management continued to engage in intense communications with investors in 2020, by way of both physical meetings in the early part of the year and virtual ones at the end, in order to provide constant updates in the trends seen in its activities and future prospects. After Hera’s new 2019-2023 Business Plan was published, the Executive Chairman and the CEO took part in a roadshow that visited the main financial centres in Europe and the USA, to illustrate the Group’s growth targets to investors. In the third quarter, the Group’s activities in accurate communications continued, participating in the main conferences organised by Borsa Italiana (Sustainability Day and Infrastructure Day), which saw the participation of significant institutional investors. Hera also participated in a roadshow discussing the issue of shared value and a conference organised by an international broker dedicated to Italian Jewels, i.e. the Italian companies considered to show the highest quality. The intense dedication shown by the Group towards dialoguing with investors 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 2020, as well as the changes in these shares during 2020, see note 24 of paragraph 3.02.05 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 again this year by the 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 2020 Sustainability Report.

Further progress was made during 2020 in aspects of CSV and in the area of sustainability, concerning both the results achieved and the new projects launched, as well as measurement and reporting outside the company. With regard to the latter aspects, several elements enhanced the Group's corporate social responsibility and accountability profile:

- Hera stock was included in the Dow Jones Sustainability Index, World and Europe, with a ranking that sees the Group defined as "Industry leader" among the approximately 3,500 companies with the largest capitalization in the world evaluated;
- reporting was brought even more in line with the recommendations of the Task force on climate-related financial disclosure (TCFD), through additional information on the actions taken to mitigate and adapt to climate change with regard to governance, scenario analysis, risk and opportunity management methods and the related measurement indicators;
- greenhouse gas emission reduction targets (and the first correlated year-end reporting) were defined, in line with the criteria of the "Science Based Target initiative" (with particular regard to the "well below 2°C" paradigm, aimed at limiting the increase in the average temperature of the earth to considerably less than 2°C), with a decrease in emissions coming to over 15% by 2024 and roughly 33% by 2030, in both cases compared to 2019, taking into account both the Group's emissions (Scope 1 and 2) and those of customers (Scope 3, relating to electricity and downstream methane gas sales);
- disclosure for the new areas was broadened, defined on the basis of the material analyses such as, for example, resilience and adaptation to climate change and health emergency management for Covid 19, which characterized almost all of 2020 and is still ongoing.

Creating shared value: CSV Ebitda rises to 420.0 million euro (37.4% of total Ebitda); CSV investments come to 297.4 million euro (55.5% of total investments)

The 2020 Sustainability Report consolidates the innovative content representation introduced in 2017, focused on creating shared value thanks to the Group's strategic approach, inspired by the indications offered by Porter and Kramer. The results achieved and the objectives set for the future are flanked by a summary of the scenario concerning the three drivers for creating shared value, defined in 2016 and updated in 2020 based on an analysis of European, national and local policies, megatrends and communications. The three drivers for creating shared value are: (i) Energy – pursuing carbon neutrality, (ii) Environment – regenerating resources and closing the circle, (iii) Local areas (and Enterprise) – enabling resilience and innovating. One chapter is dedicated to each of them in the 2020 report as well, forming the most significant part of this report.

One of the strong points of the Group's CSV reporting is its quantification of CSV Ebitda, i.e., the portion of Ebitda that derives from business activities that respond to the goals on the "Global Agenda", i.e., the calls to action for sustainable growth (linked to the Group's activities) indicated by 98 policies at the global, European, national and local levels, analyzed since 2016 and summarized in the three drivers mentioned above.

In 2020, CSV Ebitda came to 420.0 million euro, corresponding to 37.4% of the Group's total Ebitda. CSV Ebitda recorded an increase of 7.2% in 2020 compared to the amount seen in 2019, in line with the newly defined calculation criteria and the new CSV drivers. 2020 CSV Ebitda was thus in line with the path set out in the 2021-2024 Business Plan, designed so that approximately 50% of total 2024

Ebitda comes from business activities that meet the priorities of the "Global Agenda". The Group's contribution to creating shared value also involves making investments in the three CSV drivers, which in 2020 amounted to 297.4 million euro, about 55% of the total.
This quantification of shared value Ebitda and investments for 2020 has been submitted, for the second consecutive year, to verification by an auditing company, in order to confirm the value of these distinctive aspects of the Group's reporting to all stakeholders.
The Hera Group's commitment to aspects of CSV is also proven by its active participation in numerous national and international networks, such as the Ellen MacArthur Foundation, the association of companies most committed globally to the transition towards a circular economy. In particular, mention should go to the Group's participation in the New Plastics Economy Global Commitment, where it specified explicit objectives to increase the collection and recycling of plastic through to 2025, and to the second report drafted in 2020 concerning the objectives stated, which show positive results in plastic collected, sorted and recycled.

Pursuing carbon neutrality: -6.2% in energy consumption; 20% of contracts with energy efficiency services; -22% in carbon intensity

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

- the initiatives defined by Hera Spa, Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa, falling under Iso 50001 (included in the energy improvement plan) and already implemented at the end of 2020, allowed energy consumption to be reduced by 13,745 TOE, equivalent to 6.2% of 2013 consumption, far exceeding the target of 5%;
- at the end of 2020, gas and electricity contracts with energy efficiency solutions accounted for 20% of total contracts; this figure comes to 27% over the same scope of operations as 2019, i.e. excluding the sales companies that came into the Group's consolidated scope thanks to the "Ascopiave transaction"; initiatives aimed at promoting energy efficiency among residential customers include commercial offers such as Hera Led, Hera Thermo, Hera ContaWatt and Hera Caldaia, as well as the "Consumption Log", a free report intended to raise awareness among customers on energy savings, based on the principles of behavioural economics.

With regard to the energy transition and renewable energies, Hera continued to promote the Hera Zero Footprint offer in 2020 as well, alongside other commercial offers based on carbon neutrality, achieving at the end of the year:

- an increased amount of electricity from renewable sources sold compared to 2019, coming to 32.2% of total electricity sold (excluding the amount sold under the safeguarded plan);
- an amount of methane gas with CO2 emissions compensation coming to 4.4% of the total volume of gas sold, as compared to 0.8% in 2019 (excluding volumes sold to wholesalers, in the default service and in last resort supply);

For the third consecutive year, Hera continued to guarantee 100% electricity from renewable sources to all its residential customers on the free market.
Within the company itself, in 2020 Hera achieved production of biomethane from the organic portion of waste coming to 7.8 million m^3 (+20% compared to 2019), 83% of its own electricity consumption covered by renewable sources, and a 22% reduction in the carbon intensity index for energy production compared to the 2013 baseline.
Lastly, based on the first report carried out according to the Science Based Target Initiative method referred to above, the Group's greenhouse gas emissions saw a 5.4% reduction in 2020 compared to 2019.

PRESENT AND FUTURE SUSTAINABILITY

WHAT WE SAID WE WOULD DO...	WHAT WE DID...	WHAT WE WILL DO...
Promoting energy efficiency		
22% **CUSTOMERS IN 2023** with energy efficiency offers (excluding "Ascopiave transaction" companies) (compared to 21.1% in 2019)	**27%** **CUSTOMERS IN 2020** with energy efficiency offers (excluding "Ascopiave transaction" companies)	**42%** **CUSTOMERS IN 2024** and 45% in 2030 with energy efficiency offers or Consumption Log
Energy transition and renewables		
2 **NEW BIOMETHANE PRODUCTION PLANTS** in Lugo (Ra) and Faenza (Ra). Begin the authorisation phase for construction in 2020	**2 NEW BIOMETHANE PRODUCTION PLANTS** Authorisation phases launched for converting the Lugo (Ra) plant and creating the Spilamberto (Mo) plant, managed by the company Enomondo	**>15 MILLION CUBIC METRES** biomethane production in 2024 and over 30 million by 2030, through new anaerobic digesters from the organic portion of sorted waste. Launch initiatives in developing hydrogen as a source of energy
Offsetting climate change		
26% **CARBON INTENSITY** reduction by 2023 compared to 2013 in energy production (kg CO_2/MWh)	**22%** **CARBON INTENSITY REDUCTION** by 2020 compared to 2013 in energy production (kg CO_2/ MWh)	**33%** **CO_2 EMISSIONS REDUCTION** (scope 1, 2 and 3 electricity and gas sales, only downstream) by 2030 with SBTi method, compared to 2019 emissions
Transition towards a circular economy		
74.9% **SORTED WASTE** by 2023 thanks to initiatives including an extension of unit pricing in Emilia-Romagna	**65.3%** **SORTED WASTE** in 2020 (compared to 64.6% in 2019) (66.2% Hera, 55.8% AcegasApsAmga, 71.1% Marche Multiservizi)	**75%** **SORTED WASTE** by 2024, thanks to strong investment focused on citizen and business engagement
>70% **PACKAGING RECYCLED** and 62% of municipal waste recycled in 2023	**72%** **PACKAGING RECYCLED** in 2019 (stabile compared to 2018). Overall recycling came to 56% in 2019 (53% in 2018)	**>75%** **PACKAGING RECYCLED** by 2024 and 67% of overall municipal waste recycled in 2030 (higher than the EU's 2035 goals)

Regenerating resources and closing the circle: sorted waste at 65.3%; 72% of packaging recycled; -12% in water consumption

Hera regenerates resources and "closes the circle" through initiatives and projects falling into three areas: (i) transition towards a circular economy, (ii) sustainable water resource management, (iii) air, soil and biodiversity protection.
With regard to the transition to a circular economy, 2020 saw a further increase in sorted waste collection, which reached 65.3% (national 2019 average: 61.3%) and a very limited use of landfills for municipal waste disposal, coming to 3.4% (national 2019 average: 23%). In this respect, Hera is almost 20 years ahead of the EU target for a circular economy and ranks at the same level as the most virtuous European countries. Last November, Hera published the eleventh edition of its Tracking Waste report, verified by DNV-GL, thus providing citizens with a guarantee as to the actual recovery of all sorted waste collected, which comes to 92%. This report contains a ranking of the area served by Hera s regards the recycling targets defined by the EU, as part of its circular economy package. In the overall recycling rate, with 56% Hera is already over the target of 55% set for 2025, and in the packaging recycling rate, with 72% the Group has already reached the target set for 2030.
Once again concerning a circular economy, 2020 saw the material and energy recovery rate in Herambiente Spa's selection plants come to 81%, and quantity of plastic recycled by the Aliplast Group come to approximately 69 thousand tons which. Even considering the 5% drop compared to 2019 owing to the health emergency, this is still 16% higher than 2017, the baseline of the commitments made in the aforementioned New Plastics Economy Global Commitment.
As regards sustainable water resource management, Hera's commitment in the sewage-purification sector continued in 2020 with a multi-year plan to bring municipal agglomerates into compliance with regulations: at the end of 2020, 97.6% of these agglomerates were adequate in terms of population equivalent (as against 96.5% in 2019). Initiatives to preserve water as a resource important were also important, such as the Group's internal water management project, which led to a 12% reduction in consumption in 2020 (compared to the 2017 baseline), agreements with local authorities that make 5% of the water leaving purification plants reusable, and the aforementioned Consumption Log that is now distributed to roughly 20% of household customers of the water service.
With regard to air protection, positive results were confirmed in the environmental performance of the Group's waste-to-energy plants, which in 2020 as well 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, as far as soil protection is concerned, it should be noted that in 2020 the projects carried out by HeraTech involved the soil reuse coming to 87% of total soil.

Enabling resilience and innovating: 86 million euro invested in innovation and digitisation; 2.1 billion euro in economic value distributed to local areas; local suppliers account for 65% of the total

Significant results were achieved by the Group in 2020 in areas of CSV related to developing the economy and employment in local areas, innovation and digitisation. Equally important initiatives and projects were aimed at ensuring resilience in its operating activities and therefore in the local areas served.
The overall economic value distributed to local areas amounted to 2,118 million euro, or 75% of total economic value. The amount distributed to local suppliers came to 65% of the total, reaching 740 million (+6% compared to the previous year), while indirectly generated employment is estimated at around 8,800 people; these figures confirm the leading role played by the Group in developing local areas. As regards indirectly generated employment, the 864 jobs provided for disadvantaged people should be noted, linked to supplies from social cooperatives coming to 67.1 million euro in 2020.
Investments in the area of innovation amounted to approximately 86 million euro and were related to projects in three areas: energy transition, circular economy and digital transformation. With regard to digital transformation, the 2020 Sustainability Report introduced, for 24 projects, an innovative reporting on objectives, results and impacts, based on the framework of Corporate digital responsibility, defined as the set of practices and behaviours that help an organization 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 optimizing operating processes to the benefit of quality, safety and continuity in services, as well as work quality and internal efficiency, further efforts were made in 2020 to develop digital channels for customer relations. At the end of 2020, the Acquologo and Rifiutologo apps reached about 622 thousand downloads and over 61 thousand photos were sent by from citizens (+2% compared to 2019), whereas the My Hera app, dedicated to residential customers, saw more than 415 thousand downloads. Digitisation in customer relations is also marked by a steady increase in practices managed through web channels: in 2020, customers taking advantage of online services rose to 28.7%, while those who requested e-billing reached 34.3%. The Group's commitment in this area, along with the attention given to local communities, led in 2020 to launching of the fourth edition of the campaign to promote e-billing and digital behaviour in customers, called Digi e Lode, allocating an additional 125 thousand euro in economic prizes for the digitisation of local schools.
Once again regarding digitisation, the experience gained by the Group since 2017 made it possible to resiliently manage the emergency seen in 2020. From mid-2020, the number of workers permanently involved in the remote working project came to roughly 4 thousand, equivalent to 77% of total permanent employees, only excluding blue-collar workers.

The results achieved in terms of shared value generated are rounded off by those relating to the following areas, which complete the Group's social responsibility and sustainability profile.

- Thanks to awareness raising programs and the adoption of Iso 45001 certification, which covers 86% of Group workers, in 2020 the accident frequency index showed a further decrease, reaching 12.6 (as against 14.1 in 2019). In 2020, the Hextra welfare system was used by workers for a total amount coming to over than 4.5 million euro, and 99.2% of workers took part in it. Training remains high, thanks to elements including the redesign of initiatives in digital mode: in 2020, 26 hours of training were provided per capita, of which over half remotely. The role of sustainability objectives in the balanced scorecard system, linked to the incentive system involving all management, further increased: in 2020, 35% (34% in 2019) of the variable remuneration of the Group's executives and middle managers was linked to sustainability projects, and the weight of sustainability projects oriented towards creating shared value amounted to 23% (as against 20% in 2019).
- In 2020, a year marked by the health emergency, the quality of customer contact channels remained high: the average waiting time at the call centre settled at 33 seconds for residential customers (as against 27 in 2019), and remained at 25 seconds for business customers, even though these contacts increased by 24% and 6% respectively compared to the previous year. Average waiting time at help desks was further reduced from 9.4 minutes in 2019 to 5.4 minutes, for reasons including a 37% fall in contacts. The survey carried out in 2020 on the quality of services provided by the Group (over 9,200 interviews carried out with residential customers) showed a high customer satisfaction rate (73/100), unchanged with respect to the previous year.
- In 2020, in selecting its suppliers, the Group used the most economically advantageous offer method for 86% of public tenders and 64% of overall contracts (in terms of value). In both cases, the average score going towards social and environmental aspects came to over 40/100. Monitoring suppliers based on social responsibility towards workers continued in 2020, as did controls of accidents in the main suppliers (those involved accounted for 79% of the value of service supplies and the most relevant works in terms of occupational safety). The "circular purchases" project also continued in 2020, defining specific guidelines on this topic and identifying the technical criteria used to increase scores during tenders: eco-efficiency, dematerialization, renewability and recyclability. In 2020, the average score reserved for circularity criteria in the overall tenders awarded with the economically most advantageous offer came to 8/100 (as against 2/100 in 2019).
- Lastly, activities in communicating with local communities continued in 2020, with the introduction of HeraLABs in Modena and Forlì-Cesena, partially made possible by holding some meetings by videoconference. HeraLAB is the tool Hera offers to the areas served in order to activate a structured channel for listening and communication with local communities. Each LAB is made up of 12 representatives of local stakeholders, appointed by Hera's Board of Directors. Activities in the Modena and Forlì-Cesena LABs will continue in 2021, and the initiatives co-designed with the Rimini and Bologna LABs will be carried out over the two-year period 2021-22.

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

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

The path initiated by the Group took shape according to three main steps:

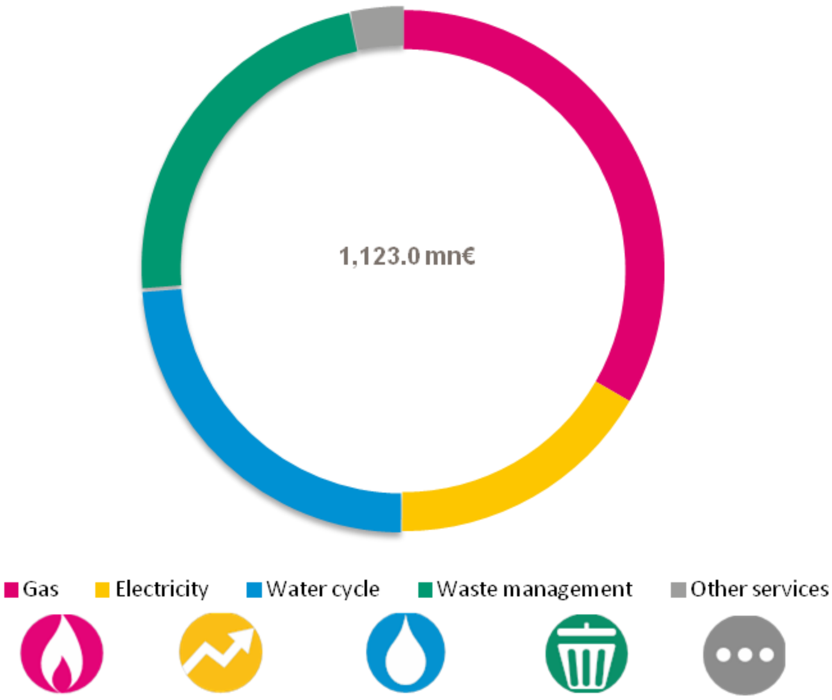
- the establishment of a dedicated cross-functional working group;
- an in-depth analysis of gaps in the reporting system and the ways in which Hera Group manages climate opportunities and risks with respect to the recommendations;
- the definition of a working plan to increase the Group's alignment with the TCFD's recommendations. The first results of this had already appeared in the 2019 Sustainability Report and the specific Value to Energy report published in 2020, and were further strengthened in this Consolidated Financial Report and the 2020 Sustainability Report, which can be consulted for a comprehensive illustration of the four reporting areas, by topic.

1.07 ANALYSIS BY BUSINESS AREA

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 2020

The contribution to Ebitda coming from the Group's various business areas shows a balanced mix, resilient and in line 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.

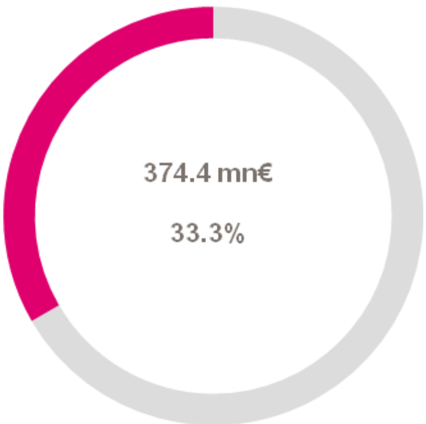
1.07.01 Gas

Ebitda rises

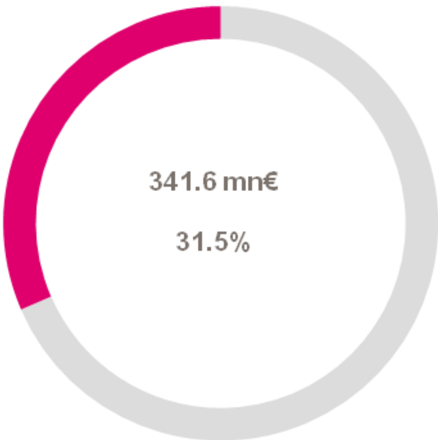
Growth was seen in 2020 over the previous year, in terms of both Ebitda and volumes sold. This result was mainly achieved thanks to commercial development linked to the Ascopiave Group partnership transaction, which saw the Hera Group acquire the companies belonging to the EstEnergy Group and AmgasBlu Srl in exchange for a distribution branch in the Veneto region (concerning the Padua1, Padua2, Udine3 and Pordenone Atems) and was able to offset the negative effects of the Covid-19 pandemic. Lastly, in tenders for the period going from 1 October 2020 to 30 September 2021, Hera Comm Spa was awarded:

- eight of the nine portions of the last resort gas service (for customers providing public services or those without a supplier): Valle d'Aosta, Piedmont, Liguria, Lombardy, Trentino Alto Adige, Veneto, Friuli-Venezia-Giulia, Emilia-Romagna, Tuscany, Umbria, Marche, Abruzzo, Molise, Basilicata, Puglia, Lazio e Campania. In the previous tender, Hera Comm had been awarded four portions out of nine;
- five of the nine portions of the default gas distribution service (for customers in arrears): Valle d'Aosta, Piedmont, Liguria, Lombardy, Friuli-Venezia-Giulia, Emilia-Romagna, Tuscany, Umbria, Marche, Abruzzo, Molise, Basilicata e Puglia. In the previous tender, Hera Comm had been awarded two portions out of nine.

GAS AREA EBITDA 2020



GAS AREA EBITDA 2019

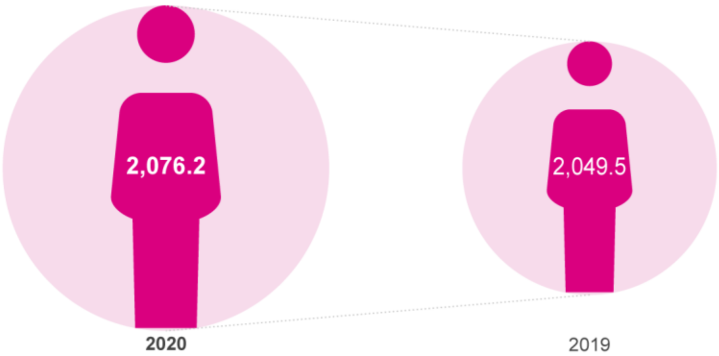


The following table shows the changes occurred in terms of Ebitda:

+3.5% increase in Ebitda

(mn€)	Dec 20	Dec 19	Abs. change	% change
Area Ebitda	**374.4**	**341.6**	**32.8**	**+9.6%**
Group Ebitda	1,123.0	1,085.1	37.9	+3.5%
Percentage weight	33.3%	31.5%	+1.8 p.p.	

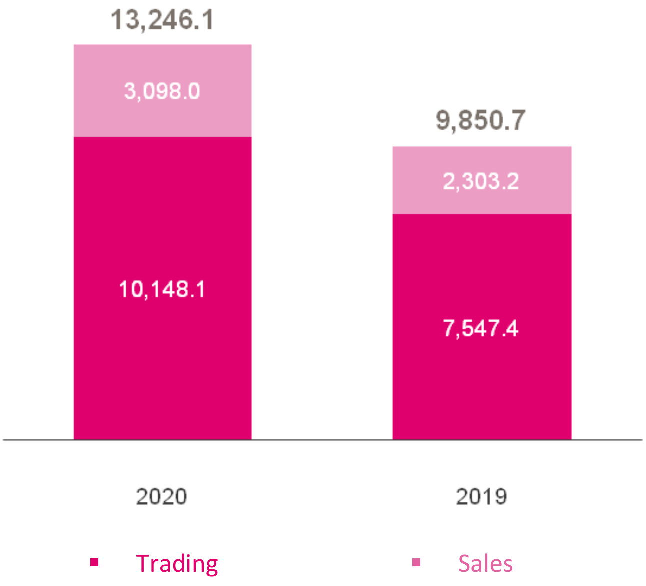
CUSTOMERS (k)

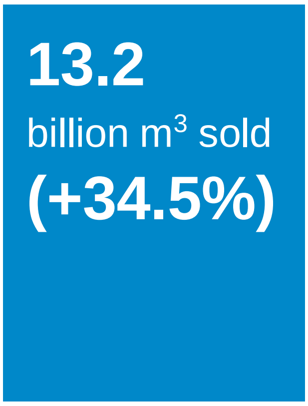


2.1 million gas customers (+1.3%)

The number of gas customers rose by 26.8 thousand, up 1.3% over the previous year. The new portions awarded through tenders accounted for 62 thousand new customers, which more than offset the drop in the free market customer base, coming to roughly 35 thousand customers.

VOLUMES SOLD (mn m^3)



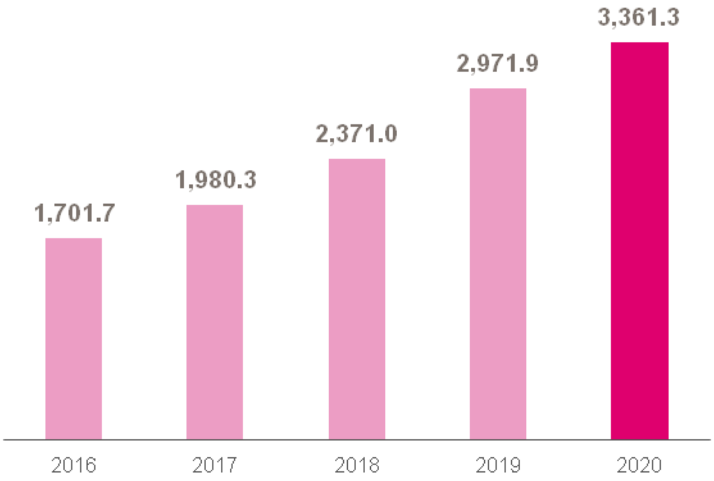


The overall volume of gas sold increased by 3,395.4 million m^3 or 34.5%. Trading volumes showed growth coming to 2,600.7 million m^3 or 34.5% due to higher foreign trading. Volumes sold to end customers rose by 34.5% or 794.8 million m^3 compared to 2019, thanks to the contribution coming from the EstEnergy Group companies and AmgasBlu Srl, which amounted to 812.6 million m^3. This growth was partially offset by a 17.9 million m^3 drop in traditional and last resort markets, mainly due to the mild winter, with average temperatures 3% higher than in 2019, and the negative effects of the Covid-19 emergency.

The following table summarises operating results for the gas area:

Income statement (mn€)	Dec 20	% inc.	Dec 19	% inc.	Abs. change	% change
Revenues	3,361.3		2,971.9		389.4	+13.1%
Operating costs	(2,883.4)	(85.8)%	(2,529.2)	(85.1)%	354.2	+14.0%
Personnel costs	(116.5)	(3.5)%	(114.1)	(3.8)%	2.4	+2.1%
Capitalised costs	13.0	+0.4%	13.0	0.4%	-	+0.0%
Ebitda	**374.4**	**11.1%**	**341.6**	**11.5%**	**32.8**	**+9.6%**

REVENUES (mn€)



3,361.3
million euro
revenues
(+13.1%)

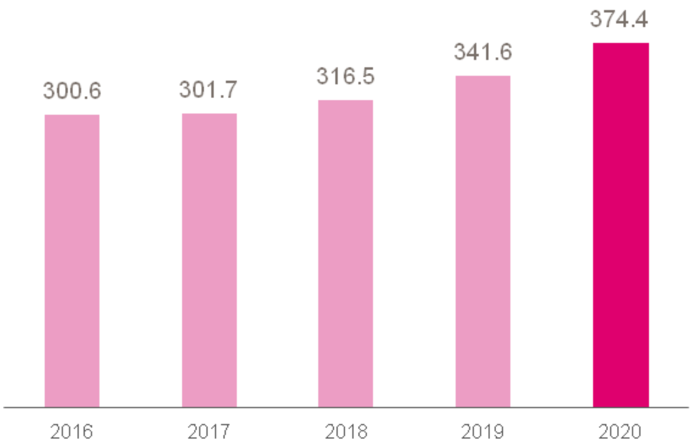
Revenues showed growth coming to 389.4 million euro, up 13.1% over the previous year. The reasons for this mainly lie in higher revenues due to the acquisition of the companies belonging to the EstEnergy Group and AmgasBlu Srl, coming to 450.3 million euro, a higher amount of trading amounting to roughly 20.0 million euro and higher revenues from the heat management business involving incentives for insulation coming to roughly 45 million euro.

This growth was limited by lower revenues caused by the lower price of gas as a raw material, coming to roughly 73.6 million euro, in line with the annual average trend of the Cmem tariff component, which fell by 34% compared to 2019, and the lower volumes of gas sold and district heating, coming to roughly 23 million euro, due to the negative effects involving temperatures and the Covid-19 emergency, as mentioned above.

Energy efficiency certificates fell by roughly 10.0 million euro, as did regulated revenues for distribution, coming to 23.9 million euro, on account of the PD1, PD2, UD3 and PN ATEMs, transferred to Ascopiave.
Excluding changes in the scope of operations, regulated revenues rose by 0.7 million euro. From a regulatory point of view, indeed, note that 2020 was the first year of the 5th regulatory period (approved with resolution 570/2019/R/Gas), which calls for a significant reduction in recognition for operating costs, in addition to a reduction in Wacc for measurement (brought in line with the one for distribution), which were however more than offset by updates in the RAB for new investments, sums owed pertaining to previous periods and other minor regulatory effects.

The increased revenues were proportionally reflected by growth in operating costs, which rose by 354.2 million euro overall. This trend is mainly due to changes in the scope of operations, as mentioned above, higher activities in heat management and in trading.

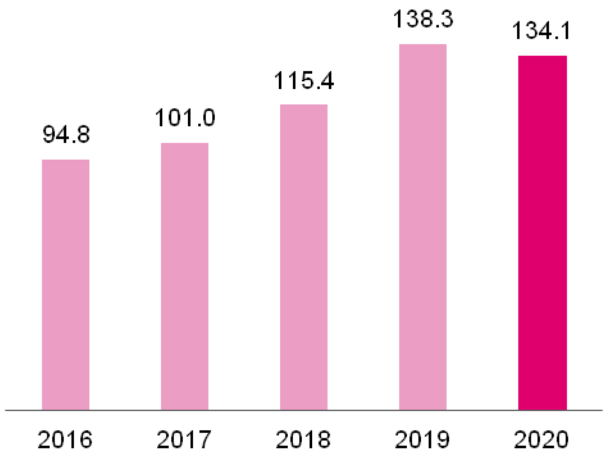
EBITDA (MN€)



374.4
million euro
Ebitda (+9.6)

Ebitda rose by 32.8 million euro or 9.6%, thanks to the entry of the companies belonging to the EstEnergy Group and AmgasBlu Srl and the heat management business for insulation incentives, which offset the lower volumes of gas sold and lower earnings in district heating, due to the mild temperatures and the negative effects of the Covid-19 emergency; the latter were responsible for a 15.7 million euro reduction in Ebitda.

NET INVESTMENTS GAS (mn€)



134.1
million euro
net investments gas

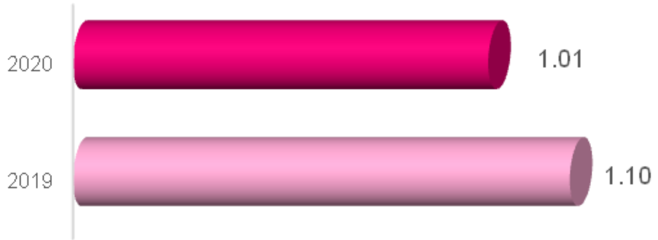
In 2020, net investments in the gas area amounted to 134.1 million euro, down 4.2 million euro compared to the previous year. In gas distribution, an overall reduction coming to 3.2 million euro was seen, mainly due to lower investments in the AcegasApsAmga Spa gas distribution branch concerning the Padua 1, Padua 2, Udine 3 and Pordenone ATEMs, transferred as of 31 December 2019 as part of the Ascopiave transaction, and lower interventions in the areas served by Marche Multiservizi Spa. Investments by Inrete Distribuzione Energia Spa increased, mainly due to higher interventions for the large-scale meter substitution (resolution 554). In gas sales, investments coming to 9.0 million euro were linked to acquiring new customers, up 0.7 million euro over the previous year. Investments fell by 0.6 million euro in district heating and heat management services, with a reduction in Hera Spa's district heating and an increase in the activities of the companies Hera Servizi Energia Srl and AcegasApsAmga Servizi Energetici Spa. Requests for new connections were lower than in the previous year in gas distribution, mainly due to the transfer of the AcegasApsAmga Spa branch and in district heating.

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

Gas (mn€)	Dec 20	Dec 19	Abs. change	% change
Networks and plants	99.9	103.1	(3.2)	(3.1)%
Acquisition gas customers	9.0	8.3	0.7	+8.4%
DH/heat management	26.3	26.9	(0.6)	(2.2)%
Total gas gross	**135.3**	**138.3**	**(3.0)**	**(2.2)%**
Capital grants	1.2	0.0	1.2	+100.0%
Total gas net	**134.1**	**138.3**	**(4.2)**	**(3.0)%**

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, fell compared to 2019, due to the Group's loss of networks as part of the Ascopiave partnership. In the other areas served, RAB rose, owing to higher investments, mainly involving the rollout of electronic meters.

RAB (bn€)

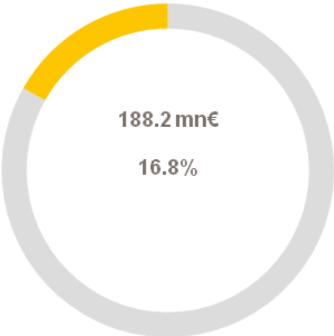


1.01
billion euro 2020 RAB

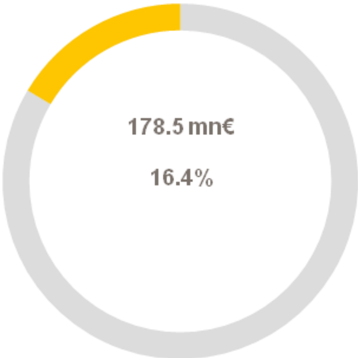
1.07.02 Electricity

At the end of 2020, Ebitda for the electricity area rose compared to the previous year, thanks to the Ascopiave Group partnership and the acquisition of companies belonging to the EstEnergy Group and AmgasBlu Srl and earnings coming from electricity generation, despite the negative effects caused by the Covid-19 pandemic.

EBITDA ELECTRICITY AREA 2020



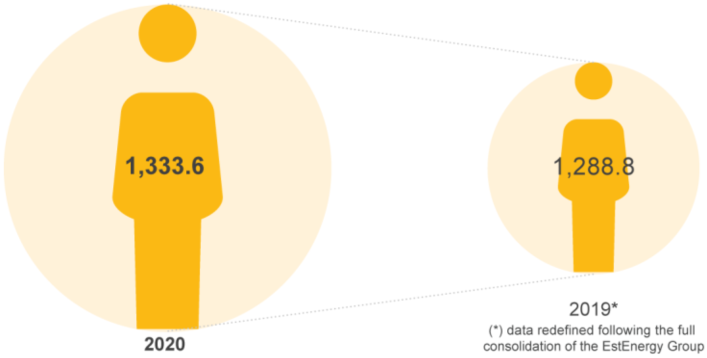
EBITDA ELECTRICITY AREA 2019



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

(mn€)	Dec 20	Dec 19	Abs. change	% change
Area Ebitda	188.2	178.5	9.7	+5.5%
Group Ebitda	1,123.0	1,085.1	37.9	+3.5%
Percentage weight	16.8%	16.4%	+0.4 p.p.	

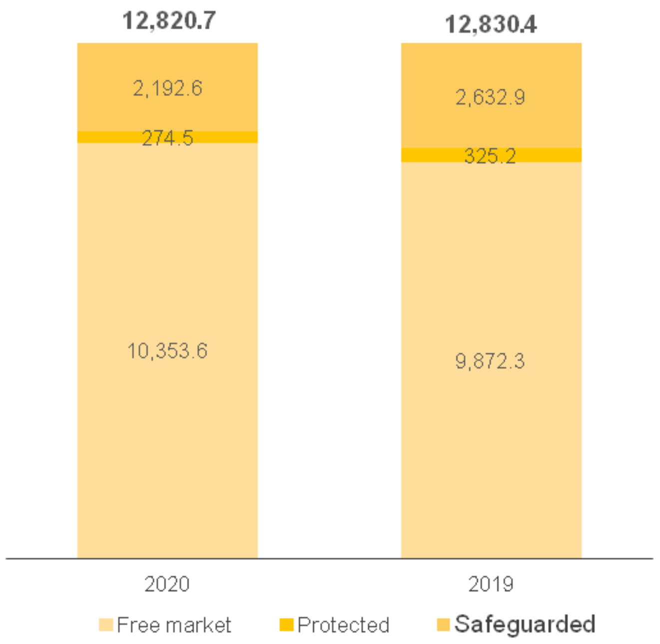
CUSTOMERS (k)



1.3 million electricity customers (+3.5%)

The number of electricity customers increased by 3.5% (44.8 thousand customers) compared to 2019. This growth came about on the free market, coming to 5.4%, owing to the reinforced marketing initiatives introduced, and succeeded in offsetting the drop in protected customers, while safeguarded customers remained in line with the previous year.

VOLUMES SOLD (GWH)



12.8

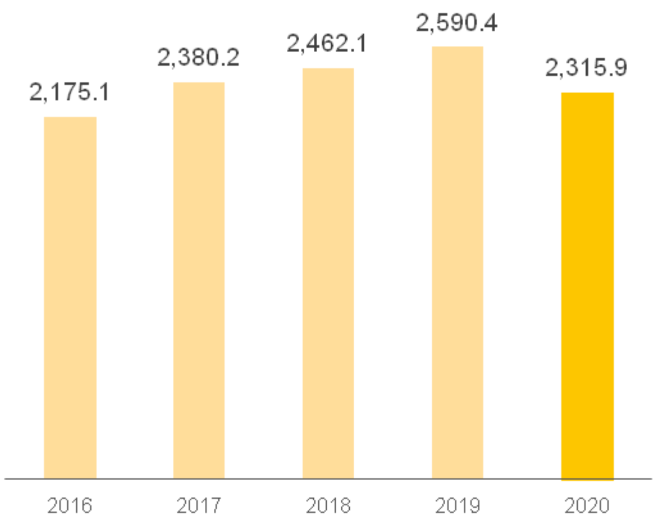
TWh sold (-0.1%)

Results for volumes of electricity sold were essentially in line with the previous year. This trend is mainly due to a fall in safeguarded volumes coming to 440.3 GWh, equivalent to 3.4% of total volumes sold, mainly due to the Covid-19 emergency, and in traditional markets, amounting to 205.9 GWh or 1.6%, entirely offset by the corporate acquisitions mentioned above, which contributed with 636.7 GWh, equivalent to 5.0%.

The following table summarises operating results for the area:

Income statement (mn€)	Dec 20	% inc.	Dec 19	% inc.	Abs. change	% change
Revenues	2,315.9		2,590.4		(274.5)	(10.6)%
Operating costs	(2,090.3)	(90.3)%	(2,376.1)	(91.7)%	(285.8)	(12.0)%
Personnel costs	(48.7)	(2.1)%	(45.0)	(1.7)%	3.7	8.2%
Capitalised costs	11.3	0.5%	9.1	0.4%	2.2	24.2%
Ebitda	**188.2**	**8.1%**	**178.5**	**6.9%**	**9.7**	**5.5%**

REVENUES (MN€)



2.3

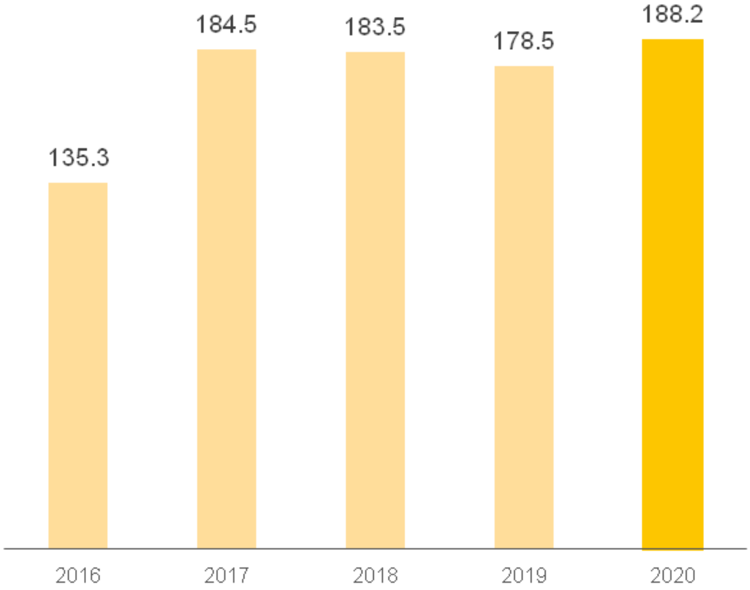
billion euro revenues (-10.6%)

Revenues decreased by 234.3 million euro, or 12.1%, compared to 2020. The main reasons for this include lower revenues from trading coming to 85 million euro, the lower price of raw materials coming to roughly 60 million euro and lower revenues from generation amounting to roughly 33.0 million euro. All these effects are partly linked to the average annual trend in the PUN, which fell by 24% compared to the previous year.
Moreover, the negative effects of the Covid-19 emergency confirmed the reduction in volumes sold, as mentioned above, which generated lower revenues coming to approximately 56 million euro and lower revenues from off-grid transmission and system charges amounting to 154 million euro, with an equal effect on costs. This decrease was only partly offset by higher revenues coming from the acquisition of the companies belonging to the EstEnergy Group and AmgasBlu Srl, coming to approximately 116 million euros.

Regulated revenues increased by 1.5 million euro compared to 2019. This increase was made possible by changes in tariffs related to Capex updates, the recognition of prior accruals and other minor regulatory effects. These positive effects were only partially offset by the lower operating costs recognized in the 2020-2023 regulatory semi-period defined by resolution 568/2019.
Lastly, contributions for energy efficiency certificates were down by approximately 3.0 million, as mentioned in the previous chapters.

The decrease in revenues was proportionally reflected in operating costs, which showed a decrease coming to 285.8 million euro. This trend is mainly due to the lower price of raw materials and lower volumes, despite the growth due to changes in the scope of operations.

EBITDA (MN€)

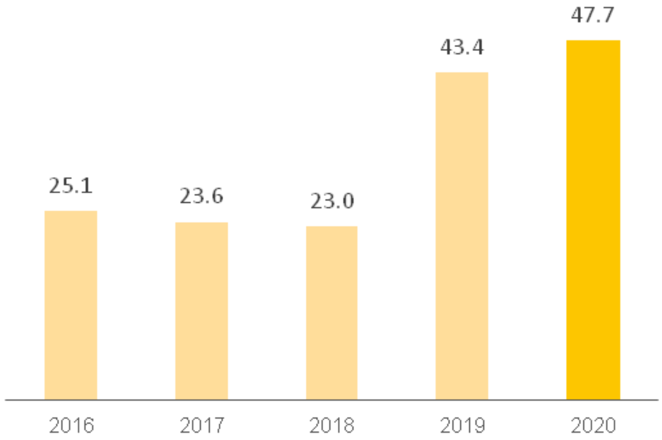


188.2
million euro
Ebitda (+5.5%)

Ebitda for the year rose by 9.7 million euro or 5.5%, due to higher earnings coming from the entry of the companies belonging to the EstEnergy Group and AmgasBlu Srl and electricity generation activities in the dispatching service market, which offset the lower volumes and earnings due to the Covid-19 emergency, with an overall impact in lower earnings coming to 8.4 million euro.

In the electricity area, 2020 investments came to 47.7 million euro, up 4.3 million euro compared to the previous year.
The interventions carried out mainly involved non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the previous year, a 3.5 million euro increase was seen in electricity distribution, and a 0.9 million euro increase in energy sales, for activities linked to acquiring new customers. Requests for new connections also increased compared to the previous year.

NET INVESTMENTS ELECTRICITY (MN€)



47.7
million euro net investments electricity

Operating investments in the electricity area were as follows:

Electricity (mn€)	Dec 20	Dec 19	Abs. change	% change
Networks and plants	31.4	27.9	3.5	+12.5%
Acquisition electricity customers	16.4	15.5	0.9	+5.8%
Total electricity gross	**47.7**	**43.4**	**4.3**	**+9.9%**
Capital grants	-	-	-	+0.0%
Total electricity net	**47.7**	**43.4**	**4.3**	**+9.9%**

RAB, which defines the value of the assets recognised by the Authority as regards return on invested capital, remained in line with the amount seen in 2019.

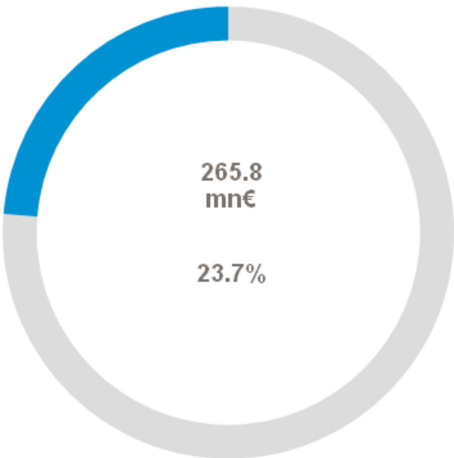
RAB (BN€)

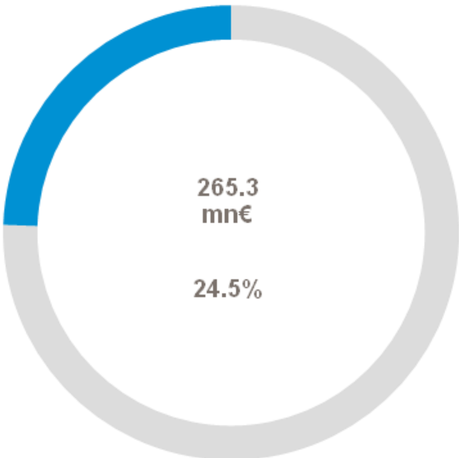
0.37
billion euro 2020 RAB

1.07.03 Integrated water cycle

Slight growth in results for 2020

In 2020, the integrated water cycle area showed slight growth in results compared to the previous year, with an increase in Ebitda coming to 0.2%. As regards regulations, note that 2020 is the first year in which the tariff method defined by the Authority for the third regulatory period (Mti-3), 2020-2023 (resolution 580/2019), is 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.

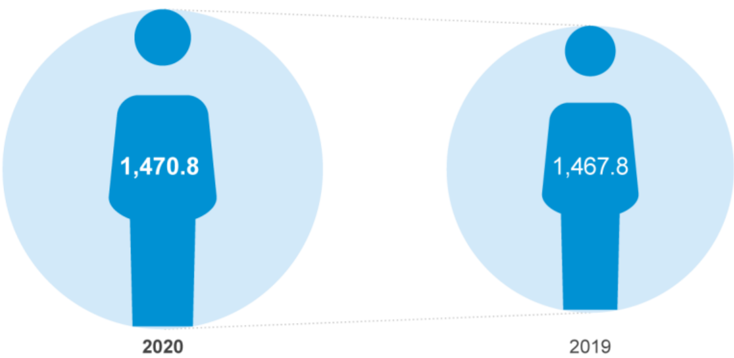




The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 20	Dec 19	Abs. change	% change
Area Ebitda	**265.8**	**265.3**	**0.5**	**+0.2%**
Group Ebitda	1,123.0	1,085.1	37.9	+3.5%
Percentage weight	23.7%	24.5%	(0.8) p.p.	

CUSTOMERS (K)



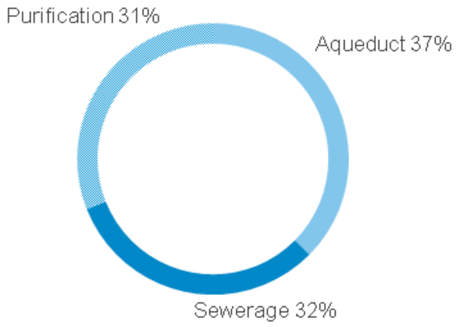
1.5 million customers integrated water cycle (+0.2%)

The number of customers rose compared to the previous year by 3.0 thousand or 0.2%, confirming the moderate trend towards internal growth seen in the Group's reference areas, mainly in the Emilia-Romagna region managed by Hera Spa.

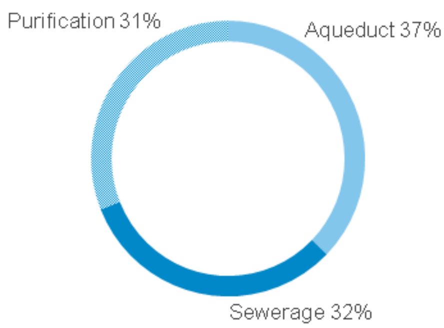
The main indicators for the area are as follows:

285.9 million m³: quantity managed in the aqueduct

QUANTITY MANAGED 2020 (mn m³)

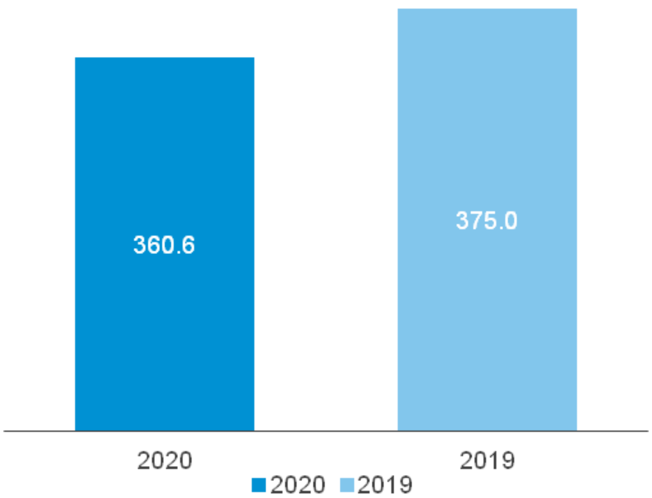


QUANTITY MANAGED 2019 (mn m³)



The volumes supplied through the aqueduct settled at 285.9 million m^3 and showed a slight decrease coming to 1.2% compared to 2019, corresponding to 3.5 million m^3. In December 2020, the quantity managed relating to sewerage came to 240.8 million m^3, down 2.3% compared to the previous year, while purification stood at 236.7 million m^3, with a slight decrease coming to 1.8% compared to 2019. 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 call for a regulated revenue to be recognised independently from volumes distributed.

ELECTRICITY CONSUMED (GWh)



360.6 GWh

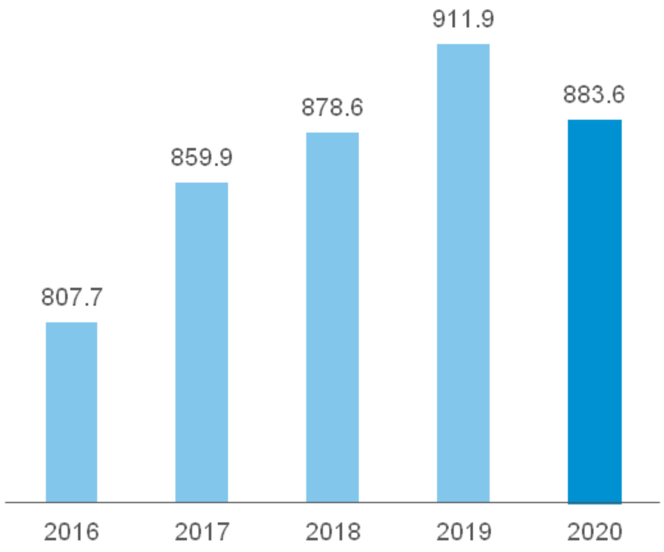
electricity consumed in plants (-3.8%)

Electricity consumed in plants dropped by 14.4 GWh. This decrease is mainly linked to the lower volumes supplied in 2020, as described above.

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

Income statement (mn€)	Dec 20	% inc.	Dec 19	% inc.	Abs. change	% change
Revenues	883.6		911.9		(28.3)	(3.1)%
Operating costs	(439.8)	(49.8)%	(471.8)	(51.7)%	(32.0)	(6.8)%
Personnel costs	(183.7)	(20.8)%	(179.9)	(19.7)%	3.8	+2.1%
Capitalised costs	5.8	0.7%	5.2	0.6%	0.6	+11.6%
Ebitda	**265.8**	**30.1%**	**265.3**	**29.1%**	**0.5**	**+0.2%**

REVENUES (mn€)

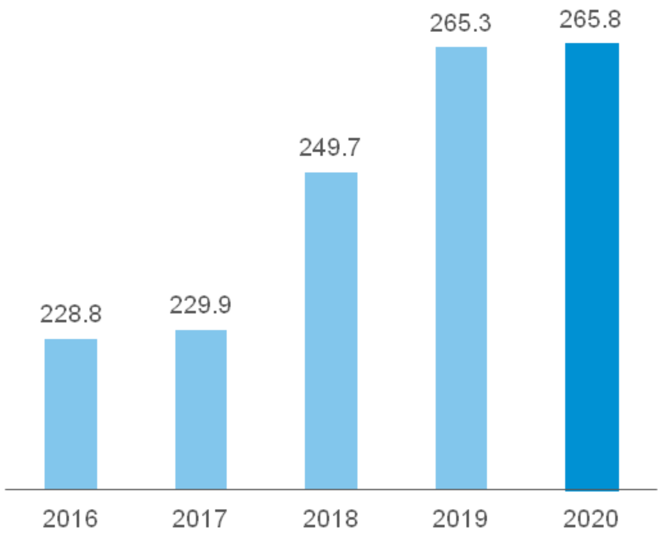


883.6
million euro
revenues integrated water cycle (-3.1%)

Of this decrease in revenues, 17.0 million euro overall was due to lower revenues for subcontracts and works on behalf of third parties carried out in 2020. Also note the lower other revenues, coming to approximately 0.9 million euro, mainly related to contributions received to cover extraordinary costs for the 2017 water emergency, recognized in 2019. Revenues from supply showed a decrease coming to 11.1 million euro, mainly due to the reduction in the equalization costs for electricity and water as a raw material, partially offset by the tariff adjustment in the new method, Mti-3.

The reduction in operating costs in December 2020 is mainly due to lower costs related to the lesser works, described above under revenues, for a total of 17.0 million euro. Furthermore, lower costs were seen for water as a raw material and electricity, coming to approximately 13.5 million euro, while the remainder consisted in lower operating costs for network and plant management, coming to roughly 1.4 million euro.

EBITDA (mn€)

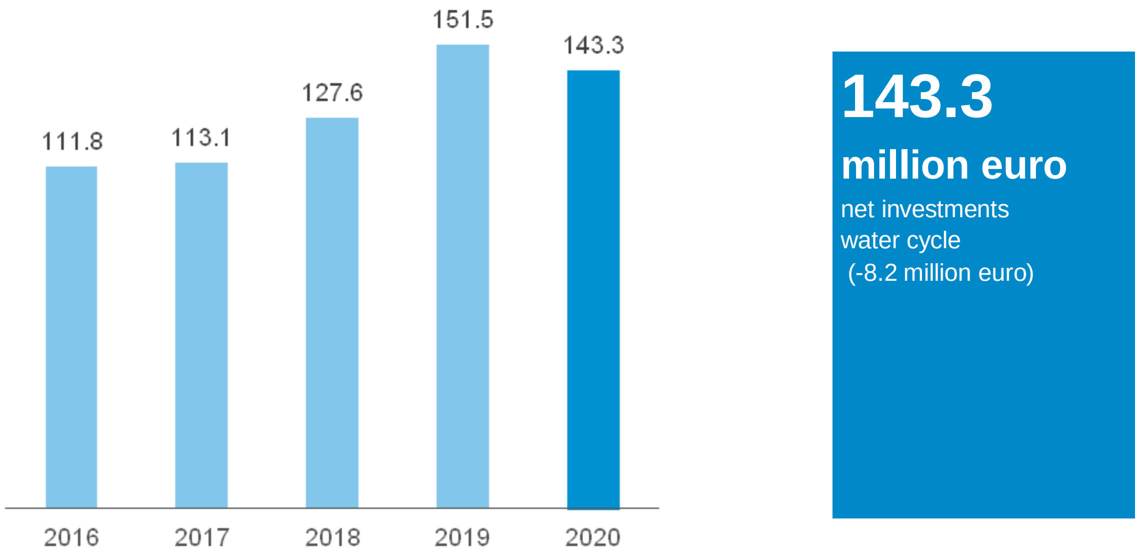


265.8
million euro
Ebitda integrated water cycle (+0.2%)

Ebitda grew slightly, by 0.2%. The negative effects on business caused by the Covid-19 emergency led on the whole to a 1.6 million euro drop in Ebitda, consisting in lower new connections, customer requests and subcontracted works, offset by the efficiency initiatives introduced by the Group.

In 2020, net investments in the integrated water cycle area amounted to 143.3 million euro, down 8.2 million euro compared to the previous year. Including the capital grants received, the investments made amounted to 166.2 million euro, down 9.6 million euro.
These investments mainly refer to extensions, reclamation and network and plant upgrading, as well as regulatory adjustments, especially in the purification and sewerage sectors.
Investment amounted to 98.8 million euro in the aqueduct, 39.1 million euro in sewerage and 28.2 million euro in purification treatment.

NET INVESTMENTS WATER CYCLE (mn€)



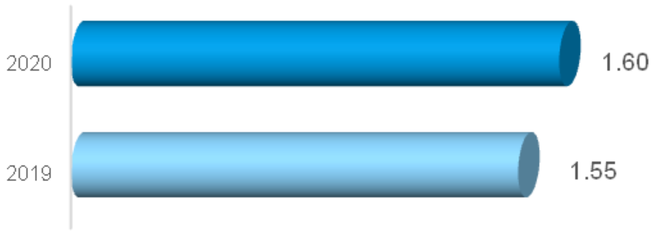
Among the main interventions, note: in the aqueduct, increased reclamation activities on networks and connections, partially linked to Arera resolution 917/2017 on regulating technical quality in the integrated water service; upgrading and renewal for abductors in two municipalities in the Bologna area; earthquake-proof upgrading and redevelopment of hanging tank areas; in sewerage, the progress on the important works for the seawater protection plan in Rimini continued, although in 2020 a lower impact of the interventions pertaining to Hera is expected than in the previous year. Maintenance interventions continued in sewerage network upgrading for other areas served, as did works for drain upgrading pursuant to Dgr 201/2016; in purification, note the upgrading on the Lido di Classe and Lugo purifiers, creating the rain line, and revamping the Ferrara purifier.
Requests for new water and sewer connections were up compared to the previous year.
Capital grants amounted to 22.9 million euro, including 13.6 million euro linked to the tariff component of the tariff method for the New Investment Fund (FoNI), and were down 1.3 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 20	Dec 19	Abs. change	% change
Aqueduct	98.8	99.7	(0.9)	(0.9)%
Purification	28.2	27.7	0.5	+1.8%
Sewerage	39.1	48.3	(9.2)	(19.0)%
Total integrated water cycle gross	**166.2**	**175.8**	**(9.6)**	**(5.5)%**
Capital grants	22.9	24.2	(1.3)	(5.4)%
of which FoNI (New Investments Fund)	13.6	13.4	0.2	+1.5%
Total integrated water cycle net	**143.3**	**151.5**	**(8.2)**	**(5.4)%**

RAB, which defines the value of the assets recognised by the Authority as regards return on invested capital, increased compared to 2019.

RAB (bn€)



1.60

billion euro

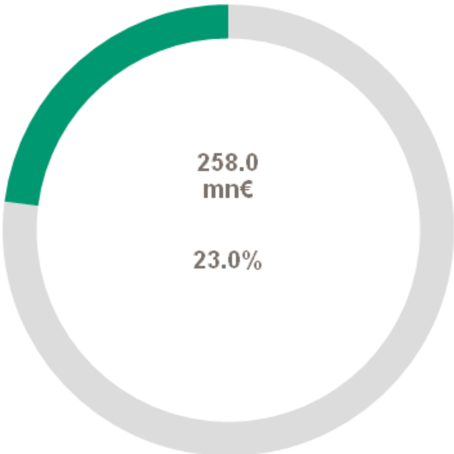
2020 RAB

1.07.04 Waste management

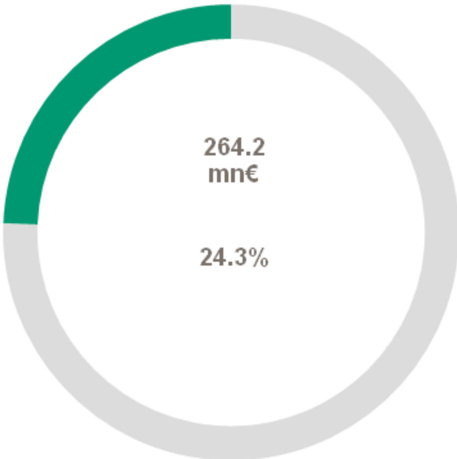
Ebitda drops

In 2020, the waste management area accounted for 23.0% of the Hera Group's Ebitda, with its own Ebitda falling compared to 2019, since 2020 felt the negative effects of the Covid-19 epidemic. The ensuing and necessary restrictive measures concerning people, and the closure of most commercial and industrial activities during the lockdown, led to a decrease in waste production and, with regard to the plastic waste recovery and recycling market, a drop in demand for recycled plastic materials as well as a fall in the prices of recycled products. In this extraordinary context, the Hera Group was able to react promptly and make its professionalism available to the communities in the areas served, and to its customers, to overcome the emergency together. The size and variety of its customer portfolio, along with the finalisation of commercial partnerships, allowed all waste treatment plants to operate at full capacity. The protection of environmental resources was confirmed as a priority objective in 2020, as was the maximization of their reuse; this is demonstrated by the particular attention dedicated to increasing sorted waste collection, which was up by almost one percentage point compared to December 2019.

EBITDA WASTE MANAGEMENT AREA 2020



EBITDA WASTE MANAGEMENT AREA 2019



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

(mn€)	Dec 20	Dec 19	Abs. change	% change
Area Ebitda	**258.0**	**264.2**	**(6.2)**	**(2.3)%**
Group Ebitda	1,123.0	1,085.1	37.9	+3.5%
Percentage weight	23.0%	24.3%	(1.3) p.p.	

Volumes marketed and treated by the Group in 2020 are as follows:

Quantity (k tons)	Dec 20	Dec 19	Abs. change	% change
Municipal waste	2,219.1	2,347.8	(128.7)	(5.5)%
Market waste	2,187.6	2,211.1	(23.5)	(1.1)%
Waste commercialised	**4,406.7**	**4,558.9**	**(152.2)**	**(3.3)%**
Plant by-products	2,203.2	2,616.2	(413.0)	(15.8)%
Waste treated by type	**6,609.9**	**7,175.1**	**(565.2)**	**(7.9)%**

An analysis of this data shows a drop in waste commercialised, due to decreases in both municipal waste and market waste. As regards municipal waste, 2020 saw a drop coming to 5.5%, with sorted and sandy shore quantities falling in particular, along with unsorted waste.

Market volumes showed a slight decrease compared with the previous year, due to the lower activity caused by the Covid-19 health emergency.

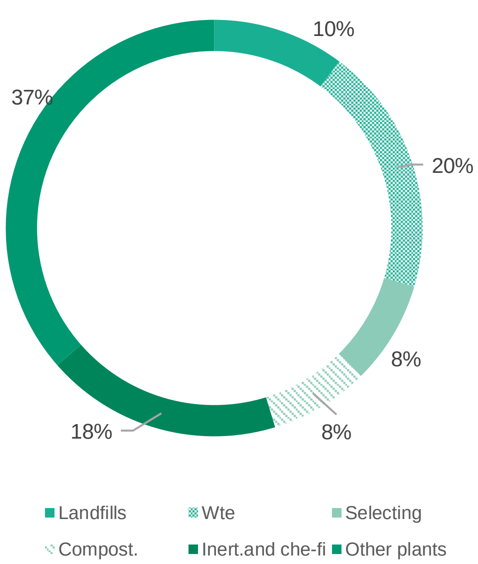
Lastly, plant by-products fell compared to the previous year, due to both lower quantities processed and lower rainfall.

SORTED WASTE (%)

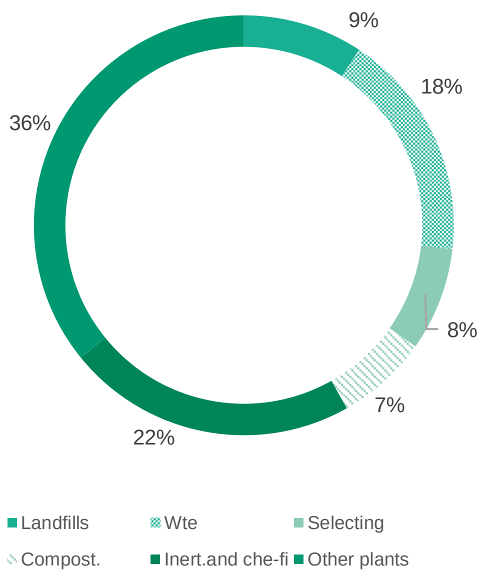
Further progress was made in sorted municipal waste, which increased by 0.7 percentage points compared to the previous year. At December 2020, sorted waste rose by 0.7 p.p. in Emilia-Romagna, in the Triveneto region growth settled at 0.7 p.p., while in the Marche region growth came to 0.9 p.p.

The Hera Group operates in the entire waste cycle, with 93 plants used for municipal and special waste treatment and plastic material regeneration. The most important of these include: nine waste-to-energy plants, 12 composters/digesters and 14 selecting plants.
The care and attention given to the set of plants was a distinctive element of the Group's desire for excellence in 2020 as well: two new revamping projects for existing plants intended to produce biomethane were defined and the second cycle began in modernising three of the Group's waste-to-energy plants.

WASTE TREATED BY TYPE OF PLANT 2020



WASTE TREATED BY TYPE OF PLANT 2019



Quantity (k tons)	Dec 20	Dec 19	Abs. change	% change
Landfills	677.4	663.5	13.9	+2.1%
WTE	1,275.4	1,259.9	15.5	+1.2%
Selecting plants and other	530.7	572.8	(42.1)	(7.3)%
Composting and stabilisation plants	509.4	506.1	3.3	+0.7%
Inertisation and chemical-physical plants	1,208.4	1,600.2	(391.8)	(24.5)%
Other plants	2,408.7	2,572.7	(164.0)	(6.4)%
Waste treated by plant	**6,609.9**	**7,175.1**	**(565.2)**	**(7.9)%**

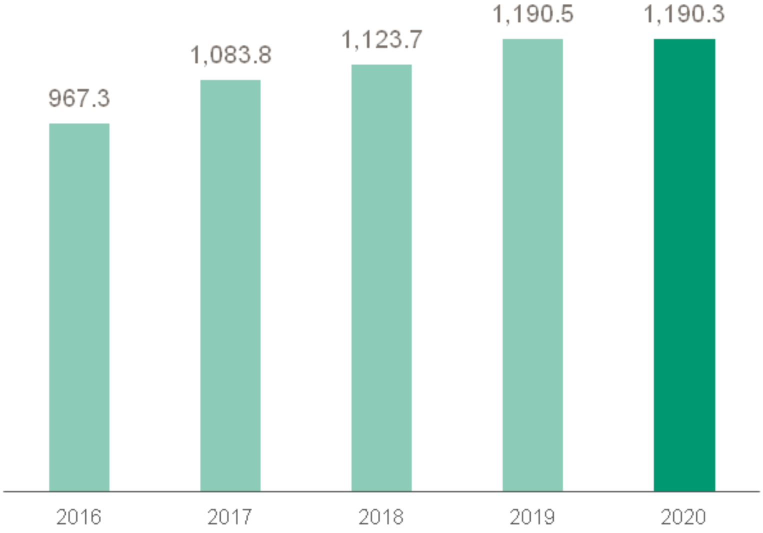
Waste treatment showed an overall decrease coming to 7.9% compared to December 2019. In this regard, note the higher quantities in landfills due to the full activity of the Loria and Serravalle Pistoiese landfills. In the set of the waste-to-energy plants, the trend was mainly due to a different scheduling of plant shutdowns and planned maintenance compared to the same period in 2019, along with an increase in waste delivered. The decreased quantities in sorting plants is due to the lower quantities processed, mainly in the Rimini and Bologna plants. In composting and stabilization plants, volumes remained essentially the same. The lower quantities in inertisation and chemical-physical plants sector are mainly due to a reduction in leachate from landfills, due to the lower rainfall, and the reduced activity related to the health emergency. Finally, the decrease in the other plants sector was mainly due to a reduction in by-products, mainly wastewater, treated in third-party plants.

The table below summarises the area's operating results:

Ebitda falls

Income statement (mn€)	Dec 20	% inc.	Dec 19	% inc.	Abs. change	% change
Revenues	1,190.3		1,190.5		(0.2)	(0.0)%
Operating costs	(740.2)	(62.2)%	(733.5)	(61.6)%	6.7	+0.9%
Personnel costs	(203.6)	(17.1)%	(201.2)	(16.9)%	2.4	+1.2%
Capitalised costs	11.4	1.0%	8.4	0.7%	3.0	+35.6%
Ebitda	**258.0**	**21.7%**	**264.2**	**22.2%**	**(6.2)**	**(2.3)%**

REVENUES (mn€)

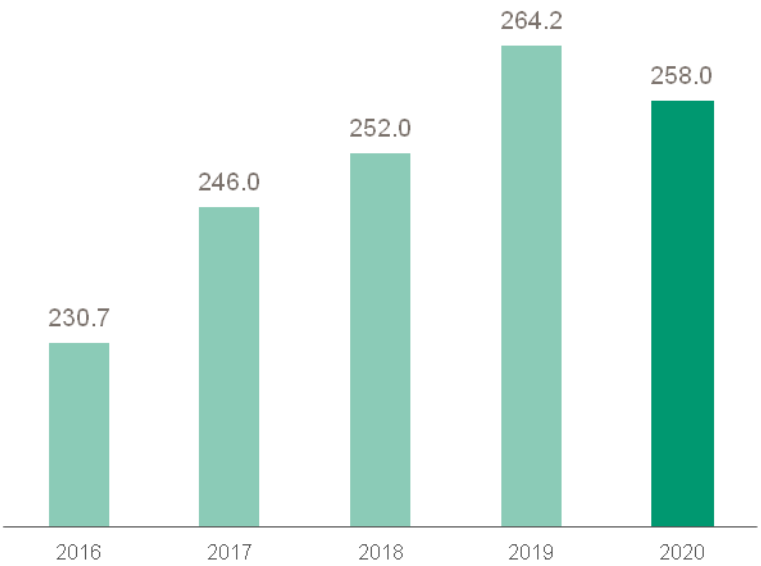


1,190.3
million euro
revenues (-0.0%)

Revenues were essentially in line with the previous year. Revenues from electricity production were lower as a result of both the loss of energy incentives for one plant and a drop in market and thermal energy prices, despite higher production in WTE. Also note the lower contribution from Aliplast Spa, resulting from both a decrease in products sold and the incentives received the previous year as an energy-intensive company. Finally, note the the decrease in reclamation and the drop in volumes treated, despite the higher revenues linked to increasing commercial activities and trading. These negative effects were only partly offset by the positive trend in the prices of special waste and higher revenues from increased sorted waste in the municipal waste collection service.

Operating costs in December 2020 rose by 0.9%. Higher costs were seen for increasing commercial activities and treating by-products and, as regards municipal waste, higher costs were linked to the developing new sorted waste collection projects. This growth was offset by the lower costs of scheduled maintenance on the Group's plants, lower costs related to the lower volumes treated and a reduction in reclamation activities. In addition, a decrease was seen in the purchasing costs on the PET incurred by Aliplast Spa, related to the trend revenues mentioned above.

EBITDA (mn€)



258.0

million euro

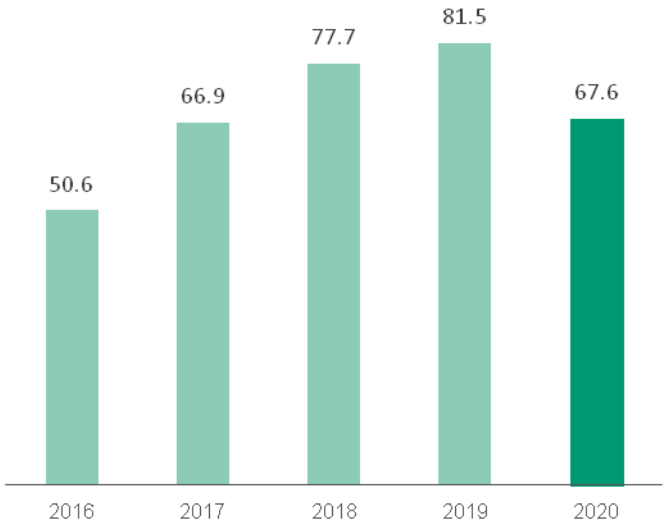
Ebitda (-2.3%)

The decrease in Ebitda is due to lower revenues from electricity generation, only partly offset by higher prices for special waste treatment. The overall impact of the Covid-19 epidemic, consisting in lower volumes treated, lower earnings from plastic recovery, despite the containment actions implemented by the Group during the national lockdown, amounted to a 4.4 million euro drop in Ebitda.

Net investment in the waste management area regarded maintenance and upgrading in waste treatment plants and amounted to 67.6 million euro, down 13.9 million euro compared to the previous year.
The composting/digesters sector showed a 3.6 million euro drop, due to the significant interventions carried out the previous year on the composting plant in Sant'Agata Bolognese for the construction of the biomethane plant that became fully operational in 2019, as well as other interventions including upgrading the mechanical biological treatment plant in Tre Monti.
Investments in landfills fell by 6.3 million euro, due to the interventions carried out in 2019 on Cordenons, the tenth sector of the Ravenna landfill and the plants belonging to Marche Multiservizi Spa, only partially offset by the works started in 2020 on the Il Pago plant.
Investments in the WTE sector were in line with the previous year and concerned non-recurring maintenance on the main plants in this area.
Investments in the industrial waste plants sector increased by 2.1 million euro compared to the previous year and mainly concerned revamping on the F3 plant in Ravenna and work on the Tapo plant (organic production water treatment), once again in Ravenna.
The ecological areas and collection equipment sector saw investments fall by 2.6 million euro compared to the previous year, mainly in the areas served by AcegasApsAmga Spa, while the 3.0 million euro drop in the selection and recovery plants sector was mainly due to the higher investments

made in the previous year by Aliplast Group and the completion in 2019 of the mobile soil washing plant in Chioggia.

NET INVESTMENTS WASTE MANAGEMENT (mn€)



67.6

million euro

net investments waste management

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

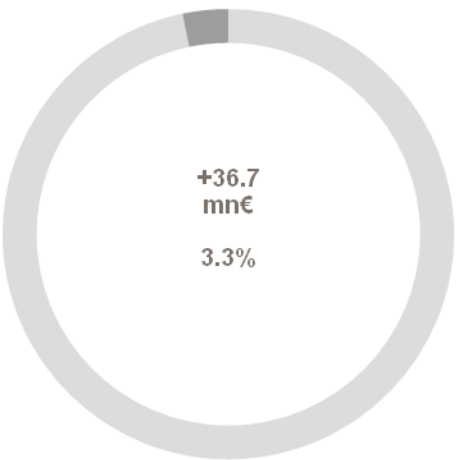
Waste management (mn€)	Dec 20	Dec 19	Abs. change	% change
Composters/digesters	4.7	8.3	(3.6)	(43.4)%
Landfills	10.8	17.1	(6.3)	(36.8)%
WTE	14.0	14.0	-	+0.0%
RS plants	6.6	4.5	2.1	+46.7%
Ecological areas and collection equipment	14.4	17.0	(2.6)	(15.3)%
Transshipment, selecting and other plants	17.9	20.9	(3.0)	(14.4)%
Total waste management gross	**68.3**	**81.8**	**(13.5)**	**(16.5)%**
Capital grants	0.7	0.3	0.4	+133.3%
Total waste management net	**67.6**	**81.5**	**(13.9)**	**(17.1)%**

1.07.05 Other services

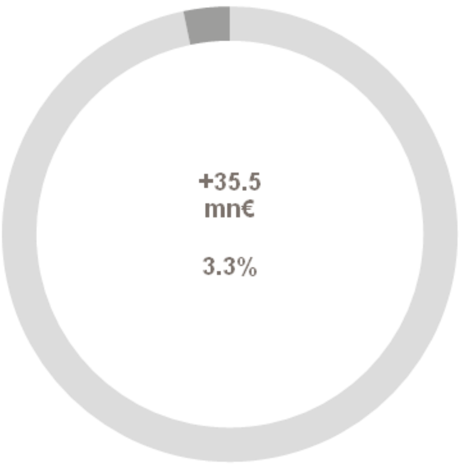
Ebitda rises

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, leading 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 2020, results in this area were up by 3.4%, corresponding to 1.2 million euro.

OTHER SERVICES EBITDA 2020



OTHER SERVICES EBITDA 2019



The changes occurred in terms of Ebitda are as follows:

(mn€)	Dec 20	Dec 19	Abs. change	% change
Area Ebitda	**36.7**	**35.5**	**+1.2**	**+3.4%**
Group Ebitda	1,123.0	1,085.1	+37.9	+3.5%
Percentage weight	3.3%	3.3%	-	

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

Quantity	Dec 20	Dec 19	Abs. change	% change
Public lighting				
Lighting points (k)	571.3	548.7	+22.6	+4.1%
of which LED	35.1%	27.5%	+7.6	+0.0%
Municipalities served	188.0	181.0	+7.0	+3.9%

571.3 thousand lighting points

During 2020, the Hera Group acquired approximately 24.3 thousand lighting points in 10 new municipalities. The most significant acquisitions were: roughly 8.3 thousand lighting points in Lombardy, roughly 9.1 thousand lighting points Friuli-Venezia Giulia, roughly 1.1 thousand lighting points Sardinia and roughly 3.4 thousand lighting points in regions of central Italy. Lastly, more lighting points were managed in municipalities already served coming to roughly 2.4 thousand lighting points. The increases seen during the year fully offset the loss of approximately 1.7 thousand lighting points and 3 municipalities managed in Friuli-Venezia Giulia.

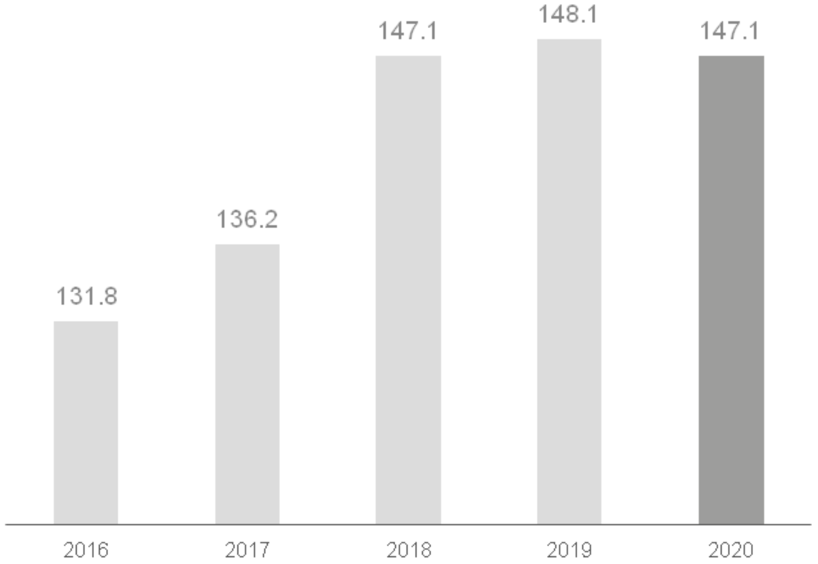
The percentage of lighting points using LED bulbs also rose, settling at 35.1%, up 7.6 percentage points. This performance highlights the Group's constant focus on an increasingly efficient and sustainable management of public lighting.

Among the quantitative indicators of the other services area, also note the 4,300 km of proprietary ultra-wideband fibre-optic network owned by Hera Group through its digital company Acantho Spa. This network serves the main cities in Emilia-Romagna, Padua and Trieste, offering businesses and private customers high-performance connectivity with outstanding reliability, system and data security and service continuity.

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

Income statement (mn€)	Dec 20	% inc.	Dec 19	% inc.	Abs. change	% change
Revenues	147.1		148.1		(1.0)	(0.7)%
Operating costs	(92.0)	(62.5)%	(94.3)	(63.7)%	(2.3)	(2.4)%
Personnel costs	(20.3)	(13.8)%	(20.2)	(13.7)%	0.1	+0.5%
Capitalised costs	1.8	1.2%	2.0	1.4%	(0.2)	(10.0)%
Ebitda	**36.7**	**24.9%**	**35.5**	**24.0%**	**1.2**	**+3.4%**

REVENUES (mn€)



147.1

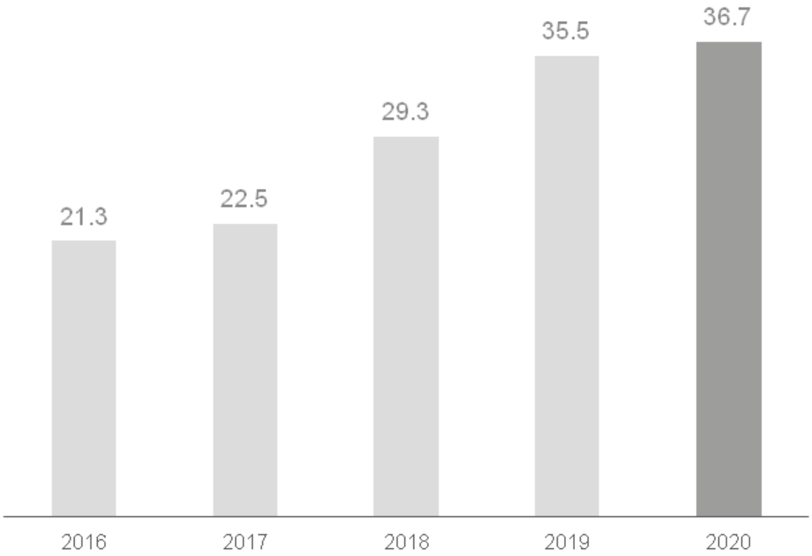
million euro

revenues (-0.7%)

The slight fall in revenues is mainly due to public lighting and largely involves the changed price of electricity in management fees (with a pass-through effect on costs) and balances for sums dating to the previous year, partially offset by recovery in the works carried out by Hera Luce. This decrease was only partially offset by higher revenues in the telecommunications business, due to increased requests for IT security services, connectivity, IT support and smart devices, partially due to an increase in remote working in client companies.

The contained operating costs were primarily due to the changed price of electricity, as mentioned above, only partly offset by increased progress on public lighting works.

EBITDA (mn€)

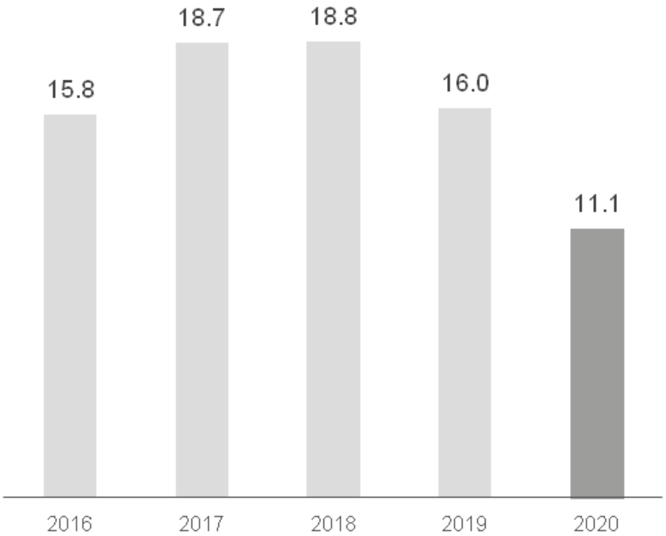


36.7
million euro
Ebitda (+3.4%)

The growth in Ebitda was due to higher earnings in telecommunications services, which fully offset the lower contribution from lighting and the negative effects of the Covid-19 pandemic, which led to a decrease in earnings coming to 1.3 million euro.

In 2020, investments in the other services area totalled 11.1 million euro, down 4.9 million euro compared to the previous year.
In telecommunications, 8.1 million euro were invested in the network and in TLC and IDC (Internet data centre) services, down 2.0 million euro compared to the previous year. In the public lighting service, investments totalling 3.0 million euro involved maintenance, upgrading and modernization works on lighting systems in the areas served, falling compared to the previous year, mainly due to the different accounting of public lighting contracts under IFRIC 12.

NET INVESTMENTS OTHER SERVICES (mn€)



11.1
million euro
net investments
other services

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

Other services (mn€)	Dec 20	Dec 19	Abs. change	% change
TLC	8.1	10.1	(2.0)	(19.8)%
Public lighting and traffic lights	3.0	5.9	(2.9)	(49.2)%
Total other services gross	**11.1**	**16.0**	**(4.9)**	**(30.6)%**
Capital grants	-	-	-	+0.0%
Total other services net	**11.1**	**16.0**	**(4.9)**	**(30.6)%**

1.08 COVID-19 EMERGENCY MANAGEMENT

For more than a year now, owing to the Coronavirus pandemic that struck the entire planet, new challenges have arisen for people, institutions and companies. These new demands primarily involve protecting people's health, but also the economy due to the effect on production, as well as social issues due to the sudden change in people's lives and habits.

At the very beginning of the health emergency, the Group adopted a structured and organic crisis management model, counting on its resilience in every strategic area and proactively committing itself to constantly updating its operational plans according to the evolving situation. This was done to ensure compliance with all measures aimed at service and safety, provide continuous information to company personnel and stakeholders, and implement all containment initiatives intended to reduce the economic and financial impact. Regarding this latter aspect, management provided itself with weekly reports that, by way of specific indicators, made it possible to monitor business performance in relation to the impact of the pandemic on the socio-economic fabric in which the Group operates. In these reports, the focus went on the one hand to quantitative business data (consumption recorded, volumes managed, services provided) that, with their fluctuations, offered the best indication of economic trends in the industrial sector, and on the other to data relating to customer management, to better understand the financial factors related to liquidity risk. This continuous monitoring enabled management to promptly take the necessary corrective actions to mitigate or offset the negative effects deriving from the crisis. The Group was also able to seize a number of opportunities from the crisis, especially in terms of a digital transformation in services and processes, while at the same time managing the consequent emerging risks, especially in the area of IT security.

For each key area impacted by the crisis, the actions taken by the Group to deal with the health emergency and adapt to the new context in which its operating processes must be carried out are outlined below.

Service continuity and stakeholder relations

In order to guarantee continuity in essential services for citizens, in compliance with safety, reliability and efficiency criteria, programs for network and plant operations and maintenance were reviewed. Only those that could not be postponed were carried out, and those that were not essential, according to the limitations provided by emergency regulations, were delayed. Physical contacts were limited to activities essential for service continuity and those for which the physical presence of personnel is concretely necessary. In accordance with government regulations, help desks were closed during the most critical periods of the emergency. During these periods, however, the Group always ensured service continuity for customers, via pre-existing phone and digital channels, which were reinforced. When help desks were reopened, adequate prevention and protection measures were put in place for workers and users.

Based on agreements with **Municipal Administrations**, targeted street sanitation interventions were carried out and dedicated services for collecting waste produced by Covid-19 positive or quarantined citizens were introduced. In the case of door-to-door collection, the possibility to request additional service was provided. For people in isolation, following the indications of the municipalities served, a household collection service was introduced with specialized suppliers.

The Group was also involved in an experimental project launched by the National Health Institute to detect the presence of Covid-19 in municipal sewage, in order to search for and measure the concentration of the virus in the samples collected, and thus monitor and give indications as to the spread of the epidemic. The Group also collaborated actively with Utilitalia, to provide the Civil Protection and the Ministry of Health with the data necessary to quantify the amount of vaccine to be dedicated to all employees of Italian multi-utilities who provide essential public services.

In order to prevent critical issues from arising along the **supply chain**, a number of essential categories for the Group's activities were identified and monitoring indicators were introduced. Suppliers working with the Group were required to adopt the same safety measures for their employees as those already identified by Hera. Criteria for accessing sites continued to be demanding, limited to situations of necessary. In order to support small and medium-sized companies having credits for supplies or services, and allow these companies to have an additional source of financing, the Group continued to be willing to pay receivables owed by it, providing all support necessary to complete the related factoring operations. Moreover, as of the second half of 2020, the Group granted advance payment for the amounts contracted to suppliers who were awarded tenders.

Customers were encouraged to use digital channels, for meter readings as well. Arera adopted specific regulatory measures to protect electricity, gas and integrated water service users (for further details see the section “Businesses and regulations” in paragraph 1.01 “Contexts and trends”). The Group had in any case decided to act in advance, granting instalment payments to all customers receiving unemployment benefits or income support measures, and owners of businesses closed due to national or local regulations. Nevertheless, the delayed payments granted did not have a negative impact on the Group’s liquidity, thanks to credit management and a considerable improvement in the time required to collect receivables when due.

Health and safety

In implementation of the national protocol signed by the social partners and the government, a regulatory document was developed containing a set of prevention and protection measures adopted to counter the spread of the virus. This document was subject to various evaluations by the competent authorities (Local health authorities/Labour inspectorate), who confirmed the validity of its contents, and was then presented to and signed by the national trade unions on 15 May 2020. This protocol is continuously updated based on changes in the pandemic, in order to keep it always consistent with the development of the national regulatory framework and the evolution of prevention and protection measures.

As regards the specific nature of its business and its local presence, the Group established criteria for identifying risk scenarios caused by the spread of the Covid-19 virus, from an Enterprise Risk Management point of view. These criteria, along with the measures defined in the Group’s protocol, were used to update the risk assessment document. The choice of having a single Group model for assessing of risks and defining prevention and protection measures made it possible to follow an integrated and synergic approach. After the protocol was drawn up, the measures adopted and their implementation were indeed periodically monitored. In this regard, a specific checklist was developed allowing the heads of the various organizational units to periodically monitor the situation. As of the date on which this report was prepared, roughly 5 thousand checklists have been completed and managed.

Respecting the indications provided by health authorities, and in order to safeguard and protect employees, a specific procedure was defined for managing workers with specific fragilities, i.e. those with current or previous illnesses that make them susceptible to particularly serious consequences in the event of infection. This procedure was developed in a collaboration with medical authorities and in full respect of privacy. In order to immediately interrupt any chains of transmission of the virus on the workplace, rapid tests were carried out to identify any asymptomatic positive carriers. 42 accredited laboratories were identified in the areas where the Group operates and could be activated if necessary, with the active collaboration of the appropriate doctors. The measures introduced by the Group since the onset of the pandemic proved to be effective in limiting the spread of the virus among employees, as shown by the fact that the incidence rate (number of cases per thousand people) in the Hera Group was about 15% lower than the amount found among the overall population of Northern Italy.

Additional cleaning and sanitization of company premises (compared to regular standards) was carried out using disinfectants, and the frequency of these activities was increased. All staff on external service were constantly provided with the personal protection equipment needed to deal with the health emergency (e.g. respiratory protection masks, disinfectant gels, disposable gloves and overalls). Disinfectant gel dispensers were introduced in company offices, at entrances and near communal areas, and a supply of surgical masks was given to each employee. In company cafeterias and other shared areas, behavioural norms were defined that provided for staggered entries and a specific logistics for space management that allowed for an appropriate distancing between people.

Additionally, methods for carrying out on-field services were defined, introducing health safety standards for workers, including reduced travelling (including the extension of the “vehicle at home” program for maintenance workers) and the elimination of the use of locker rooms or, where this was not possible, revised work shifts to reduce overlap between operating units.

Lastly, Hera introduced a Covid-19 insurance policy for all employees infected by the virus, with all costs covered by the company. This policy provides, as additional benefits, a package of guarantees and services and, in particular, provides hospitalization indemnity, recovery indemnity and post-hospitalization assistance.

Work organization and technology

The intensive use of alternative work and communication tools made necessary by the pandemic raised a major challenge for the Group, which immediately set itself the objective of enabling thousands of its employees to continue working remotely, in order to ensure service continuity, but also to allow them to more easily manage their private lives. Making the most of the experience previously gained in remote working for hundreds of its employees, the Group was able to extend this program by effectively addressing its significant technical and organizational impact, in compliance with IT security requirements and without interrupting work activities. More specifically, remote working was confirmed as a structural element of the company's work organization, and training was aimed at further encouraging an agile corporate culture, based on flexibility, delegation skills, activity planning and remote collaboration. This strategic approach made it possible to additionally extend remote working, understood as the possibility of working from one's own home or, more generally, in a place other than the assigned headquarters, for two days a week, in a structural way.

In order to ensure the security of information systems, controls on virtual private network (VPN) access were increased and more in-depth automated controls are constantly being introduced. However, the increased use of remote working tools also heightened the risk of exposure to cyberattacks. From an organizational point of view, the Group decided to provide itself with central structures, dedicated in particular to analysing and measuring risks and managing IT security for all company areas. In its approach to cyber-threat management, Hera focused on three main aspects:

- increasing the level of awareness among company employees regarding cybersecurity;
- moving from a reactive model for incident management to one that is as predictive as possible;
- identifying and adopting targeted technological solutions, able to ensure continuous evolution.

Awareness-raising policies were introduced through the use of dedicated platforms, and ethical phishing campaigns were made systematic, correlating the results of these campaigns to specific training proposals.
From a technological point of view, advanced tools were introduced to protect workstations and servers, as were functions aimed at making digital identity and IT access management increasingly secure. Protection was strengthened through by analysing data traffic on the internal network and, thanks to an optimization of the intrusion detection system, a method of merely reporting possible intrusion attempts was replaced by automatic blockage when certain conditions occur. Vulnerability assessment activities were intensified in order to intercept any vulnerability found in systems or applications that could be exploited by an attacker. Moreover, a threat intelligence service was introduced which, by following the main bulletins and through a direct relationship with the national Computer Security Incident Response Team, allows the state of the systems to be monitored with respect to particularly serious vulnerabilities that require rapid remediation.

Lastly, the pandemic led to a drastic reduction in business trips, with internal events also cancelled and, as a result, an exponential increase in remote meetings and virtual training rooms. Since Hera had already started a process of digitalization of processes some time ago, thanks to its adoption of the digital workplace, the Group's IT architecture was already adequate and able to support the increased use of digital collaboration tools.

See the section "Technology and human capital: innovation" in paragraph 1.01.02, "Strategic approach and management policies", for further details on the strategy adopted by the Group regarding cybersecurity, as well as paragraph 1.02.03 "Areas of risk: identification and management of risk factors" for an analysis of the related risks and management methods.

Potential impact on business, the financial situation and operating performance

The Group, much like the entire utilities sector, did not directly suffer from the interruption of activities due to the lockdown and subsequent restrictions. It did, however, have to cope with the fall in consumption resulting from the crisis. This reduction did not lead to a decrease in the Group's overall results, which continue to show growth, even though they were partially affected by the pandemic. Therefore, there are no critical issues regarding the Group's corporate continuity.

The sector that suffered most significantly was the commodities area, where a reduction was seen in demand for electricity and gas, especially from industrial customers, primarily due to the restrictions caused by the lockdown and the slow progress of economic recovery, as a result of further measures taken by the national and regional governments. The reduction in consumption primarily concerned Northern Italy, due to its industrial and productive fabric, characterized by intensive energy use. Alongside the reduction in demand, a decrease was also seen in electricity and gas prices. It should be noted that this reduction in prices was not caused solely by the economic impact of the restrictive measures, which accentuated a downtrend linked to the entry of new players and a changed mix of sources of generation, which caused a reduction in the PUN coming to around 24% compared to the previous year. As regards gas, the reduced price is well shown by the average annual trend for the CMEM tariff component, which decreased by 34% compared to 2019. For a more detailed analysis of these economic effects, see paragraphs 1.07.01 "Gas" and 1.07.02 "Electricity".

In the waste management sector, a reduction occurred in volumes of both municipal and special waste, as a result of the standstill in many production and commercial activities. Additionally, the slowdown in the construction sector led to a drop in new connections and customer services. These trends are described in paragraphs 1.07.03 "Integrated water cycle" and 1.07.04 "Waste management".

Faced with this crisis situation, the breakdown of the Group's business portfolio, marked by balance between free-market and regulated activities, is an initial factor that allowed the economic impact to be contained, since regulated activities were not affected in the short term by market phenomena related to the pandemic. The high level of resilience that characterizes the Group, not only in terms of infrastructures but also from an operational and organizational point of view, allowed it to maintain a positive trend of growth, containing the operating and financial impacts of the crisis. The year-end figures show, considering all business areas as a whole, a reduction in earnings caused by the Covid-19 health emergency coming to approximately 31.4 million euro (see paragraph 1.04.01 "Operating results and investments").

From a financial point of view, bearing in mind the positive trend in cash generation, the first part of the year saw an increase in requests for payment by instalments, which resumed in the last quarter when the second wave of the epidemic arrived. However, this trend was more than offset by an improved performance in collecting receivables because, thanks to an optimization of the credit origination and monitoring process, the Group was able to maintain the percentage of receivables collected at the same level as the previous year.

As regards the prospective management of financial requirements and the related cost, note that as of 31 December 2020 the Group has cash and cash equivalents coming to approximately 987.1 million euro, which can be freely used, committed lines of credit amounting to 650 million euro and uncommitted lines of credit totalling 537 million euro (as indicated in note 27 "Non-current and current financial liabilities" in paragraph 2.02.05 "Commentary notes to the financial statement formats"). Furthermore, in December 2020 the Group issued a new 500 million euro 10-year bond at a very low nominal rate, coming to 0.25%, which amply demonstrates Hera's ability to obtain resources on financial markets at sustainable costs. The Group's current financial situation, supported by careful management applied to all phases of the credit process and prospects for future performance in all businesses, enables the Group to maintain, even during the ongoing pandemic, the financial planning outlined in the 2021 budget. The projected investments have therefore been confirmed, as a necessary driving force for development especially in network activities, as have dividend payments, the latter increasing compared to the previous year, as already foreseen by the 2021-2024 Business Plan.

Considerations as to financial reporting

What follows are the considerations made and the analyses carried out based on factors including the updated planning information resulting from the Business Plan to 2024, approved by the BoD on 13 January 2021.

- Impairment test - due to its evolution and the ensuing pervasive effects on the economic environment in which the Group operates, Covid-19 represents a trigger event as regards impairment for the assets recorded in the financial statements. Owing to the uncertainty of the current context, the Group has considered two sensitivity scenarios, in order to measure its exposure to the risk of non-recoverable balance sheet items subject to impairment testing (as described in further detail in Note 32 of paragraph 2.02.05 “Commentary notes to the financial statement formats”). In the first scenario, the reduction in earnings seen in 2020 for all businesses in which the Group operates was projected for the next two years, hence reducing the cash flows used in valuations for 2021 and 2022 and expecting full recovery in earnings starting from 2023. This scenario would not entail any effect in terms of reducing the value of the assets below their recoverable value. For the second hypothesis, a worst-case scenario, a sensitivity analysis was carried out for the earnings of each individual business, aimed at identifying the percentage decrease that would essentially determine a correspondence between the book value of the individual CGUs and their recoverable value. As a result, only a reduction in Ebitda coming to over 12% concerning all years covered by the business plan (and therefore without assuming any recovery after the drop in 2020), would lead to an equivalence between the carrying amount and the recoverable value of the assets, moreover only concerning some CGUs;

- Valuation of derivative instruments – the impact of the health emergency on financial and raw material markets caused a reduction in the fair value of these instruments, and thus had an ensuing impact on equity and the balance sheets. As regards derivative financial instruments on commodities designated in hedge accounting, future transactions are currently still considered highly probable. Note 20 of paragraph 2.02.05 “Commentary notes to the financial statement formats” contains a sensitivity analysis, in the event of a shock to the underlying variables;
- Estimate of losses on receivables – the Hera Group uses probability measures for default, exposure at default and loss given default, to estimate annual provisions in the income statement and thus determine the allowance for doubtful accounts. These measures were developed on the basis of the available historical series, estimated according to the payment behaviour of customers and current credit processes, and thus calculated the expected lifetime loss, as defined by IFRS 9. During 2020, analyses were carried out in order to verify the resilience of the valuation models, considering both internal and external information that could act as a benchmark for the evolving macroeconomic context. Additional verifications concerning the forecast model for expected loss included:
  - an enrichment of the customer base of corporate clients, using Covid-impact information supplied by an external provider, aimed at identifying the impact of the pandemic on the counterparty’s specific risk, with reference going to the sector of products. Using this information, the Group was able to quantify turnover exposure and the related unpaid items exposure;
  - the use of specific tools to go into even further detail concerning the financial situation of customers, by analysing balance sheets and additional specific scores with a view to Covid-19 risk. Through these tools, a few highly concentrated clusters of credit portfolios were subjected to monitoring, in order to obtain specific daily assessments of the corresponding risks;
  - close monitoring of the corporate customer base, through daily updating in the rating supplied by a service provider, which made it possible to identify situations showing a deterioration in risk, immediately communicated to the specific management channels;
  - a focus on trends in new insolvency proceedings and bankruptcies.
  - the results of stress tests carried out on three forecast scenarios (baseline, medium and worst) regarding the Group's unpaid receivables showed that the allowance for doubtful accounts recorded is adequate.

Events occurred after year-end

The Group’s constant monitoring of quantitative indicators, as described above, indicates a situation still undergoing a crisis, which is however less acute than the one seen in the first months of 2020. The pandemic is not currently expected to have an effect on the Group’s business model in all its operating sectors over the medium-long term, nor therefore on its ability to generate profit or its financial performance. The Group’s operating and financial targets for 2021 have therefore been confirmed, since the Group does not believe that current conditions require it to revise its growth forecasts.

1.09 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 2020, which close with profits totalling 217,017,464.38 euro;

resolves:

- to approve Hera Spa's financial statements at 31 December 2019 and the report on management prepared by the Board of Directors;
- to allocate profits for the 1 January 2020 – 31 December 2020 financial year, for a total of 217,017,464.38 euro as follows:
  - 10,850,873.22 euro to the legal reserve; and
  - 0.11 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
  - 42,317,329.21 euro to the extraordinary reserve.

The total dividend paid out therefore amounts to 163,849,261.95 euro, corresponding to 0.11 euro for each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio);

- to establish 7 July 2021 as the initial date for dividend payment, and 5 July 2020 as ex-dividend date for coupon no. 19, dividends being paid to shares recorded at 6 July 2021;
- 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.

1.10 NOTICE CONVENING THE SHAREHOLDERS MEETING

GRUPPO HERA

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 2021 at 10.00 on a single call** to discuss and decide on the items on the following:

Agenda

Extraordinary Part of the Shareholders’ Meeting

1. Amendment of Article 3 of the Articles of Association: related and consequent resolutions.
2. Amendment of Article 20 of the Articles of Association: related and consequent resolutions.

Ordinary Part of the Shareholders’ Meeting

1. Financial statements as at 31 December 2020 of Hera S.p.A.: related and consequent resolutions. Presentation of the consolidated financial statements as at 31 December 2020 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. Renewal of the authorisation to purchase treasury shares and disposal procedure thereof: related and consequent resolutions.

Considering that it is still necessary to take precautions to avoid situations of risk caused by the spread of the COVID-19 pandemic, in accordance with the fundamental principles of health protection, pursuant to the provisions of Law no. 21 of 26 February 2021, converting Legislative Decree no. 183 of 31 December 2020, article 3, subsection 6, **those entitled to attend the Shareholders' Meeting will attend the Meeting, without access to the place of the meeting, exclusively through the Designated Representative** (in the case in question, Computershare S.p.A.) pursuant to article 135-*undecies* of Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Financial Intermediation - “TUF”), in the manner described herein.
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 shareholders or the proxy-holders thereof.

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

Entitlement to speak and vote at the Shareholders' Meeting

Anyone who holds voting rights at the end of the accounting day of 19 April 2021 (*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 23 April 2021, 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 2021 will not have the right to attend and vote at the Shareholders' Meeting.

Anyone else who has the right to attend the shareholders' meeting (members of the Board of Directors and Board of Statutory Auditors, the Designated Representative and Secretary) may also or only attend through the use of telecommunications devices that make it possible to identify them, as provided by article 106, of the Legislative Decree no. 18/2020, converted in Law no. 27/2020 lastly amended by article 3, subsection 6, of Legislative Decree no. 183 converted in Law no. 21/2021.

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 will be downloaded, as soon as possible, on the Company's website www.gruppohera.it in the section Corporate Governance, 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 2021). 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 26 April 2021).

Voting by correspondence or e-mail will not be allowed.

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 3:00 p.m. on 12 April 2021 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 2021, 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 21 April 2021, following the procedure indicated on the Company's website (www.gruppohera.it).

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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.

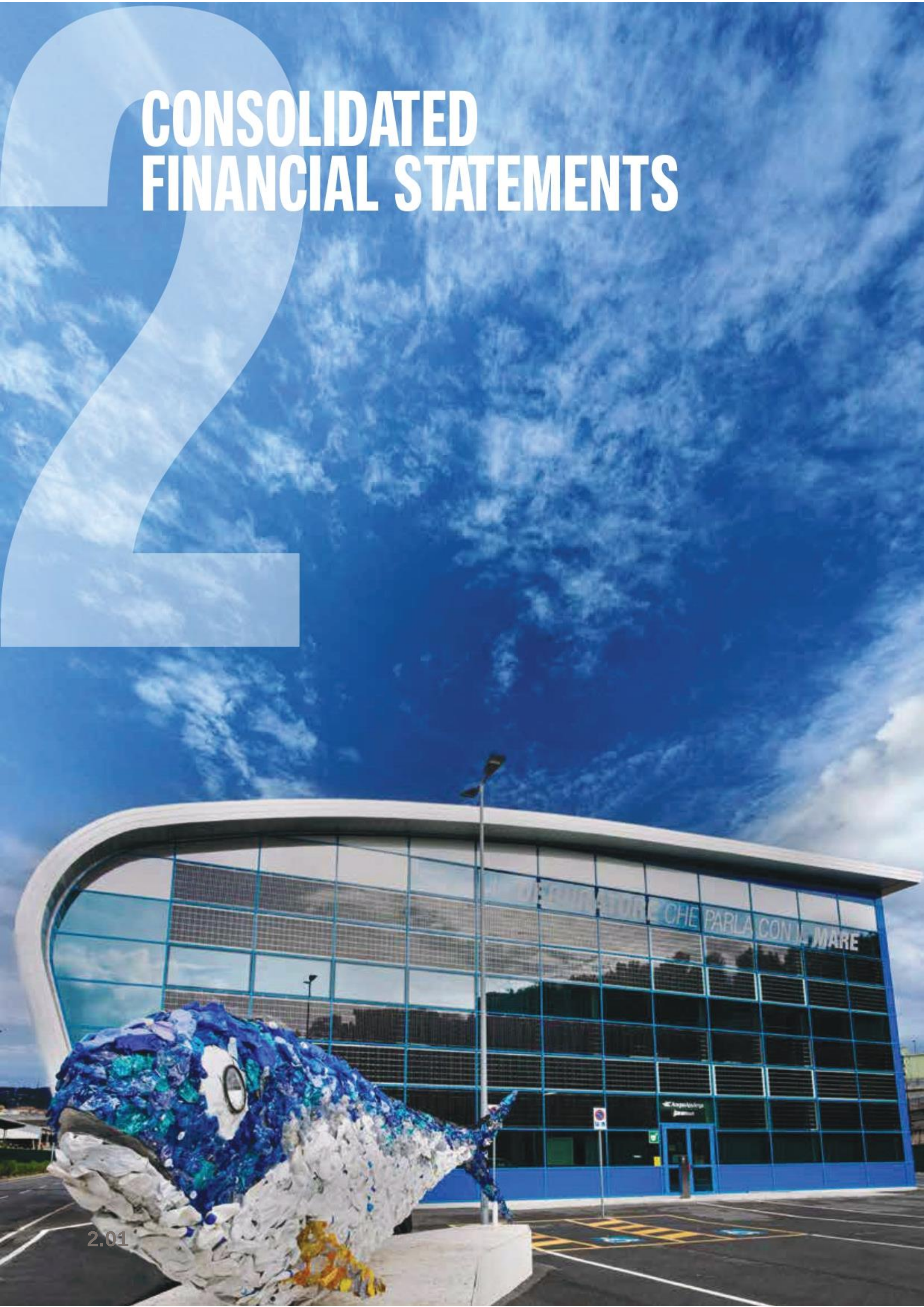
Additional instructions
Given the current COVID-19 epidemiological emergency and the fact that it is currently impossible to predict how it will develop, the Company reserves the right, when this is permitted or required by law or regulatory provisions that may be issued, and in accordance with the limits 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, 26 March 2021

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

GRUPPO HERA

2 CONSOLIDATED FINANCIAL STATEMENTS



FINANCIAL STATEMENT FORMATS

2.01.01 Income statement

mn/€	notes	2020	2019
Revenues	1	7,079.0	6,912.8
Other operating revenues	2	467.8	530.8
Raw materials and stocks	3	(3,410.6)	(3,458.2)
Service costs	4	(2,424.9)	(2,318.2)
Personnel costs	5	(572.7)	(560.4)
Other operating costs	6	(58.9)	(59.3)
Capitalised costs	7	43.3	37.6
Amortisation, depreciation and provisions	8	(571.7)	(542.6)
Operating revenues		**551.3**	**542.5**
Share of profits (losses) pertaining to joint ventures and associated companies	9	8.2	13.4
Financial income	10	73.4	108.2
Financial expenses	10	(198.3)	(247.6)
Financial operations		**(116.7)**	**(126.0)**
Other non-operating revenues (expenses)	11	-	111.6
Earnings before taxes		**434.6**	**528.1**
Taxes	12	(111.8)	(126.1)
Net profit for the period		**322.8**	**402.0**
Attributable to:			
parent company shareholders		302.7	385.7
minority shareholders		20.1	16.3
Earnings per share			
Basic	13	0.206	0.262
Diluted	13	0.206	0.262

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	2020	2019
Profit (loss) for the period		**322.8**	**402.0**
Items reclassifiable to the income statement			
Fair value of derivatives, change for the period	21	60.8	(76.8)
Tax effect related to reclassifiable items		(17.5)	22.4
Items not reclassifiable to the income statement			
Actuarial income (losses) post-employment benefits	28	(1.9)	(5.6)
Equity investments valued at fair value	18	(3.5)	-
Tax effect related to not reclassifiable items		0.4	1.4
Total comprehensive profit (loss) for the period		**361.1**	**343.4**
Attributable to:			
parent company shareholders		341.7	327.3
minority shareholders		19.4	16.1

2.01.03 Statement of financial position

mn/€	notes	31 Dec 20	31 Dec 19
ASSETS			
Non-current assets			
Property, plant and equipment	14.32	1,926.5	1,992.7
Rights of use	15.32	95.9	96.9
Intangible assets	16.32	3,924.4	3,780.2
Goodwill	17.32	812.8	812.9
Equity investments	18.32	187.9	143.5
Non-current financial assets	19.36	140.8	135.3
Deferred tax assets	20	156.6	174.8
Derivative financial instruments	21	14.4	41.1
Total non-current assets		**7,259.3**	**7,177.4**
Current assets			
Inventories	22	171.7	176.5
Trade receivables	23.36	1,971.6	2,065.3
Current financial assets	19.36	32.8	70.1
Current tax assets	24.36	11.7	42.1
Other current assets	25.36	487.5	395.7
Derivative financial instruments	21	113.1	72.2
Cash and cash equivalents	19.34	987.1	364.0
Total current assets		**3,775.5**	**3,185.9**
Assets held for sale		**-**	**-**
TOTAL ASSETS		**11,034.8**	**10,363.3**

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 20	31 Dec 19
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	26	1,460.0	1,474.8
Reserves	26	1,198.1	948.0
Profit (loss) for the year		302.7	385.7
Group net equity		**2,960.8**	**2,808.5**
Non-controlling interests	26	194.5	201.5
Total net equity		**3,155.3**	**3,010.0**
Non-current liabilities			
Non-current financial liabilities	27.36	3,678.7	3,456.3
Non-current lease liabilities	15.36	73.5	76.1
Post-employment and other benefits	28	116.7	127.3
Provisions for risks and charges	29	538.2	521.8
Deferred tax liabilities	20	120.5	154.5
Derivative financial instruments	21	20.1	27.4
Total non-current liabilities		**4,547.7**	**4,363.4**
Current liabilities			
Current financial liabilities	27.36	616.9	305.5
Current lease liabilities	15.36	20.1	19.4
Trade payables	30.36	1,497.5	1,391.8
Current tax liabilities	24.36	25.4	86.9
Other current liabilities	31.36	1,056.2	1,047.9
Derivative financial instruments	21	115.7	138.4
Total current liabilities		**3,331.8**	**2,989.9**
TOTAL LIABILITIES		**7,879.5**	**7,353.3**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**11,034.8**	**10,363.3**

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 20	31 Dec 19
Earnings before taxes		**434.6**	**528.1**
Adjustments to reconcile net profit to the cashflow from operating activities			
Amortisation and impairment of assets		457.1	433.7
Allocation to provisions		114.6	108.9
Effects from valuation using the equity method		(8.2)	(13.4)
Other non-operating revenues			(111.6)
Financial (income) expenses		124.9	139.4
(Capital gains) losses and other non-monetary elements		(6.7)	7.0
Change in provision for risks and charges		(30.2)	(28.5)
Change in provision for employee benefits		(13.5)	(12.2)
Total cash flow before changes in net working capital		**1,072.6**	**1,051.4**
(Increase) decrease in inventories		(3.8)	(17.9)
(Increase) decrease in trade receivables		4.8	(162.5)
Increase (decrease) in trade payables		101.9	(65.0)
Increase/decrease in other current assets/liabilities		(65.1)	103.6
Changes in working capital		**37.8**	**(141.8)**
Dividends collected		10.1	13.3
Interest income and other financial income collected		37.4	44.9
Interest expenses and other financial charges paid		(81.9)	(115.0)
Taxes paid	33	(184.6)	(123.1)
Cash flow from operating activities (a)		**891.4**	**729.7**
Investments in property, plant and equipment		(140.6)	(164.2)
Investments in intangible assets		(365.8)	(369.0)
Investments in companies and business units net of cash and cash equivalents	34	(1.8)	(185.4)
Other equity investments	34	(46.8)	(10.3)
Sale price of property, plant and equipment and intangible assets		3.6	4.7
Divestment of equity investments and contingent considerations	34	2.0	168.2
(Increase) decrease in other investment activities		30.8	(31.1)
Cash flow from (for) investing activities (b)		**(518.6)**	**(587.1)**
New issue of long-term binds	35	512.6	315.0
Repayments of non-current financial liabilities	35	(2.0)	(100.7)
Repayments and other net changes in financial payables	35	(18.9)	(377.0)
Lease payments	35	(22.1)	(19.0)
Acquisition of interests in consolidated companies	35	(1.2)	(2.2)
Dividends paid out to Hera shareholders and non-controlling interests		(163.3)	(161.5)
Changes in treasury share		(54.8)	31.3
Cash flow from (for) financing activities (c)		**250.3**	**(314.1)**
Increase (decrease) in cash and cash equivalents (a+b+c)		**623.1**	**(171.5)**
Cash and cash equivalents at the beginning of the period		364.0	535.5
Cash and cash equivalents at the end of the period		987.1	364.0

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) post-employment benefits	Reserves - equity investments valued at fair value	Profit for the period	Net equity	Non-controlling interests	Total
Balance at 31 Dec 18	**1,465.3**	**926.8**	**16.5**	**(29.8)**		**281.9**	**2,660.7**	**186.0**	**2,846.7**
Adoption of IFRS 16		(3.4)					(19.3)	(0.6)	(19.9)
Balance as at 1 Jan 2019	**1,465.3**	**923.4**	**16.5**	**(29.8)**	**-**	**281.9**	**2,657.3**	**185.4**	**2,842.7**
Profit for the period						385.7	385.7	16.3	402.0
Other components of comprehensive income:									
fair value of derivatives, change for the period			(54.4)				(54.4)		(54.4)
actuarial income (losses) post-employment benefits				(4.0)			(4.0)	(0.2)	(4.2)
Overall profit for the period	**-**	**-**	**(54.4)**	**(4.0)**	**-**	**385.7**	**327.3**	**16.1**	**343.4**
changes in treasury shares	9.5	22.6					32.1	(0.8)	31.3
changes in equity investments		(0.7)					(0.7)	(1.5)	(2.2)
changes in the scope of consolidation		(58.4)					(58.4)	13.7	(44.7)
Allocation of revenues:									
dividends paid out						(149.1)	(149.1)	(11.4)	(160.5)
allocation to reserves		132.8				(132.8)	-		-
Balance at 31 Dec 19	**1,474.8**	**1,019.7**	**(37.9)**	**(33.8)**	**-**	**385.7**	**2,808.5**	**201.5**	**3,010.0**

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) post-employment benefits				(1.3)			(1.3)	(0.2)	(1.5)
fair value of derivatives, 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**
changes in treasury shares	(14.8)	(29.9)					(44.7)		(44.7)
changes 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**

2.02 EXPLANATORY NOTES

2.02.01 Accounting policies

Hera Spa is a joint-stock company established in Italy, listed on the Milan Borsa stock exchange and headquartered in Bologna, Viale Berti Pichat 2/4. Hera and its subsidiaries (the Group) operate mainly in the environmental (waste management and treatment), water (aqueduct, sewage and purification) and energy (distribution and sale of electricity, gas and energy services) sectors, also providing public lighting, telecommunications and energy efficiency services.

The consolidated financial statement as at 31 December 2020, comprised of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity and explanatory notes, have been prepared in compliance with Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of International Accounting Financial Reporting Standards (hereinafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 9 of Legislative Decree no. 2005/38.

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

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 statements, 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 paragraph "Significant estimates and valuations" in paragraph 2.02.03 "Evaluation criteria and consolidation principles".

The figures in these financial statements are comparable with the same balances of the previous financial year, unless indicated otherwise in the notes commenting on the individual items. In comparing the single items of the income statement and statement of financial position any significant change in the scope of consolidation outlined in the specific paragraph must also be taken into account.

These consolidated financial statements at 31 December 2020 were drawn up by the Board of Directors and approved by the same at the meeting held on 24 March 2021. This financial statement underwent auditing by Deloitte & Touche Spa.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of and for the year ended 31 December 2019. A vertical format has been used for the income statement, with 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 from the income statement, as permitted by IAS 1revised, distinguishing that may be reclassified subsequently to profit and loss and those that will never be reclassified to profit and loss. The other components of comprehensive income are shown separately also in the Statement of changes in equity. 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, as allowed by IAS 7.

In the financial statements any non-recurring costs and revenues are indicated separately. Moreover, with reference to Consob resolution no. 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 euros, unless otherwise indicated.

2.02.02 Scope of consolidation

The consolidated financial statements at 31 December 2020 include the financial statements of the Parent Company Hera S.p.A. 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 are excluded from overall consolidation and valued at fair value recorded in other items of the comprehensive income statement. These subsidiary companies are recorded in note 18, item "Other minor companies".

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2020 financial year as compared to the consolidated financial statement at 31 December 2019:

Acquisition of control	Company / business unit
	Wolmann Spa

Exit from scope of consolidation	Company / business unit
	Cosea Ambiente Spa in liquidation
	Sviluppo Ambiente Toscana Srl in liquidation

Loss of significant influence	Company / business unit
	Q.tHermo Srl

Additional details regarding operations to acquire control for the financial period see section 1.3 "Significant events during the period" shown in the Directors' report.

On 26 February 2020, the subsidiary Sviluppo Ambiente Toscana Srl sold its shares, amounting to 39.5%, in the affiliated company Q.Thermo Srl, over which the Group had significant influence. As this shareholding was the only significant asset of Sviluppo Ambiente Toscana Srl, on 18 March 2020, the procedure for its early dissolution was initiated. The divestiture of Q.Thermo Srl involved a revenue in the amount of approximately 1.4 million euro.

On 21 December 2020, the Shareholders' Meeting of Cosea Ambiente Spa in liquidation approved the liquidation financial statements and on 24 December 2020, the company was removed from the register of companies.

Changes in equity investments

On 30 March 2020, AcegasApsAmga Servizi Energetici Spa purchased from Meta Srl a number of shares equal to 9.72% of Hera Servizi Energia Srl share capital, thus increasing its stake from 57.89% to 67.61%.

On 29 April 2020, the municipalities that are minority shareholders of Inrete Distribuzione Energia Spa, with a total stake of approximately 0.9% of company share capital, exercised their right to exchange their shares with Hera Spa shares, pursuant to the Framework Agreement signed in 2019. As a result of this operation, the Gruppo gained full control over the company.

The difference between the adjustment of these minority stakes 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

With effect from 1 January 2020, Alimpet Srl was merged by incorporation into Aliplast Spa and A Tutta Rete Srl, in liquidation, was merged into Inrete Spa and
Pistoia Ambiente Srl into Herambiente Spa.

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting standard IFRS3. Specifically, the management conducted analyses of the fair value of assets and liabilities and contingent liabilities, on the basis of information concerning facts and events available at the date of acquisition.
The evaluation process of Wolmann Spa is currently ongoing. If new and additional information currently not known, in accordance with the relevant accounting standards, should emerge by September 2021, the fair value measurement may be partially modified. It should also be noted that, given that no interim situation of reference was available at the acquisition date, the capital values were consolidated at 31 December 2020. The effects of this simplification are to be considered irrelevant for the income statement for the year 2020, also with reference to the margin indicators.

The table below shows the assets and liabilities acquired as part of the merger operation of Wolmann Spa recognized at fair value:

	Wolmann Spa	Total business combination
Non-current assets		
Property, plant and equipment	0.1	0.1
Rights of use	0.3	0.3
Intangible assets	5.3	5.3
Deferred tax assets	0.6	0.6
Current assets		
Inventories and ongoing works	0.5	0.5
Trade receivables	0.6	0.6
Other current assets	1.9	1.9
Non-current liabilities		
Financial liabilities	(1.5)	(1.5)
Lease liabilities	(0.2)	(0.2)
Post-employment	(0.1)	(0.1)
Deferred tax liabilities	(1.5)	(1.5)
Current liabilities		
Trade payables	(2.2)	(2.2)
Other current liabilities	(0.3)	(0.3)
Total net assets acquired	**3.5**	**3.5**
Fair value of consideration	3.5	3.5
Total value of the business combination	**3.5**	**3.5**
(Goodwill) / profit	-	-

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:

	Wolmann Spa	Total business combination
Reporting value of net assets acquired	**(0.3)**	**(0.3)**
Adjustments for fair value evaluation		
Intangible assets	5.3	5.3
Deferred tax assets (liabilities)	(1.5)	(1.5)
Fair value of net assets acquired	**3.5**	**3.5**
Cash outlay	1.8	1.8
Deferred consideration	0.2	0.2
Contingent consideration	1.5	1.5
Fair value of consideration	**3.5**	**3.5**

The management's evaluation of the fair value of the identifiable assets acquired and liabilities incurred, that also considered the recoverable value of the assets, led to identifying 5.3 million euro from the evaluation of process know-how. The useful life of this asset has been estimated to be five years, broadly in line with the company's planning period.

During the period, the valuation process for the acquisitions of "Pistoia Ambiente" and "Ascopiave trading activities", which took place on 1 July 2019 and 31 December 2019 respectively, was also completed.

The table below shows a comparison between the provisional and final fair value measurement of the assets and liabilities acquired for these two operations:

	Commercial assets Ascopiave		Pistoia Ambiente	
	Provisional	Final	Provisional	Final
Non-current assets				
Property, plant and equipment	0.3	0.3	11.9	8.6
Rights of use	3.2	3.2		
Intangible assets	430.7	430.7	67.1	73.4
Equity investments	19.5	19.5		
Financial assets	0.2	0.2		
Deferred tax assets	3.9	2.5	2.3	0.4
Current assets				
Inventories	1.5	1.5	0.1	0.1
Trade receivables	179.6	179.6		
Financial assets	16.4	16.4	0.3	0.3
Current tax assets	1.3	1.3		
Other current assets	54.8	56.2		
Derivative instruments	1.2	1.2		
Cash and cash equivalents	16.4	16.4		
Non-current liabilities				
Lease liabilities	(2.5)	(2.5)		
Post-employment	(2.1)	(2.1)	(0.2)	(0.2)
Provisions for risks and charges	(5.5)	(5.5)	(18.6)	(8.6)
Deferred tax liabilities	(93.0)	(93.0)	(20.1)	(22.0)
Current liabilities				
Financial liabilities	(7.0)	(7.0)		
Lease liabilities	(1.1)	(1.1)		
Trade payables	(132.9)	(132.9)		
Current tax liabilities	(72.7)	(73.3)		
Other current liabilities	(22.4)	(22.4)	(0.1)	(0.1)
Derivative instruments	(2.1)	(2.1)		
Total net assets acquired	**387.7**	**387.1**	**42.7**	**51.9**
Fair value of consideration	722.5	722.5	43.4	48.8
Fair value of interest owned	92.2	92.2		
Non-controlling interests acquired	3.6	3.6		
Total value of the business combination	**818.3**	**818.3**	**43.4**	**48.8**
(Goodwill) / profit	**(430.6)**	**(431.2)**	**(0.7)**	**3.1**

	Commercial assets Ascopiave		Pistoia Ambiente	
	Provisional	Final	Provisional	Final
Reporting value of net assets acquired	**74.5**	**74.5**	**(1.4)**	**(1.4)**
Adjustments for fair value valuation				
Property, plant and equipment			3.2	(0.1)
Intangible assets	430.7	430.7	67.1	73.4
Equity investments	19.3	19.3		
Provisions for risks and charges	(5.0)	(5.0)	(9.2)	0.8
Current assets/ (liabilities)	(40.2)	(39.4)		
Deferred tax assets (liabilities)	(91.6)	(93.0)	(17.0)	(20.8)
Fair value of net assets acquired	**387.7**	**387.1**	**42.7**	**51.9**
Cash outlay	296.6	296.6	45.0	45.0
Contingent consideration	425.9	425.9	(1.6)	3.8
Fair value of consideration	**722.5**	**722.5**	**43.4**	**48.8**

With regard to the "Pistoia Ambiente" business combination, at 30 June 2020 the management completed the analysis of the technical and authorisation-related feasibility pertaining the additional volumes that may be conferred in the Serravalle Pistoiese landfill, compared to those provisionally estimated at 31 December 2019. On the basis of the provisions contained in the agreement between the parties, these higher amounts conferrable led to adjust the estimate of the consideration transferred, resulting in the entry of a contingent consideration of 5.2 million euro. This value will be paid to the counterparty only after having obtained specific authorisation from the competent bodies for the incremental volumes, which is currently not expected to occur before 2024. Since this is a monetary amount to be paid in a future year, the corresponding debt has been discounted. In addition, the revision of the quantities that can be conferred led to a change in the estimated life of the landfill from the initial ten years to approximately 12 years.
The fair value of the authorisation for the waste disposal activity was recalculated and determined to be 73.4 million euro (67.1 million euro in the provisional valuation). This evaluation, in continuity of methodological approach, mainly reflects the re-evaluation of the residual volumes available for disposal.
The value of the post-closure provision was also adjusted for 0.8 million euro (compared to an upward adjustment for 9.2 million euro in the provisional valuation), aligning it to its fair value determined at the date of acquisition, and the same occurred for the related value of dismantling and restoration costs recorded under "Plant and machinery". These effects are mainly due to the more accurate estimate of the discount rate adopted, with particular reference to the coefficients characterising the business in question.
The deferred taxation corresponding to these evaluations led net liabilities for 20.7 million euro to be registered (17 million euro in the provisional valuation).
The residual outcome of accounting for the business combination resulted in a gain from a purchase at favourable prices (negative goodwill) of 3.1 million euro, unlike the provisional valuation where goodwill of 0.7 million euro was recognised. In light of their negligible amount, the effects arising from completing the process of measuring the fair value of the assets and liabilities acquired from Pistoia Ambiente Srl, compared to what was provisionally determined at 31 December 2019, were recognised in other changes in equity for a total of 3.3 million euro. This value includes the gain of 3.1 million euro from the purchase at favourable prices, as well as the residual adjustment of the economic effects recognised in the second half of 2019 fiscal year for 0.2 million euro.

With reference to the business combination "Ascopiave commercial activities", the final valuation led to very marginal changes, limited to the fair value of some current assets and liabilities, as well as deferred taxation. This update resulted in restating goodwill to 431.2 million euro compared to 430.6 million euro recognised at 31 December 2019.

Please see note 33 "Comments to the financial report" of paragraph 2.02.06 "Commentary notes to the financial statement formats" for an analysis of the cash flows associated with the business 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 IAS/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 paragraph 2.02.05 "Accounting standards, amendments and interpretations applied as of 1 January 2020". 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 a net equity item until the investment is sold.

The main exchange rates used to translate the value of the investees outside the euro zone are as follows:

	2020	31 Dec 20	2019	31 Dec 19
	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.443	4.560	4.277	4.257

The criteria and principles adopted are outlined here below.

Property, plant and equipment - Property, plant and equipment 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 dismantling, recovery 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 property, plant and equipment 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. Property, plant or equipment are classified as in progress when the process of economic use has not yet begun. Property, plant and equipment 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 property, plant and equipment 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%

As required by IAS 16, the estimated useful lives of property, plant and equipment 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 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 acquisition 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 forecasts 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 amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the Group. Intangible assets in progress includes costs relating to intangible assets for which the process of economic use has not yet begun. If the Intangible assets have an indefinite useful life, they are not amortised but 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 period they are incurred, unless their use extends over several years.

Industrial patent rights and rights of use of intellectual works are representative of assets that are identifiable and capable of generating future economic benefits under the control of the Group; these rights are depreciated 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 what 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 of the IFRIC 12 interpretation, since it was considered that the underlying concession arrangements did 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 considerations 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 recognised 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 commences 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 recognised in the income statement when the control of the asset is transferred to the buyer.

The amortisation 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 the fair value of the transferred assets, liabilities assumed and equity instruments issued in exchange for the control of the acquired company, 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.

Third-party 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. In cases in which 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 financial flow 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 recorded in 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 of acquisition over the 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. These investments, after initial assessment, are measured at fair value through other comprehensive income components. 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:
amortised cost;
fair value of the other comprehensive income components;
fair value of the profit (loss) for the fiscal period.
The 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 IFRIC 12 interpretation, 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 financial asset model is used by the Group for the contracts for the provision of public lighting services, 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 end 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 equity "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 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 derecognised 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 bonds). 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 - Where 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 (i.e. cost to cost), so as to apportion revenues and costs to the relevant financial years in proportion to the stage of completion of the work in question. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the statement of financial position assets or liabilities. 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 the total contract costs will likely 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 relating to liquid funds and cash equivalents includes cash and bank current 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 statement, 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 - At the effective date of the contract, lease liabilities are calculated as the current 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 represents the average rate at which the Group incurs debt, broken down by contractual maturity. It is determined annually in the budget on the basis of the final figures for previous years and is applied to contracts signed as from 1 January of each subsequent year. It is updated during the period in the event that significant shocks impact the Group's average indebtedness rate. For contracts with a duration of more than four years, the Group uses the medium/long-term indebtedness rate, while for contracts with a duration of four 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. 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. restoration of sites), the contra-entry to the provision made is an increase of the asset to which the liability refers; on the other hand, the financial charges are expensed out through the depreciation process of the item of property, plant and equipment to which the charge 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 financial 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 and, to a lesser extent, commodity trading operations.

In relation to 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 Group uses instruments to manage price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, which are aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

The economic effects of transactions regarding the purchase or sale of commodities, carried out to meet the Group's requirements in the ordinary course of business and for which settlement is expected in the form of the physical delivery of the goods, are recorded on an accruals basis (own-use exemption).

The transactions which, in observance of the risk management policies, satisfy the requisites laid down by the accounting standards for hedge accounting treatment are classified as hedging (recorded in the terms indicated below), while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as trading. In this case, the fair value changes of the derivative instruments are recognised through profit or loss during the period when they take place. Il fair value is determined on the basis of the market reference value.

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. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge are also recognised through profit or loss.

For instruments classified as cash flow hedges and that qualify as such, the fair value changes, only as far as the effective amount is concerned, are recorded in a specific equity reserve called "Reserve for derivatives valued at fair value" through the comprehensive income statement. This reserve is subsequently recognised in the income statement as soon as the underlying hedged instrument is realized. The change in fair value referring to the ineffective portion is immediately recorded in the income statement for 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 for 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 for 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 stated 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 stated on the basis of the tariffs approved by the Authority 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. The revenue is booked 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 investments" 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 fiscal periods (temporary differences), and components that will never be taxable or deductible (permanent differences). The item "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 stated 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 tax assets 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 recorded in the income statement, or equity, depending on how the difference in question was originally charged.

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 criteria 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 recorded in the income statement. Any net gain that might arise is set aside in a specific restricted reserve until the date of realisation.

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 outstanding shares, 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 tariffs established by ARERA resolutions.

Risk management

Credit risk
The credit risk faced by the Group originates from the articulation 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 its credit risk, the Group has defined procedures for selecting, monitoring and evaluating its customer portfolio. The benchmark market is the Italian 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 the 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 done 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 transactions
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 transactions
Concerning the wholesale business carried on by Hera Trading S.R.L., the Group is faced with 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 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 related to the procurement activities.

Covid 19 emergency management
Reference should be made to paragraph 1.08 "Covid 19 emergency management" of the management report for a more detailed analysis of the health emergency caused by the pandemic, with reference to

the plans implemented by the Group to tackle it, the analysis of the effects it had on the 2020 fiscal year and that may arise in future periods.

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 management 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 may give rise to changes 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.
In preparing the estimates and assessments presented below, the effects of the ongoing pandemic were taken into account, as indicated in further detail in paragraph 1.08 “Covid19 emergency management” of the management report.

Going concern
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 was formulated also taking into account the current pandemic context, as explained in detail in the above section.

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 32 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 it is believed probable that consideration will be received. They include the allocation for services rendered between the date of the last reading and the end of the financial year, but not yet billed. This allocation is based on estimated 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 company's management determines the useful life of an asset at the time it is booked; 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, it is possible that the actual useful life could 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 prices quoted on 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 derivatives contracts on commodity 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 international accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2020

Beginning 1 January 2020, the following accounting standards and associated amendments as issued by the IASB and endorsed by the European Union, apply:

Changes to the references to the Conceptual Framework - (Regulation 2075/2019). Document issued by IASB on 29 March 2018 and applicable beginning 1 January 2020 with the objective of updating references to the conceptual framework found in the IFRS, the latter having been revised by the IASB during the course of 2018. The Conceptual Framework defines the fundamental concepts for financial reporting and guides the development and interpretation of the IFRS standards, helping to ensure that the standards are conceptually consistent and that similar transactions are treated the same way, in order to provide useful information to investors, financiers and other creditors. The Conceptual Framework additionally represents a point of reference for companies in the preparation of accounting standards when no other IFRS standard is applicable to a particular operation.

Amendments to IAS 1 and IAS 8 - Definition of materials (Regulation 2104/2019). Document issued by IASB on 31 October 2018, applicable from 1 January 2020 with early application allowed. The amendments clarify the definition of materials and the way it should be applied in order to aid companies in their choice of which information to include in their financial statements. In particular, the document aims to additionally clarify the definition of "relevant" and introduces the concept of "concealed information" alongside the concepts of omitted or incorrect information already present in the two principles being amended. The amendment clarifies that information is "concealed" when it is described in such a way as to produce an effect similar to the effect that omitted or incorrect information would have produced.

Amendments to IFRS 9, IAS 39 and IFRS 7- Interest rate benchmark reform (Regulation 34/2020). Document issued by IASB on 26 September 2019, applicable from 1 January 2020 with early application allowed. The amendments establish temporary and limited exceptions to the hedge accounting provisions so that the provisions of the principles involved continue to be complied with, assuming that the benchmark indexes for determining existing interest rates will not be changed as a result of the interbank rate reform. In addition, it introduces the obligation to provide additional information to investors about the hedging relations that are directly affected by the uncertainties surrounding the reform.

Amendments to IFRS 3 - Business combinations (Regulation 551/2020). Document issued by IASB on 22 October 2018, applicable from 1 January 2020 with early application allowed. The amendments clarify the definition of business and will facilitate companies in determining whether the acquisition carried out concerns a business or rather a set of activities. Specifically, the new definition highlights that the aim of a business is to provide goods and services to customers, while the previous definition focused on yields in the form of dividends, cost savings or other economic benefits for investors.

Beginning 1 January 2020, the following amendments to the accounting standards issued by IASB and endorsed by the European Union, are applicable:

Amendment to IFRS 16 – Covid-19 related rent concessions (Regulation 1434/2020). Document issued by IASB on 28 May 2020 and applicable beginning 1 June 2020. The amendment states that, as a practical device, the lessee may choose not to assess whether a rent concession that meets the conditions set out in the standard is a lease modification. A lessee exercising this option shall account for any change in lease payments resulting from a concession on the lease payments directly to the income statement at the effective date of reduction. The practical device only applies to concessions on rents that are a direct consequence of the Covid-19 pandemic.

With reference to the application of these amendments and new interpretations, 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.

From 1 January 2021, the following amendments of accounting standards will be obligatorily applied, having also already concluded the process of EU endorsement:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16- Interest rate benchmark reform for calculating interest rates - phase two (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 handling 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 repercussions on profit or loss and termination of hedging relationships.

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 IFRS standards, associated amendments and changes (already approved by IASB) and interpretations (already approved by the IFRS IC) 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 IFRS 3 - 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 rather than the one in force at the time IFRS 3 was introduced. In addition, IASB introduces an exception to the use of the Conceptual Framework. For some types of liabilities, an entity applying IFRS 3 must refer to IAS 37. In fact, without this exception, an entity would have recognised some liabilities on the acquisition of a business that it would not recognise in other circumstances. Immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain.

Amendments to IAS 16 – Proceeds before Intended Use. Document issued by IASB on 14 May 2020, applicable from 1 January 2022 with early application allowed. It amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

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 amendments specify that in assessing the cost of fulfilling a contract all costs that relate directly to the contract must be comprised. The assessment should thus include incremental costs of fulfilling that contract (such as direct labour, materials) or other costs that relate directly to fulfilling contracts (such as the share of personnel costs and depreciation of machinery used to fulfil the contract).

Amendments to IAS 1 and IFRS 2 Practice Statement - Presentation of Financial Statements and Accounting Policy Disclosures. Document issued by IASB on 12 February 2021, applicable from 1 January 2023 with early application permitted. The amendments require companies to present disclosures about material accounting policies rather than significant accounting policies and provide guidance on how to apply the concept of materiality to disclosures.

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

On 14 May 2020 IASB also 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-time adoption of the International financial reporting standards. The improvement allows a subsidiary to measure cumulative translation 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 derecognising a financial liability are those between the entity and the financing company.
- **IFRS 16 -** Leases. The improvement amends the illustrative example number 13, excluding the reimbursement of costs incurred for improvements to third-party assets in order not to create confusion in relation to the treatment of incentives on contracts.

These amendments, applicable beginning 1 January 2022 with early application allowed, clarify, correct or remove redundant statements or formulations in the text of the standards in question.

With reference to the new amendments and interpretations described above, the directors are currently evaluating what possible effects that 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 management report provide an analysis of the business' management performance, for business areas, that may help to better understand changes in the main categories of operating expenses and revenues.

1 Revenues

	2020	2019	Change
Revenues from sales and services	7,053.8	6,910.9	142.9
Changes in contract work in progress, semi-finished and finished products	25.2	1.9	23.3
Total	**7,079.0**	**6,912.8**	**166.2**

Revenues are achieved mainly in Italy.

"Revenues from sales and services" essentially includes allocations for services provided to end customers not yet invoiced in for the electricity sector in the amount of 131.3 million euro, the gas sector in the amount of 234.2 million euro, and the water sector in the amount of 105 million euro.

"Changes to contract work in progress, semi-finished and finished products", the increase compared to the previous year is mainly attributable to the higher volume of contract work in the heat management sector.

2 Other operating revenues

	2020	2019	Change
Long-term contracts	293.0	300.4	(7.4)
White certificates	79.4	91.6	(12.2)
Grants for current expenses	25.1	27.4	(2.3)
Grants related to plants	12.9	12.3	0.6
Other revenues	57.4	99.1	(41.7)
Total	**467.8**	**530.8**	**(63.0)**

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

"White Certificates" comprise the revenues calculated on the basis of energy efficiency objectives for the year as established by the GSE and regulated in relation to the Cassa per i Servizi Energetici e Ambientali.

"Operating grants" mainly comprises incentives provided by the GSE for the production of energy from renewable sources as well as contributions from public entities, authorities or public institutions for specific projects carried out by the Group.

"Grants related to plants" represent the positive income components for the year related to the depreciation of the assets subject to grants.

"Other revenues", consisting mainly of insurance reimbursements, costs recovered from customers and use of funds. The change from the previous financial year is discussed in Section 1.04.01 of the Management Report "Operating Results and Investments".

3 Raw materials and stocks

	2020	2019	Change
Raw materials earmarked for sale	3,058.8	3,087.5	(28.7)
White certificates	88.7	109.8	(21.1)
Charges and revenues from derivatives	58.6	44.7	13.9
Plastics	37.8	47.5	(9.7)
Materials for industrial use	31.2	40.5	(9.3)
Maintenance and other materials	135.5	128.2	7.3
Total	**3,410.6**	**3,458.2**	**(47.6)**

"Raw materials earmarked for sale", net of changes in stocks, include supplies of natural gas, electricity and water.

"Environmental certificates" mainly include the purchase price of white certificates, which are supplied according to the obligations allocated to distribution companies. It should be noted that the market price of these securities remained substantially unchanged during the year compared to the previous year. The items also comprise environmental certificates in stock, mainly made up of white and grey certificates, as well as the valorisation of commitments for purchasing electricity certifications produced from renewable sources in relation to contracts signed with end customers.

"Plastics", net of changes in stock, includes the cost of purchasing plastic raw materials destined for subsequent processing, transformation and sales by the Aliplast company.

"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 the management of the vehicle fleet.

"Maintenance and other materials", net of changes in inventories, comprise mainly consumables used in the management of the Group's operating activities and, residually, products purchased for resale to end customers.

For the item "Charges and revenues from derivatives", please see note 21 "Derivative instruments".

4 Service costs

	2020	2019	Change
Transport and storage	1,266.5	1,225.1	41.4
Work and maintenance expenses	433.8	407.1	26.7
Waste transportation, disposal and collection	375.1	354.6	20.5
Fees paid to local authorities	65.2	66.4	(1.2)
IT and data processing services	61.1	50.6	10.5
Professional, legal and tax services	40.2	36.4	3.8
Costs for other services	183.0	178.0	5.0
Total	**2,424.9**	**2,318.2**	**106.7**

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution as well as the network costs charged to the end customers.

"Charges for works and maintenance" includes the costs for the construction or improvement of infrastructures under concession pursuant to the application of the accounting model for the intangible asset provided for public services under concession and costs for maintaining the plants managed by the Group.

"Waste transportation, disposal and collection", mainly includes the costs associated to urban hygiene and waste disposal activities.

The item "Fees paid to local authorities" includes mainly 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. They also include fees paid to municipalities for the use of telecommunications and district heating networks.

"IT and data processing services", comprises costs for maintenance activities on the Group's IT and telecommunication infrastructure and existing applications.

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

It should also be noted that the item "Costs for other services" also includes the instalments relating to short-term leases and leases of low value, the value of which for 2020 is not significant.

5 Personnel costs

	2020	2019	Change
Salaries and wages	402.8	396.9	5.9
Social security expenses	128.6	127.7	0.9
Other costs	41.3	35.8	5.5
Total	**572.7**	**560.4**	**12.3**

The increase in labour costs compared to previous year is mainly due to:

the partnership operation carried out with the Ascopiave Group at the end of the 2019 which, overall, increased the company's population by 157 units;

the greater impact of charges incurred for the employment terminations compared to the previous year;

the salary increases provided for in the national collective labour agreement.

These effects were mitigated by an accrued vacation fruition plan adopted by the Group.

The average number of employees in the periods in question, divided into category, is as follows:

	2020	2019	Change
Managers	156	150	6
Middle managers	557	541	16
Clerks	4,940	4,720	220
Blue-collar workers	3,265	3,340	(75)
Total	**8,918**	**8,751**	**167**

Overall, the average cost of labour per capita for 2020 was 64.2 thousand euro (64 thousand euro in 2019).

At 31 December 2020, the actual number of employees was 9.011 (8,982 employees at 31 December 2019).

6 Other operating costs

	2020	2019	Change
Taxation other than income taxes	19.2	17.8	1.4
State rentals	12.6	13.0	(0.4)
Losses on the sale and disposal of assets	6.0	5.3	0.7
Other minor charges	21.1	23.2	(2.1)
Total	**58.9**	**59.3**	**(0.4)**

"Taxation other than income taxes" mainly relates to taxes on buildings, stamp duties and registration fees, public area occupation fees, taxes associated with managed landfills and excise duties.

"State rentals" is mainly related to 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, and fees to preserve hydrogeological protection areas in mountain municipalities (as established by decree 2012/933) as well as fees paid for the functioning of ATESIR.

"Losses on the sale of goods and disposal of assets", arising mainly from the disposal of certain components of the WTE plants, waste disposal and treatment plants and meters for the gas distribution networks.

"Other minor charges" mainly includes membership fees, compensation for damages, fines, penalties.

7 Capitalized costs

	2020	2019	Change
Increase in self-constructed assets	43.3	37.6	5.7

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

8 Amortisation, depreciation and provisions

	2020	2019	Change
Depreciation	455.5	428.7	26.8
Provisions	117.8	118.2	(0.4)
Write-downs	1.6	5.0	(3.4)
De-provisioning	(3.2)	(9.3)	6.1
Total	**571.7**	**542.6**	**29.1**

For breakdowns and further detail about these items, please refer to the comments under note 14 "Property, plant and equipment", note 15 "Rights of use and leasing liabilities", note 16 "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 change from the previous year is due mainly to:
completing the depreciation of certain plants of the waste treatment business in 2020, in view of their expected end of life in early 2021, for 9.1 million euro;

- the recording of customer lists related to the acquisition of control of Ascopiave's commercial activities, partially offset by the simultaneous transfer of AcegasApsAmga Spa's gas distribution unit, for a total net effect of 11.1 million euro;
- the capitalisation of incremental costs related to the signing of new energy and gas sales contracts with end customers, mainly comprising commissions paid to agents, depreciated over the average useful life of the acquired customers (churn rate), for 5.1 million euro.

These effects were partially offset by the implementation of the technical-economic useful lives of the integrated water cycle assets introduced in 2019 (the duration of which is in line with that defined by ARERA for the 2020-2023 tariff period) which resulted in lower depreciation for the period of approximately 15 million euro.

"Provisions" includes provisions for bad debts and for risks and charges.

"Write-downs" mainly refers to the impairment of certain plants no longer in use (1 million euro) and costs capitalised for participating in tenders in the distribution sector for which the Group did not receive a contract (0.6 million euro).

The item "De-provisioning" includes the re-verification of the funds in view of the fact that the underlying risks no longer exist. During the previous financial year funds were released from provision for 8.1 million euro mainly related to the resolution of interpretive uncertainty surrounding the determination of the reimbursement value of the networks when participating in tenders for gas distribution services in relation to certain areas already served by the Group.

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

	2020	2019	Change
Joint venture share of net profits	1.2	6.5	(5.3)
Associated companies share of net profits	7.0	6.9	0.1
Total	**8.2**	**13.4**	**(5.2)**

The share of profits/losses of joint ventures and associated companies includes the effects generated by the valuation of the companies included in the consolidation carried out using the equity method; for details, please refer to Note 18 "Shareholdings".
Please note that the previous period also included the share of EstEnergy Spa, amounting to 5.2 million euro, of which control was gained at the end of 2019 fiscal year.

10 Financial income and expense

	2020	2019	Change
Customers	28.3	38.4	(10.1)
Income from derivatives	21.8	49.2	(27.4)
Income from valuation at fair value of financial liabilities	8.0	-	8.0
Income from trading	-	12.7	(12.7)
Other financial income	15.3	7.9	7.4
Total income	**73.4**	**108.2**	**(34.8)**
Expenses from bonds and loans	79.1	96.4	(17.3)
Expenses from derivatives	30.3	75.9	(45.6)
Discounting of provisions and finance leases	28.7	24.1	4.6
Valuation at depreciated cost of financial liabilities	28.4	14.7	13.7
Expenses from earn out and put option minority	19.6	-	19.6
Expenses from valuation at fair value of financial liabilities	3.0	5.2	(2.2)
Write-downs of financial assets:	1.8	26.1	(24.3)
Other financial expenses	7.4	5.2	2.2
Total expenses	**198.3**	**247.6**	**(49.3)**
Total net financial expense (Income)	**(124.9)**	**(139.4)**	**14.5**

The change in overall financial management, including reference to the Group's average cost of indebtedness, is described in the Directors' Report in paragraph 1.04.02 "Capital structure and reclassified financial debt".

"Income and expenses from fair value measurement of financial liabilities" and "Income and expenses from derivatives" are discussed in note 21 "Derivatives", while note 27 "Non-current and current financial liabilities" contains further details in relation to "Other financial income", "Expenses from bonds and loans" and " Expenses from minority earn-outs and put options".

"Customers" mainly includes the interest on payments in arrears billing system for the gas and electricity customers. The decrease for the financial period is mainly due to protected market customers.

"Financial income from trading", in the previous year this item included income related to the partial renegotiation of two bonds maturing in 2021 and 2024, which led to booking in the income statement the current value difference calculated in accordance with the provisions of IFRS 9 for 1.7 million euro and 11 million euro, respectively.

"Other financial income" the item mainly includes:
- income related to the present value of non-current receivables for 4 million euro, increased by 1.7 million euro compared to the previous year;
- dividends paid by non-consolidated investee companies in the amount of 2.9 million euro, an increase of 1.8 million euro, mainly due to the purchase of a shareholding in Ascopiave Spa, as illustrated in note 18 "Shareholdings";
- interest paid by the Italian revenue agency in relation to the reimbursement of claims for IRAP deductibility from IRES for 2.3 million euro;
- interest income on loans granted to equity-accounted companies and minor investees of 2.3 million euro, in line with the previous year;
- reversal of the impairment loss on the investment in Set Spa, amounting to 1.5 million euro, as explained in Note 32 "Impairment test"

- income from the sale of the shareholding in the associated company Q.Thermo Srl for 1.4 million euro.

The increases above were partially offset by a decrease in bank interest and other residual financial income totalling 1.3 million euro.

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

	2020	2019	Change
Post-closure landfills and restoration of third-party assets	25.1	19.0	6.1
Leases	3.2	3.9	(0.7)
Employee leaving indemnity and other benefits	0.3	1.0	(0.7)
Plants dismantling	0.1	0.2	(0.1)
Total	**28.7**	**24.1**	**4.6**

The most substantial changes by comparison with the previous year are due to:

- the greater impact for 8.2 million euro of the updated present value of the "Provisions for post-closure landfills", following the updating of its parameters to reflect current market conditions, as well as the revision of the assumptions on the timing of future disbursements in relation to average number of landfills managed during the year;
- the lower impact for 2.1 million euro of the updated present value of the "Provision for restoration of third-party assets" compared to the previous year, mainly as a result of the reduction of the discount rate.

"Valuation at depreciated cost of financial liabilities", the increase is due to:

- extinguishment of the bond that matured in December 2019, which was associated with a positive adjustment, resulting from the valuation at amortised cost, of 7.2 million euro;
- recognition of notional charges of 3.2 million euro relating to the put option held by Ascopiave Spa on the minority shareholding in Hera Comm, classified in the accounts as a loan (with a nominal value of 54 million euro) and measured at amortised cost;
- debt rescheduling that took place during the 2019 financial year with the issuance of the 500 million euro green bond. This transaction was accounted for as a modification of existing debt (see also the previous commentary on the item "Financial income from trading"); the restatement of the internal rate of return thus led to an increase in expenses recognised in the 2020 financial year by a total of 2.5 million euro compared to the previous year.

"Expenses from earn out and minority put option", includes the figurative charges mainly related to the fair value evaluation (calculated as the present value of future cash disbursements) of the put option recognised to Ascopiave Spa on the minority shareholding in EstEnergy Spa for 19.4 million euro. For further details, refer to note 26 "Current and non-current financial liabilities".

"Write-downs of financial assets" mainly includes:

- equity investments of 1 million euro in the affiliated company Sinergie Italiane Srl in liquidation, for which the book value was set to zero;
- loan of 0.8 million euro provided to the affiliate company Tamarete Energia Srl.

During the previous year, the outcome of the impairment test on the vehicles through which the Group participates in power generation assets led to write-downs of equity investments and loans for a total of 25.9 million euro.

"Other financial expenses" mainly includes expenses for financial intermediation and capital losses for the sale of equity investments.

11 Other non-operating revenues (expenses)

	2020	2019	Change
Other non-operating revenues (expenses)	-	111.6	(111.6)

The item, amounting to 111.6 million euro at 31 December 2019, included some effects related to the partnership operation with the Ascopiave Group. Specifically, the re-statement at fair value of the equity investment previously held in EstEnergy Spa, over which the Group previously had joint control, in relation to the acquisition of control of the company, amounting to 81.4 million euro, and the net capital gain obtained following the transfer of control of the company AP Reti Gas Nord Est Srl, to which the Gas network distribution business unit was transferred, equal to 30.2 million euro.

12 Taxes

This item is made up as follows:

	2020				2019				Change
	Current assets	Pre-paid taxes	Deferred	Total	Current assets	Pre-paid taxes	Deferred	Total	
IRES	110.7	(11.1)	(21.5)	**78.1**	104.2	(6.7)	(4.5)	**93.0**	(14.9)
IRAP	27.0	(0.6)	(3.3)	**23.1**	33.3	-	(2.4)	**30.9**	(7.8)
Substitute tax	12.3	-	-	**12.3**	2.2	-	-	**2.2**	10.1
Lower taxes for tax benefits	(1.7)	-	-	**(1.7)**	-	-	-	**-**	(1.7)
Total	**148.3**	**(11.7)**	**(24.8)**	**111.8**	**139.7**	**(6.7)**	**(6.9)**	**126.1**	**(14.3)**

Taxes for the fiscal period decreased from 126.1 million euro in 2019 to 111.8 million euro in 2020; The tax rate for 2020 is 25.7% as compared to the 23.9% of the previous year.
It should be noted that the tax rate for the previous year was positively affected by a number of results and associated non-recurrent tax effects, specifically related to the acquisition of the Ascopiave Group's commercial activities. For a more consistent analysis of the tax rate trend, reference should be made to paragraph 1.04.01 "Operating results and investments" of the management report, where both the pre-tax result and the tax rate for the previous period were adjusted by some special items, in order to determine an adjusted tax rate for 2019 perfectly comparable with that of the current year.

It should be noted that the tax rate for 2020, net of associated non-recurrent tax effects, is mainly affected by:

- the benefits of franking, pursuant to Legislative Decree no. 2008/185; (converted into Law 2/2009) certain higher values arising from acquisitions made in previous years;
- the benefits seized in terms of maxi and hyper depreciation against the significant investments that the Group constantly makes aimed at technological, environmental and digital transformation. It should be noted that, beginning in the 2020 financial year, these benefits are recognised under the item "Lower taxes for tax benefits" following their transformation into tax credits for investments, as introduced by the 2020 Budget Law;
- the positive effect of the benefit set forth under Article 24 of Legislative Decree 2020/34, deriving from the cancellation of the first advance payment of IRAP 2020, booked in compliance with the limits provided for by domestic and EU regulations (with particular reference to Section 3.1 of the Temporary Framework on State Aid).

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. .

	2020		2019	
	Nominal effect	Percentage effect	Nominal effect	Percentage effect
Earnings before taxes	434.6		528.1	
IRES				
Standard rate	(104.3)	(24.0)%	(126.7)	(24.0)%
IRAP deduction	0.6	0.1%	0.7	0.1%
Divestiture of equity investments (PEX)	0.3	0.1%	3.9	0.7%
Equity investment impairment	(0.1)	(0.0)%	(6.2)	(1.2)%
Tax benefits and incentives	10.7	2.5%	11.8	2.2%
IRES previous financial years	-		1.2	0.2%
Equity investment appreciation			19.5	3.7%
Other changes (increases and/or decreases)	(3.7)	(0.9)%	0.6	0.1%
IRAP and other current taxes				
IRAP	(23.0)	(5.3)%	(31.0)	(5.9)%
Exemption	6.0	1.4%	0.1	0.0%
Lower taxes for tax benefits	1.7	0.4%		
Taxes	**(111.8)**	**(25.7)%**	**(126.1)**	**(23.9)%**

This reconciliation is performed only in connection with the IRES, given that, as a result of the particular rules governing the IRAP, reconciliation between the statutory tax rate derived from financial statement information and the effective tax rate, determined according to fiscal regulations, is no longer very meaningful.

The item "Equity investment impairment" reflects the tax effect following the non-deducibility of net depreciations of the value of non-controlling investments and any financial credits granted.

The item "Tax benefits and incentives" includes benefits relating to ACE, maxi and over amortisation.

The item "Equity investment appreciation" represents for 2019 the effect related to the income from the fair value valuation of the equity interest previously held in EstEnergy Spa recorded only in the consolidated financial statements at the time the control of the company was obtained.

The prepaid and deferred taxes relating to the year 2020 refer to the following variations between taxable income and profit recorded in the financial statements:

Deferred tax assets	2020			2019		
	Temporary differences	Tax effect (Ires + Irap)	Equity changes	Temporary differences	Tax effect (Ires + Irap)	Equity changes
Pre-paid taxes with effect on the income statement and the statement of comprehensive income						
Depreciation	415.0	102.7		392.2	97.9	
Provisions for risks and charges	172.8	47.1		172.8	47.3	
Allowance for bad debts	167.4	40.1		175.9	42.2	
Equity investments	163.6	45.8		138.3	38.7	
Provisions for employee benefits	13.3	3.6		12.2	3.3	
Leases	6.3	1.8		6.5	1.8	
Cash flow hedge	4.2	0.8		38.4	11.1	
Other	86.5	22.1		84.6	22.5	
Total tax effect	**1,029.1**	**264.0**	**(2.6)**	**1,020.9**	**264.8**	**5.1**
Credited (or debited) amount to the statement of comprehensive income		(9.9)			9.6	
Credited (or debited) amount to the income statement		11.7			6.7	

Deferred tax liabilities	2020			2019		
	Temporary differences	Tax effect (Ires + Irap)	Equity changes	Temporary differences	Tax effect (Ires + Irap)	Equity changes
Deffered taxes with effect on the income statement and statement of comprehensive income.						
Depreciation	735.9	148.2		789.1	163.3	
Discounted liabilities	113.3	27.2		133.8	32.1	
Provisions for risks and charges	42.0	12.1		47.7	13.7	
Deductible goodwill	30.3	8.5		29.2	8.2	
Cash flow hedge	15.6	4.5		7.7	2.2	
Leases	3.1	0.9		3.3	0.9	
Provisions for employee benefits	2.5	0.7		2.4	0.7	
Accrued capital gain	0.8	0.2		0.9	0.2	
Other	107.3	26.0		98.5	23.7	
Total tax effect	**1,050.8**	**228.3**	**3.6**	**1,112.6**	**245.0**	**123.5**
Credited (or debited) amount to the statement of comprehensive income		(4.5)				
Credited (or debited) amount to the income statement		24.8			6.9	

"Equity changes" have no effect on the income statement and the statement of comprehensive income for the financial period, as they report 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 2020);
- 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 implementational decrees, Ministerial Decree no. 48 of 1 April 2009 and Ministerial Decree of 8 June 2011, 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 2005/38. 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

Company	Fee / Tax	Description of litigation	Status of litigation	Total amount disputed	Total amount recalculated*	Amounts id (even provisionally)	Provisions booked
Hera SpA Herambiente SpA	ICI/IMU	Notices of assessment for the years 2008-2015 concerning the classification adjustment in the real estate registry of the Ferrara waste-to-energy plant.	For the 2008-2012 notices, the proceedings ended with a favourable ruling for the Company, and for the remaining years they are still pending before the Tax Commission.	11.4	2.2	-	-
Herambiente SpA	ICI/IMU	Notices of assessment for the years 2010-2015 concerning land, facilities and buildable areas located in Ravenna concerning their classification in the real estate registry.	Most of the notices of assessment 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 are still pending before the Regional Tax Commission of Emilia-Romagna and the Provincial Tax Commission of Ravenna.	2.1	1.8	1.8	0.2
Herambiente SpA	ICI/IMU	Notices of assessment for the years 2008-2011 and 2014 concerning the classification in exempted category of the compost plant in the municipality of Lugo.	The notices of assessments were settled during 2019.	0.2	0.2	0.2	0.4
Hera SpA	Cosap/ Tosap	The notices of assessment for the tax periods from 2013 to 2017 from the Municipality of Riccione, for a total amount of 3.5 million euro, for the permanent occupation of public land with waste bins.	Tosap proceedings for the years 2013-2016 are pending before the Regional Tax Commission of Emilia-Romagna, while Cosap proceedings for the year 2017 are pending before the Civil Court of Rimini.	3.5	1.0	1.0	0.9
	Cosap	Cosap proceedings for the tax periods 2018 and 2019 from 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	Tosap notices of assessment for the year 2014 from the Municipality of Coriano, for the permanent occupation of public land with waste bins.	The proceeding is currently pending before the Tax Commission of Rimini.	0.2	-	-	
Hera SpA	Ici/Imu	Request to appear for the years 2014-2019 concerning the real estate registry classification of the Bologna "Idar" purification plant located in the municipality of Bologna.	Discussions are under way with the municipality in order to verify whether the conditions for a settlement of the claim exist.	1.3	-	-	0.5
Herambiente SpA	Irap	Notices of assessment for the years 2009-2013 focused mainly on the amount owed to the company in relation to the IRAP subsidy "tax wedge".	For the tax years 2009-2011, the proceedings are pending before the Supreme Court of Cassation following the appeal filed in 2020 against the unfavourable ruling in second instance, while for the tax years 2010, 2012 and 2013 the proceedings are pending before the Regional Tax Commission of Emilia-Romagna following the appeals filed by the losing party against the rulings in first instance.	4.4	-	2.1	2.0
Hera Trading Srl	IRES and supplementary "Robin Tax"	Notices of assessment for the years 2011-2013 (only the latter year for the supplementary tax) of the deduction of evaluation charges, net of related income, of commodity derivatives and environmental certificates.	The proceedings are pending before the competent Regional Tax Commissions for all the tax periods contested against the unfavourable first instance rulings.	6.6	-	2.6	-

* redetermined amount means the amount of the claim redetermined as a result of judicial conciliation, assessment with acceptance or partial annulment in court;

Company	Fee / Tax	Description of litigation	Status of litigation	Total amount disputed	Total amount recalculated*	Amounts paid (even provisionally)	Provisions booked
Inrete Distribuzione SpA	IRES and IRAP	The objection report for 2016 was issued with 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 employee costs for IRAP purposes.	Discussions with the Revenue Agency will be launched in 2021 to establish the adversarial procedure following the notification of invitations to appear for the assessment with acceptance.	0.3		-	-
AcegasApsAmga Spa	Excises	Technical-administrative audit of the Padua and Trieste waste-to-energy plants carried out by the Customs Agency for the years 2012-2015 in relation to the installation of measuring instruments for detecting electricity produced and used for self-consumption.	The proceedings relating to the waste-to-energy plant in Padua are pending before the Court of Cassation following the appeal filed, while those relating to the waste-to-energy plant in Trieste are pending before the Trieste Provincial Tax Commission.	2.1	-	0.1	-
AcegasApsAmga Spa	IRES, IRAP and VAT	The tax audit report for 2015 containing objections to the secondment of personnel.	Discussions with the Revenue Agency will be launched in 2021 in the case the tax assessment is notified.	0.6	-	-	-
Hera Luce Srl	IRES	Notices of assessment for the year 2013 concerning the deductibility of maintenance costs on assets identified as freely transferable.	The company appealed against the first instance ruling published by the Provincial Tax Commission of Forlì, which cancelled the penalties but confirmed the higher taxes claimed.	0.3	-	0.2	-
Hera Luce Srl	IRES and IRAP	Report of findings for the year 2015 in relation to the treatment of the waiver of own receivables against an increase of a consortium fund.	Pending notification of the notice of assessment by the Revenue Agency.	0.2	-	-	-
Marche Multiservizi SpA	IRES and IRAP	Notices of assessment for the years 2009-2014 containing the objection concerning the deduction of the provision for post-management of landfills	The proceedings for the years 2009-2012 are pending before the Regional Tax Commission of Ancona following the appeals against the rulings filed by the losing party. The proceedings for 2013 were favourably resolved for the company by the Ancona Provincial Tax Commission and the terms for appealing are currently pending. The proceeding for the year 2014 was presented before the Provincial Tax Commission of Ancona.	1.9		1.6	0.2
Ascotrade Spa	IRES, IRAP and VAT	Notices of assessment for the years 2013-2018 concerning the deductibility of certain components of the purchase cost of raw materials.	The proceedings for the years 2013 and 2015 are currently pending before the Provincial Tax Commission of Venice.	7.6	-	-	-

* redetermined amount means the amount of the claim redetermined as a result of judicial conciliation, assessment with acceptance or partial annulment in court;

With reference to the disputes in question, the Group, having also consulted its lawyers, has decided to make the provisions indicated. Where no provisions have been made, the contested violations have been deemed groundless.

13 Earnings per share

	2020	2019
Profit or loss for the period attributable to holders of ordinary shares of the parent entity (A)	**302.7**	**385.7**
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss) per share		
basic (B)	1,467,973,723	1,472,516,974
diluted (C)	1,467,973,723	1,472,516,974
Earnings (loss) per share (in euro)		
basic (A/B)	0.206	0.262
diluted (A/C)	0.206	0.262

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 base as there are no classes of shares other than ordinary shares and there are no instruments that can be converted into shares.

As of this writing, the share capital of the parent company, Hera S.p.A., consisted of 1,489,538,745 ordinary shares, unchanged from 31 December 2019, which were used in determining basic and diluted earnings per share.

14 Property, plant and equipment

	31 Dec 20	31 Dec 19	Change
Land and buildings	573.2	583.5	(10.3)
Plants and machinery	1,120.1	1,181.6	(61.5)
Other moveable assets	126.5	134.9	(8.4)
Assets under construction	104.4	90.3	14.1
Total operating assets	1,924.2	1,990.3	(66.1)
Investment property	2.3	2.4	(0.1)
Total	**1,926.5**	**1,992.7**	**(66.2)**

Property, plant and equipment are disclosed net of accumulated depreciation. Their composition and changes in the period are as follows:

	Net opening balance	Invest-ments	Disinvest-ments	Depreciation and amortis-ation	Changes in scope of consolid-ation	Other changes	Net closing balance	of which gross final amount	of which amortis-ation provision
31 Dec 19									
Land and buildings	591.7	12.8	(0.9)	(18.3)	2.5	(4.3)	583.5	815.8	(232.3)
Plants and machinery	1,174.1	59.8	(3.1)	(123.7)	10.8	63.7	1,181.6	2,858.1	(1,676.5)
Other moveable assets	131.1	24.7	(2.0)	(29.6)	2.1	8.6	134.9	489.8	(354.9)
Assets under construction	104.2	67.1	(0.6)	(0.2)	0.5	(80.7)	90.3	90.3	-
Total	**2,001.1**	**164.4**	**(6.6)**	**(171.8)**	**15.9**	**(12.7)**	**1,990.3**	**4,254.0**	**(2,263.7)**
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 moveable 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)**

The composition of and main changes in each category are discussed below, while more detailed comments on investments made in the period are provided in section 1.07 "Analysis by strategic business area" of the Directors' report.

"Land and buildings" consists of 119 million euro in land and buildings and 454.2 million euro in buildings. These are mainly company-owned properties on which the Group's 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 and, therefore: district heating, electricity in the Modena area, waste disposal and waste treatment. The main investments during the year related to waste treatment and heat management, for a total of 24.1 and 10.3 million euro respectively.

"Other moveable assets" includes mainly waste disposal equipment and bins for 65.45 million euro, and vehicles and cars for 46.5 million euro.

"Assets under construction and advance payments" includes mainly investment for development of district heating and electricity distribution, cogeneration facilities and waste recycling 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 Property, plant and equipment to Intangible assets, especially when goods used in activities under concession are involved.

Reference should be made to note 27, "Non-current and current liabilities" for an analysis of collateral granted to third parties in relation to tangible fixed assets held by the Group.

15 Rights of use and leasing liabilities

The following tables show the breakdown of rights of use (reported net of the associated amortisation provision) leasing liabilities and the related movements.

	31 Dec 20	31 Dec 19	Change
Rights of use land and buildings	68.7	69.1	(0.4)
Rights of use plants and machinery	7.9	7.9	-
Rights of use other moveable assets	19.3	19.9	(0.6)
Total	**95.9**	**96.9**	**(1.0)**

	Net opening balance	New contracts and contractual changes	Decreases	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 19									
Rights of use land and buildings	67.3	(10.3)	-	(7.7)	3.3	16.5	69.1	101.3	(32.2)
Rights of use plants and machinery	4.2	-	-	(0.9)	-	4.6	7.9	10.0	(2.1)
Rights of use other moveable assets	19.5	6.2	-	(6.5)	0.7	-	19.9	32.5	(12.6)
Total	**91.0**	**(4.1)**	**-**	**(15.1)**	**4.0**	**21.1**	**96.9**	**143.8**	**(46.9)**
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 moveable 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)**

"Rights of use land and buildings" consists of 63.2 million euro in rights of use of buildings and the remaining 5.5 million euro in rights of use of land. The rights of use for buildings refer 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 moveable assets" refers mainly to contracts concerning IT infrastructures (especially data centres), operational vehicles and cars.

The column "New contracts and contractual amendments" includes leases signed during the year totalling 12.3 million euro, as well as amendments to the initially defined assumptions regarding the duration and options to renew or terminate existing contracts totalling 6.5 million euro.

The value of Rights in use was subjected to an impairment test, the results of which are described in note 32 "Impairment test".

Financial liabilities are broken down below with details of the changes:

31 Dec 20	Net opening balance	New contracts and contractual changes	Decreases	Financial expenses	Changes in the scope of consolidation	Other changes	Net closing balance
Lease liabilities	**95.5**	**18.7**	**(22.1)**	**3.3**	**0.2**	**(2.0)**	**93.6**
of which							
non-current liabilities	76.1						73.5
current liabilities	19.4						20.1

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 amendments" mainly includes the re-assessment of the liabilities 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" are generated by the reimbursement of contractual fees due over the course of the financial period.

"Other changes" mainly refers to the reclassification of the deferred portion of the early redemption price of a lease contract to other financial liabilities.

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 years. For the same reasons, moreover, the renewal clauses, when they exist, are not currently expected to be exercised, possibly assessing in the future whether they are cost-effective or the signing new contracts with different counterparties. Finally, with regard to the leased buildings hosting important production facilities, which represent the contracts with the most significant absolute value, it is currently assumed that the option to redeem them will be exercised 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 year, within two years, within five years and after five years:

Type	31 Dec 20	Portion due within the period	Portion due within 2nd year	Portion due within 5th year	Portion due beyond 5th year
Lease liabilities	**93.6**	**20.1**	**23.1**	**20.0**	**30.4**

16 Intangible assets

	31 Dec 20	31 Dec 19	Change
IT applications	78.8	78.6	0.2
Uses and other movements	130.2	132.0	(1.8)
Public services under concession	2,860.1	2,718.6	141.5
Customer lists	546.3	578.4	(32.1)
Other intangible assets	67.7	49.6	18.1
Intangible assets under construction and public services under concession	169.5	157.3	12.2
Intangible assets under construction	71.8	65.7	6.1
Total	**3,924.4**	**3,780.2**	**144.2**

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	Disinvest-ments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 19									
IT applications	78.6	8.3	-	(34.1)	0.2	25.6	78.6	442.2	(363.6)
Concessions and other use rights	74.9	0.8	(0.1)	(11.9)	67.4	0.9	132.0	458.0	(326.0)
Public services under concession	2,689.1	196.2	(1.1)	(171.2)	(109.2)	114.8	2,718.6	4,593.8	(1,875.2)
Customer lists	153.8	-	-	(14.9)	439.5	-	578.4	638.0	(59.6)
Other intangible assets	34.7	24.5	-	(14.5)	(0.2)	5.1	49.6	163.8	(114.2)
Intangible assets under construction and public services under concession	172.2	90.4	(0.2)	-	(0.8)	(104.3)	157.3	157.3	-
Intangible assets under construction	51.6	48.9	(0.1)	(0.2)	-	(34.5)	65.7	65.7	-
Total	**3,254.9**	**369.1**	**(1.5)**	**(246.8)**	**396.9**	**7.6**	**3,780.2**	**6,518.8**	**(2,738.6)**
31 Dec 20									
IT applications	78.6	4.3	-	(37.2)	-	33.1	78.8	479.3	(400.5)
Uses and other movements	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 under construction and public services under concession	157.3	82.8	(0.2)	-	-	(70.4)	169.5	169.5	-
Intangible assets under construction	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)**

The composition of and main changes in each category are discussed below, while more detailed comments on investments made in the period are provided in section 1.07 "Analysis by strategic business area" of the Directors' report.

"IT applications" mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions and other use rights" includes:
- concessions, amounting to 51.1 million euro, primarily comprising activities of the integrated water cycle, classified as intangible assets even before the IFRIC 12 - "Service concession agreements" interpretation was first applied.
- authorisation relating to the operation of the Serravalle Pistoiese landfill, amounting to 66.2 million euro, an asset recognised as part of the Pistoia Ambiente business combination and amortised on the basis of the tonnages delivered. It should be noted that following the completion of the valuation process of the assets acquired, compared to the provisional valuation used for the financial statements at 31 December 2019, the fair value of this authorisation was adjusted and a higher value of 6.3 million euro was recognised.

"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 19 "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 109 million euro, and gas distribution networks, in the amount of 74 million euro.

"Intangible assets under construction and public services under concession," refers to investments related to these same contracts that have yet to be concluded at year-end and mainly refer to water networks for 53.4 million euro and gas distribution networks for 18.2 million euro.

"Intangible assets under construction" essentially comprises IT projects not yet completed.

"Customer lists" is booked 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 2020 amount to 24.6 million euro (23.6 million euro for the previous year).

"Other changes" include 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 "Change in the scope of consolidation" reflects the acquisition of control over Wolmann Spa, which led to the recognition of an asset representing process know-how for a total of 5.3 million euro (see paragraph 2.02.02 "Scope of consolidation.")

17 Goodwill

	31 Dec 20	31 Dec 19	Change
Goodwill	812.8	812.9	(0.1)

The value of the goodwill at 31 December 2020 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 2020 resulted in the creation of Hera S.p.A., 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, 117.7 million euro;
- acquisition of control over Sat Spa through the merger into Hera Spa, effective beginning 1 January 2008, 54.9 million euro:
- acquisition of control over the Gruppo Aliplast in early 2017, 25 million euro;
- acquisition of control over the Marche Multiservizi Spa Group, 20.8 million euro.

The carrying amounts of goodwill were tested for impairment, the results of which are outlined in note 32 "Impairment test".

18 Equity investments

	31 Dec 20	31 Dec 19	Change
Investments valued using the equity method	137.2	135.8	1.4
Other Equity investments	50.7	7.7	43.0
Total	**187.9**	**143.5**	**44.4**

The changes in joint ventures and associated companies as compared to 31 December 2019 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 (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".

Changes in consolidated investments using the net equity method are as follows:

	31 Dec 19	Investments and disinvestments	Net equity valuation	Dividends paid out	Changes in the scope of consolidation	Write-downs and other changes	31 Dec 20
Aimag Spa	50.4	-	2.5	(2.3)	-	-	50.6
Enomondo Srl	15.9	-	1.2	(1.5)	-	-	15.6
Set Spa	26.4	-	-	-	-	1.5	27.9
Sgr Servizi Spa	23.5	-	3.3	(2.4)	-	-	24.4
ASM SET Srl	18.5	-	1.2	(1.0)	-	-	18.7
Other minor	1.1	-	-	-	-	(1.1)	-
Total	**135.8**	**-**	**8.2**	**(7.2)**	**-**	**0.4**	**137.2**

The item "Write-downs and other changes" mainly includes the reversal of the value of the investment in Set Spa, equal to 1.5 million euro, following the impairment test (as illustrated in note 32) and the write-down of the investment in Sinergie Italiane Srl in liquidation, equal to 1 million euro, the value of which was reduced to zero at 31 December 2020.

Investments in companies not included in the scope of consolidation underwent the following changes:

	31 Dec 19	Investments	Disinvestments	Write-downs	Fair value valuations	31 Dec 20
Ascopiave Spa	-	45.5	-	-	(3.5)	42.0
Calenia Energia Spa	1.8	-	-	-	-	1.8
Veneta Sanitaria Finanza di Progetto Spa	3.6	-	-	-	-	3.6
Other minor	2.3	1.3	(0.3)	-	-	3.3
Total	**7.7**	**46.8**	**(0.3)**	**-**	**(3.5)**	**50.7**

The item "Investments" mainly includes some effects related to the partnership operation with the Ascopiave Group carried out in 2019, specifically the purchase of Ascopiave Spa's shares. This equity investment was the outcome of two separate operations:

- in January 2020, a 2.5% stake was acquired from the Amber fund, which increased to 2.9% in the following months through market purchases;
- a further 2% stake was acquired from A2A Spa in June 2020, bringing the total holding to 4.9%.

The item "Other minor" includes the payment for the capital increase of H.E.P.T. Co. Ltd with headquarters in Shanghai, amounting to 1.2 million euro, aimed at offsetting the negative effects of the pandemic that caused a total shutdown of activities for four months.

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 32 "Impairment test".

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, Set Spa, Sgr Servizi Spa, Sinergie Italiane Srl in liquidation, and Tamarete Energia Srl):

Assets	Joint ventures	Associated companies	Total
Non-current assets			
Property, plant and equipment	28.7	409.2	437.9
Rights of use		0.4	0.4
Intangible assets	1.3	50.4	51.7
Goodwill		52.9	52.9
Equity investments		7.4	7.4
Financial assets		0.6	0.6
Deferred tax assets	0.6	5.1	5.7
Total non-current assets	**30.6**	**526.0**	**556.6**
Current assets			
Inventories	0.8	6.3	7.1
Trade receivables	5.0	187.3	192.3
Contract work in progress		0.2	0.2
Financial assets		48.6	48.6
Current tax assets		0.3	0.3
Other current assets	7.6	34.8	42.4
Cash and cash equivalents	5.5	23.4	28.9
Total current assets	**18.9**	**300.9**	**319.8**
Total assets	**49.5**	**826.9**	**876.4**

Net assets and liabilities	Joint ventures	Associated companies	Total
Share capital and reserves			
Share capital	14.0	88.9	102.9
Reserves	14.8	249.6	264.4
Profit (loss) for the period	2.4	29.5	31.9
Group net equity	**31.2**	**368.0**	**399.2**
Non-controlling interests		12.4	12.4
Total net equity	**31.2**	**380.4**	**411.6**
Non-current liabilities			
Non-current financial liabilities	8.2	214.3	222.5
Non-current lease liabilities		0.3	0.3
Post-employment and other benefits		5.4	5.4
Provisions for risks and charges	0.9	36.8	37.7
Deferred tax liabilities		0.4	0.4
Total non-current liabilities	**9.1**	**257.2**	**266.3**
Current liabilities			
Current financial liabilities	2.3	24.0	26.3
Current lease liabilities		0.1	0.1
Trade payables	6.2	109.3	115.5
Current tax liabilities	0.3	1.1	1.4
Other current liabilities	0.4	54.8	55.2
Total current liabilities	**9.2**	**189.3**	**198.5**
Total liabilities	**18.3**	**446.5**	**464.8**
Total net equity and liabilities	**49.5**	**826.9**	**876.4**

Income statement	Joint ventures	Associated companies	Total
Revenues	15.8	591.8	607.6
Other operating revenues	6.0	10.6	16.6
Raw materials and stocks	(1.8)	(357.1)	(358.9)
Service costs	(11.6)	(104.6)	(116.2)
Personnel costs	(0.4)	(23.7)	(24.1)
Amortisation, depreciation and provisions	(4.6)	(46.4)	(51.0)
Other operating costs	(0.2)	(19.3)	(19.5)
Operating revenues	**3.2**	**51.3**	**54.5**
Financial income		0.8	0.8
Financial expenses		(6.8)	(6.8)
Total financial management	**-**	**(6.0)**	**(6.0)**
Other non-operating revenues (expenses)		(0.6)	(0.6)
Earnings before taxes	**3.2**	**44.7**	**47.9**
Taxes for the period	(0.8)	(13.9)	(14.7)
Overall revenues for the period	**2.4**	**30.8**	**33.2**

19 Current and non-current financial assets

	31 Dec 20	31 Dec 19	Change
Loan receivables	44.3	50.6	(6.3)
Portfolio securities	1.9	2.5	(0.6)
Receivables for construction services	46.5	33.7	12.8
Other financial receivables	48.1	48.5	(0.4)
Total non-current financial assets	**140.8**	**135.3**	**5.5**
Loan receivables	4.1	23.5	(19.4)
Portfolio securities	0.1	0.1	-
Other financial receivables	28.6	46.5	(17.9)
Total current financial assets	**32.8**	**70.1**	**(37.3)**
Total cash and cash equivalents	**987.1**	**364.0**	**623.1**
Total financial assets, cash and cash equivalents	**1,160.7**	**569.4**	**591.3**

“Loan receivables”, comprises loans, regulated at market rate, made to the following companies:

	31 Dec 20			31 Dec 19		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe Spa	6.9	0.8	7.7	7.7	0.8	8.5
Calenia Energia Spa	9.6	0.1	9.7	11.9	-	11.9
Set Spa	18.5	3.0	21.5	21.4	2.9	24.3
Tamarete Energia Srl	-	-	-	-	2.8	2.8
Other minor	9.3	0.2	9.5	9.6	17.0	26.6
Total	**44.3**	**4.1**	**48.4**	**50.6**	**23.5**	**74.1**

Loans to companies representing 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-down of the loan to Tamarete Energia Srl for 0.8 million euro, the value of which was thus reduced to zero.

“Portfolio securities” include, for the non-current part, 1.9 million euro in bonds and funds to guarantee post-closure management of the landfill managed by the subsidiary Asa Scpa, the book value of which is substantially in line with the fair value at the end of the financial period. These securities are measured at fair value through other comprehensive income components.

“Receivables for construction services” 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”.

For “Other financial receivables”, the non-current section refers to the following entities:

- 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 17.9 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 12.5 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;
- Consorzio Stabile Enrgie Locali (Csel) following the award of the public tender for the lighting service (launched by Consip to award the contract to serve public administrations) in the amount of 1.7 million euro.

For "Other financial receivables", the current section is mainly comprised of:

- public grant receivables to be received from various subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region) in the amount of 13.4 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;
- receivables for collections to be received from the Consorzio Stabile Enrgie Locali (Csel) following the award of the public tender for the lighting service (launched by Consip to award the contract to serve public administrations) in the amount of 3.7 million euro;
- receivable from the municipality of Padua, regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 1.7 million euro;
- receivables for 1.5 million euro from the affiliated company ASM SET Spa.

The decrease compared to the previous year is due to deposits provided as security for participation in foreign negotiation platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity and natural gas, which totalled 14 million euro in 2019;

"Cash and cash equivalents" include almost exclusively bank and postal deposits.

To better understand the financial dynamics taking place during the 2020 financial year, see the financial statement and the comments shown in the Directors' report in paragraph 1.04.02 "Equity structure and reclassified financial debt".

20 Deferred tax assets and liabilities

	31 Dec 20	31 Dec 19	Change
Pre-paid tax assets	264.0	264.8	(0.8)
Offsetting of deferred tax liabilities	(107.8)	(90.5)	(17.3)
Substitute tax credit	0.4	0.5	(0.1)
Total net deferred tax assets	**156.6**	**174.8**	**(18.2)**
Deferred tax liabilities	228.3	245.0	(16.7)
Offsetting of deferred tax liabilities	(107.8)	(90.5)	(17.3)
Total net deferred tax liabilities	**120.5**	**154.5**	**(34.0)**

"Pre-paid tax assets" arises 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.

"Deferred tax liabilities" arises from timing 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.

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.

For more details about the composition and dynamics of deferred tax assets and liabilities, see note 12 "Taxes"

21 Derivative instruments

	31 Dec 20			31 Dec 19			Changes
Interest/exchange rate derivatives	Fair value assets	Fair value liabilities	Net effect	Fair value assets	Fair value liabilities	Net effect	Net effect
Loans	9.9	2.7	7.2	18.7	4.2	14.5	(7.3)
Foreign currency loans	14.4	20.1	(5.7)	22.5	23.2	(0.7)	(5)
Total interest/exchange rate derivatives	**24.3**	**22.8**	**1.5**	**41.2**	**27.4**	**13.8**	**(12.3)**
Commodity derivatives			-				-
Commercial portfolio	56.5	49.4	7.1	39.2	89.4	(50.1)	57.2
Trading portfolio	46.8	63.6	(16.8)	32.9	49.1	(16.2)	(0.6)
Total commodity derivatives	**103.3**	**113.0**	**(9.7)**	**72.2**	**138.4**	**(66.3)**	**56.6**
Total derivatives	**127.6**	**135.8**	**(8.2)**	**113.3**	**165.8**	**(52.5)**	**44.3**
of which non current	14.4	20.1		41.1	27.4		
of which current	113.2	115.7		72.2	138.4		

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 commercial and trading purchase and sale transactions, mainly on the price of electricity. All commodity derivatives are classified as current assets and liabilities.
The Group's financial management policy envisages the use of hedging instruments to effectively offset changes in the fair value, or cash flows, of the hedged instrument, 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 rates in the form of interest rate swaps (IRS) and cross currency swaps (CCS) at 31 December 2020, the Group's net exposure is lower compared to the previous period and the trend in fair value is due to the realisation of cash flows, declining interest rate curves and a strengthening of the euro.

The Group's operational management, on the other hand, is carried out through two portfolios, which are distinguished according to their purpose, commercial or trading, or on the basis of the characteristics of the instruments they contain. The trading portfolio includes financial derivatives entered into to hedge future transactions in accordance with IFRS 9 and accounted for in cash flow hedges, and physical procurement contracts to which the own-use exemption is applicable in accordance with IFRS 9 and as such are not measured at fair value. 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 fuel and exchange rate transactions towards the market, which are carried out through the exclusive use of swap contracts or other derivatives authorised within the concentration portfolio. All other derivatives or similar instruments that are not intended to hedge the Group's requirements are classified in the trading portfolio. The Group's internal organisational model make it possible to identify the nature of the operation (commercial vs. trading) and produce the information required for a formal identification of the purpose of derivatives. Commodity derivatives generated higher net expenses in 2020 compared to the previous year. This result should be compared to respective changes in the opposite direction in the costs of raw materials (gas and electricity), related to the dynamics described above, and in all respects form an integral part of this.

The fair value of financial instruments derives 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 2020, subscribed in order to hedge loans, can be classed into the following categories:

Type	Fair Value Hierarchy	31 Dec 20 Notional	31 Dec 20 Fair value assets	31 Dec 20 Fair value liabilities	31 Dec 19 Notional	31 Dec 19 Fair value assets	31 Dec 19 Fair value liabilities
Cash flow hedge	2	10.5 mn	-	0.3	11.9 mn	-	0.4
Fair value hedge	2	149.8 mn	14.4	19.8	149.8 mn	22.5	22.8
Non-hedge accounting	2	500 mn	9.9	2.7	500 mn	18.7	4.2
Total fair value			**24.3**	**22.8**		**41.2**	**27.4**

Type	Fair Value Hierarchy	31 Dec 20 Income	31 Dec 20 Financial	31 Dec 20 Net effect	31 Dec 19 Income	31 Dec 19 Financial	31 Dec 19 Net effect
Cash flow hedge	2	0.1		0.1	0.4	(27.9)	(27.5)
Fair value hedge	2	7.8	(16.1)	(8.3)	10.0	(9.2)	0.8
Non-hedge accounting	2	14.0	(14.1)	(0.1)	38.8	(38.8)	-
Total income (expenses)		**21.8**	**(30.3)**	**(8.5)**	**49.2**	**(75.9)**	**(26.7)**

The positive change in the fair value of derivatives classified as cash flow hedges, against a downward trending interest rate curve, is 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. The net expenses related to the class of cash flow hedge instruments recognised at 31 December 2019 were generated by the repayment at maturity of derivatives entered into to hedge a future financing transaction, which did not materialise according to the scenario assumed by management. Overall effect of these instruments on the statement of comprehensive income is broken down as follows:

Cash flow hedges	31 Dec 20 Positive components	31 Dec 20 Negative components	31 Dec 20 Net effect	31 Dec 19 Positive components	31 Dec 19 Negative components	31 Dec 19 Net effect
Changes to expected cash flows	0.0		0.0		(18.6)	(18.6)
Reserve transferred to the income statement	0.1		0.1	27.9	(0.4)	27.5
Derivatives effect on statement of comprehensive income cash flow hedge	**0.1**	**-**	**0.1**	**27.9**	**(19.0)**	**8.9**

Derivatives designated as fair value hedges of foreign currency financial liabilities recorded in the financial statements (fair value hedges), both as cross currency swaps (CSS) and interest rate swaps (IRS), 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). These instruments have a positive fair value in the amount of 14.4 million euro as compared to an assessment that was also positive, amounting to 22.4 million euro, at 31 December 2019. The change in fair value is due to the exchange rate, since the Japanese yen lost value against the euro during 2020.

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 20			31 Dec 19		
	Income	Financial	Net effect	Income	Financial	Net effect
Assessment of derivatives	3.0	(8.0)	(5.0)	5.2	(1.0)	4.2
Accrued interest	-	(0.1)	(0.1)	0.1	-	0.1
Realised cash flows	4.8	(8.1)	(3.3)	4.8	(8.2)	(3.4)
Economic effect of derivatives fair value hedge	**7.8**	**16.1**	**(8.3)**	**10.0**	**(9.2)**	**0.8**

Underlying amounts hedged	31 Dec 20			31 Dec 19		
	Income	Financial	Net effect	Income	Financial	Net effect
Assessment of financial liabilities	8.0	(3.0)	5.0	-	(5.2)	(5.2)

The category of interest rate derivatives, identified as non-hedged accounting, originates 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 20			31 Dec 19		
	Income	Financial	Net effect	Income	Financial	Net effect
Assessment of derivatives	1.4	(8.7)	(7.3)	2.6	(21.8)	(19.2)
Accrued interest	0.1	(0.1)	0.0	1.2	(1.3)	(0.1)
Realised cash flows	12.5	(5.3)	7.2	35.0	(15.7)	19.3
Economic effect of non-hedge accounting derivatives	**14.0**	**(14.1)**	**(0.1)**	**38.8**	**(38.8)**	**0.0**

The economic effect associated with the assessment of this type of hedge as compared to the previous financial year, reflects changes in the fair value of the financial instruments described above.

Sensitivity analysis - Financial transactions

In conjecturing an instant shift of -25 basis points in the interest rate curve with respect to the interest rates effectively applied for the assessments at 31 December 2020, at like-for-like exchange rates, the potential decrease in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly 14.5 million euro. Likewise, conjecturing an instant shift of +25 basis points in the interest rate curve, there would be a potential increase in fair value of approximately 14.4 million euro.

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. Finally, even non-hedge accounting derivatives would have no impact on the income statement, as they are the result of mirroring operations that determine their neutrality (i.e. their fair value will tend to decrease over time when the expected cash flows are generated).

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 2020 would amount to approximately 16.6 million euro. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 19.4 million euro. As 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.

Commodity derivatives - Commercial portfolio

The commercial portfolio includes commodity derivative instruments entered into to hedge mismatches between purchase and sale formulas, which are classed into the following categories:

Operations management

Type		31 Dec 20			31 Dec 19		
	Fair Value hierarchy	Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Foreign gas hubs	3	6,089,061 MWh	11.6		310,300 MWh	1.6	
Electricity formulas	2	6,027,306 MWh	44.9		4,488,051 MWh	37.5	
Foreign gas hubs	3	7,076,405 MWh		14.5	5,564,835 MWh		25.6
Refined oil products/coal	2						
Electricity formulas	2	5,394,118 MWh		34.9	7,724,166 MWh		63.8
Total fair value			**56.5**	**49.4**		**39.1**	**89.3**

Type	31 Dec 20			31 Dec 19		
	Income	Financial	Net effect	Income	Financial	Net effect
Assessment of derivatives	15.5	(19.5)	(4.0)	0.2	(9.4)	(9.2)
Realised cash flows	-	(92.4)	(92.4)	-	(41.7)	(41.7)
Economic effect of derivatives	**15.5**	**(111.9)**	**(96.4)**	**0.2**	**(51.1)**	**(50.9)**

The commercial portfolio includes forward purchase contracts, with settlement through physical delivery of commodities, entered into in connection with the supply of electricity and gas to end users, with the aim of covering estimated demand in terms of volumes and price formulae and are intended as substitutes for spot purchases on regulated markets. These contracts are not measured at fair value since the own-use exemption is applied to them and the related economic effects are recognised on an accrual basis.

The portfolio additionally includes financial instruments designated to hedge planned future electricity and gas purchase and sale transactions that are considered highly likely. All derivatives valued in this portfolio are accounted for in cash flow hedges.
The increase of net fair value of commodity derivatives held in the commercial portfolio is mainly due to the increase in the underlying volumes as a result of increased requests for hedges from commercial companies (mainly as a result of the type of fixed price offers) and the volatility of the national standard price during the year.

The hedging relationships between the above derivative contracts and their underlying operations resulted in recording net expenses to the comprehensive income statement, net of their tax effect, primarily due to the realization of contracts outstanding at the end of the previous year that showed a very negative fair value. Components are broken down as follows:

Hedge accounting commodities	31 Dec 20			31 Dec 19		
	Positive components	Negative components	Net effect	Positive components	Negative components	Net effect
Changes to expected cash flows		(24.5)	(24.5)		(128.0)	(128.0)
Reserve transferred to the income statement	85.2		85.2	42.3		42.3
Derivatives effect on statement of comprehensive income cash flow hedge	**85.2**	**(24.5)**	**60.7**	**42.3**	**(128.0)**	**(85.7)**

Sensitivity analysis - Commercial portfolio

In assuming an instant 10 dollar-per-barrel rise in the Brent price, 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 2020 would amount to approximately 10.1 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 10.1million euro.

In assuming an instant +10 euro/MWh change in the national standard price curve, with no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2020 would amount to approximately 28.7 million euro. On the contrary, an instant change of -10 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 28.7 million euro.

In the organizational model described above, these changes in fair value would only affect derivative instruments accounted for as hedges thus the opposite variation would be recorded in the income statement.

Commodity derivatives - Trading portfolio

The trading portfolio comprises financial derivatives on commodities related exclusively to electricity formulas:

Operations management

Type		31 Dec 20			31 Dec 19		
	Fair Value Hierarchy	Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Electricity formulas	2	4,878,393 MWh	46.8		8,076,239 MWh	32.9	
	2	10,093,260 MWh		63.6	9,506,720 MWh		49.1
Total fair value			**46.8**	**63.6**		**32.9**	**49.1**

Type	31 Dec 20			31 Dec 19		
	Income	Financial	Net effect	Income	Financial	Net effect
Assessment of derivatives	95.8	(96.5)	(0.7)	94.7	(99.5)	(4.8)
Realised cash flows	38.5	-	38.5	11.0	-	11.0
Economic effect of derivatives	**134.4**	**(96.5)**	**37.9**	**105.7**	**(99.5)**	**(6.2)**

The operational logic of trading activities is speculative and 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 is univocally identified at source and follows a dedicated workflow, with exclusive instruments and reporting.
In this case, the fair value changes of the derivative instruments are recognised in the income statement for the period when they take place.

Sensitivity analysis - Trading portfolio
In assuming an instant +10 euro/MWh change in the national standard price curve, with no change in the Brent price, the potential increase in the fair value of derivative financial instruments of the trading portfolio held at 31 December 2020 would amount to approximately 0.2 million euro. On the contrary, an instant change of -10 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 0.2 million euro.

22 Inventories

	31 Dec 20	31 Dec 19	Change
Raw materials and stocks	91.3	112.8	(21.5)
Materials earmarked for sale and final products	6.1	15.9	(9.8)
Contract work in progress	74.3	47.8	26.5
Total	**171.7**	**176.5**	**(4.8)**

"Raw materials and stocks", stated net of an obsolescence provision, mainly comprises spare parts and equipment used for maintenance and running of operating plants and networks, equal to 47.7 million euro (45.9 million euro at 31 December 2019) gas stocks for 37.9 million euro (59.3 million euro at December 2019) and plastic materials earmarked for regeneration in the amount of 5.7 million euro (7.6 million euro as at 31 December 2019).
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. The change in value as compared to 31 December 2019 is mainly due to price contraction over the period.

"Materials earmarked for sale and final products" mainly includes plastic products made in the Group's regeneration plants equal to 5.6 million euro (6 million euro as of 31 December 2019). The significant decrease on the previous year is due for 9.6 million euro to the use of the Grid Steam Generator system and related complementary plant components, for the revamping of the second line of the Trieste waste-to-energy plant, with the consequent reclassification of the asset under "Intangible assets", or more specifically under "Intangible assets in progress - public services under concession". It should be noted, in fact, that the rights of use on the WTE in Trieste derive from a concession relationship accounted for by applying the intangible asset model as provided for by the IFRIC 12 interpretation.

The item "contract work in progress" includes long-term contracts for plant construction work, mainly in relation to water, heat and public lighting management (for 27.2 million euros, 22.4 million euro and 21.3 million euro respectively). The change in the period is closely related to the renovation and energy requalification of apartment buildings, a business that has increased following the extension and strengthening by the Italian legislator of the tax incentives for the sector (building bonuses).

23 Trade receivables

	31 Dec 20	31 Dec 19	Change
Receivables from customers	1,435.0	1,625.8	(190.8)
Allowance for bad debts	(394.4)	(399.3)	4.9
Receivables from customers for bills and invoices not yet issued	931.0	838.8	92.2
Total	**1,971.6**	**2,065.3**	**(93.7)**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2020, 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.

The value of trade receivables reported in the financial statements at 31 December 2020 represents the Group's maximum exposure to credit risk. Changes in the provisions for bad debts is as follows:

	Opening balance	Provisions	Changes in scope of consolidation	Uses and other movements	Opening balance Closing balance
2019 financial year	342.1	80.5	26.5	(49.8)	399.3
2020 financial year	399.3	83.4	0.1	(88.4)	394.4

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 2.02.04 "Evaluation criteria and consolidation principles". The significant increase in " Uses and other movements " is mainly due to the higher number of disposals of non-performing loans carried out during the year, 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 following table displays these receivables from clients on the basis of bills issued, organized by degree of past-due:

	31 Dec 20	Inc.%	31 Dec 19	Inc.%	Change
Not yet due	501.7	35%	754.9	46%	(253.2)
Due 0-30 days	126.9	9%	104.3	6%	22.6
Due 31-180 days	113.9	8%	106.2	7%	7.7
Due 181-360 days	103.9	7%	97.0	6%	6.9
Due beyond 360 days	588.6	41%	563.4	35%	25.2
Total	**1,435.0**		**1,625.8**		**(190.8)**

24 Current tax assets and liabilities

	31 Dec 20	31 Dec 19	Change
Income tax receivables	9.8	24.0	(14.2)
IRES refund receivables	1.9	18.1	(16.2)
Total current tax assets	**11.7**	**42.1**	**(30.4)**
Income tax payables	25.4	15.6	9.8
Substitute tax payables	-	71.3	(71.3)
Total current tax liabilities	**25.4**	**86.9**	**(61.5)**

"Income tax receivables" refer to the excess advance IRES and IRAP payments over the tax amount payable.

The "IRES refund receivables" refers to the requests for IRES refund due for the period 2007-2011, following the deductibility of IRAP from IRES related to labour costs and the like under Law Decree 201/2011. The change compared to the previous year is due to the collection during 2020 of refunds for 16.4 million euro, which also resulted in the recognition by the Revenue Agency of interest for 2.3 million euro, as indicated in note 10 "Financial income and expenses".

"Income tax payables" includes provisions for IRES and IRAP made in relation to profit for the period.

"Substitute tax payables", the change compared to the previous year is represented by the payment of the substitute tax for the redemption for tax purposes of the higher values implicit in the value of the controlling interests acquired in December 2019 in Ascopiave Energie Spa, Ascotrade Spa, Amgas Blu Srl, Blue Meta Spa and Etra Energia Srl, which resulted in the recognition of customer lists and goodwill in the consolidated financial statements. The enfranchisement transaction was considered to be closely related to the partnership agreement with the Ascopiave Group and, therefore, already included within the valuation of the business combination at 31 December 2019, with the consequent recognition of the substitute tax liability for a total of 71.3 million euro. Following the final valuation of the acquired assets completed in the first half of 2020, which is also relevant for tax purposes, the value of the substitute tax to be paid was recalculated on a case-by-case basis, amounting to 71.9 million euro. Payment of the tax relating to the redemption of the shareholdings in Ascopiave Energie Spa, Ascotrade Spa, Blue Meta Spa and Etra Energia Srl was made by the direct parent company EstEnergy Spa, which was provided with the necessary financial resources by means of a dedicated capital increase, to which Ascopiave Spa also contributed its own legal share, amounting to 31.4 million euro. This payment had already been taken into account at 31 December 2019, as receivables from Ascopiave Spa itself for the estimated value of 31.1 million euro were recorded (under "Other current assets", as indicated in note 25). The net outlay for the Group therefore totalled 33.9 million euro. In substance, this redemption operation made it possible to attribute a tax relevant value to part of the customer lists and goodwill recorded in the consolidated financial statements at the time of the business combination, without thus generating current economic effects, but guaranteeing lower future cash flows against the payment of lower income taxes. On the other hand, the payment of the tax relating to the redemption of the equity investment in Amgas Blu Srl was made by the direct parent company Hera Comm Spa in the amount of 6.5 million euro.
During the year, further transactions were carried out to redeem the higher values implicit in controlling interests and intangible assets recorded in the separate financial statements. For full details of the transactions carried out during the year and the related substitute tax paid, please refer to Note 33 "Operating activities" in the comments to the cash flow statement.

25 Other current assets

	31 Dec 20	31 Dec 19	Change
Energy efficiency bonds and emissions trading	150.5	83.1	67.4
VAT, excise and additional taxes	94.9	92.9	2.0
Security deposits to suppliers	55.4	42.4	13.0
Fund for electricity and environmental services for standardisation and continuity income	49.1	26.4	22.7
Advances to suppliers and employees	25.8	17.0	8.8
Incentives from renewable sources	23.5	24.2	(0.7)
Prepaid costs	19.9	19.8	0.1
Lower taxes for tax benefits	7.5	-	7.5
Other receivables	60.9	89.9	(29.0)
Total	**487.5**	**395.7**	**91.8**

"Energy efficiency bonds and emissions trading", includes:

- white certificates for 127.9 million euro (65.6 million euro at 31 December 2019);
- green certificates for 9.8 million euro, in line with the previous financial year;
- grey certificates for 12.8 million euro (7.6 million euro at 31 December 2019);

The increase in the portfolio value of white certificates is mainly due to the entry of the portions of certificates recognised in the period, against the different policies adopted by the Group for the clearance of the obligation value referred to the previous year.
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 29 "Provisions for risks and charges".
In relation to grey certificates, the increase in the value of the portfolio is due to the increase of the market price of this type of certificates and the higher volumes held in the portfolio at period end, as compared with the previous year.

"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 36.4 million euro;
- deposit paid to the associated company Sinergie Italiane in liquidation, in accordance with the provisions of the natural gas supply contract with the same company, to guarantee the sales that will be made to the Group for 7.5 million euro. This deposit is covered by a security that the Ascopiave Group issued when the partnership agreement was signed;
- security deposits required by Customs amounting to 2.3 million euro.

"VAT, excise and additional taxes" is comprised of tax credits receivables to the treasury for value added tax in the amount of 33 million euro and for excise and additional taxes in the amount of 61.9 million euro. The change as compared to 31 December 2019 is attributable to a decrease of 23.7 million euro in receivables for value added tax and an increase of 25.7 million euro in receivables for excise and additional taxes. These changes should be interpreted together with the same change shown in note 31 "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.

"Incentives from renewable sources", consist of receivables from the GSE for the new incentive mechanism to promote the production of electricity from renewable sources, which replaced the mechanism for recognising green certificates. These receivables are generally collected within the following year.

"Fund for electricity and environmental services for standardisation and continuity income", the increase is mainly due to a higher receivable for equalisation of the gas distribution and electricity sectors, and higher receivables for components of the water cycle, only partially offset by lower receivables for components of the gas distribution sector.

"Prepaid costs" are mainly costs for a future period deriving from external work and services in the amount of 8.5 million euro (4.9 million euro as of 31 December 2019), costs incurred for insurance policies, surety, bank fees and charges in the amount of 2.8 million euro (2.3 as of 31 December 2019).

"Credits for tax benefits", mainly represent tax credits for investments in capital goods, including those related to Industry 4.0, introduced by the 2020 Budget Law in replacement of the previous tax legislation on maxi and hyper depreciation.

"Other receivables", the item mainly includes receivables for water leakage provisions charged and not yet collected from users for insurance in case of leakage, amounting to 9.3 million euro (7.1 million euro at 31 December 2019) and receivables from companies owning the assets used to perform public utility services, amounting to 8.5 million euro in line with the previous year.
The decrease on the previous year is mainly due to the collection of the receivable from Ascopiave Spa, as minority shareholder of EstEnergy Spa, for its portion of the substitute tax, equal to 31.1 million, which EstEnergy paid during 2020 to implement a process of tax optimisation strictly related to the acquisition of the energy commercial activities. For further details, refer to note 24 "Current tax assets and liabilities".

26 Share capital and reserves

Compared to 31 December 2017, shareholders' net equity increased by 9.6 million euro due mainly to the combination of the following effects:

- overall revenues for the period in the amount of 361.1 million euro;
- distribution of dividends in the amount of 163.1 million euro;
- decrease due to transactions on treasury shares, in the amount of 44.7 million euro;
- decrease due to changes in treasury shares, in the amount of 11.3 million euro.

The statement of changes in net equity is shown in section 2.01.05.

Share capital
The share capital at 31 December 2020 amounted to 1,460 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 2020 was 28.9 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 2020 was 28,891,271 (14,074,512 at 31 December 2019).

Reserves
This item, amounting to 1,198.1 million euro, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 1,257.1 million euro, cumulative losses in the other components of comprehensive income for 32.7 million euro and negative reserves for operations on treasury shares in the amount of 26.3 million euro. These latter items reflect transactions carried out on treasury shares as at 31 December 2020. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 5.1 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. In particular, it includes equity interests in the Herambiente Group and the Marche Multiservizi 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 option to sell its minority shareholding in EstEnergy Spa. 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 as fully owned. For additional details on the calculation of fair value of put option debt, please refer to paragraph 27 "Current and non-current financial liabilities".

The following is a reconciliation between the Parent Company's separate financial statements and the consolidated financial statements.

	Net Profit	Net equity
Balances as per parent company's financial statements	**217.0**	**2,411.8**
Excess of shareholders' equity reported in the financial statements for the period over the carrying amounts of investments in consolidated companies	134.9	325.6
Consolidation adjustments:		
net equity valuation of companies recognised in the separate financial statement at cost	1.9	42.3
difference between purchase price and corresponding net book equity	(40.6)	205.4
elimination of the effects of intra-group transaction	(10.5)	(24.3)
Total	**302.7**	**2,960.8**
Attribution of third-party interests	20.1	194.5
Balances as per consolidated financial statements	**322.8**	**3,155.3**

27 Current and non-current financial liabilities

	31 Dec 20	31 Dec 19	Change
Bonds and loans	3,096.1	2,882.8	213.3
Minority shareholder' sale option	556.4	553.3	3.1
Payables to acquire controlling shares and potential consideration	22.8	17.4	5.4
Other financial liabilities	3.4	2.8	0.6
Total non-current financial liabilities	**3,678.7**	**3,456.3**	**222.4**
Overdrafts and interest expenses	188.6	111.5	77.1
Bonds and loans	314.3	63.1	251.2
Payables to acquire controlling shares and potential consideration	1.3	9.9	(8.6)
Other financial liabilities	112.7	121.0	(8.3)
Total current financial liabilities	**616.9**	**305.5**	**311.4**
Total financial liabilities	**4,295.6**	**3,761.8**	**533.8**

"Bonds and loans" for the non-current part, increased mainly as a result of issuance of a bond (under the existing Euro Medium Term Notes programme), through which the Group took advantage of the favourable opportunity offered by the markets. The new bond, listed on the regulated markets of the Irish Stock Exchange and the Luxembourg Stock Exchange, has a nominal value of 500 million euro, a duration of ten years and a yield of 0.348%. For further details on the new issuance, please refer to paragraph 1.03 of the management report "Significant events during the year".

The item includes the value of the sale option, in the amount of 54.5 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 pursuant to IFRS 9 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, increased mainly as a result of reclassification from non-current financial liabilities of the bond maturing on 31 May 2021 with a residual nominal value of 249.9 million euro.

"Minority shareholders' sale 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. 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 Ascopiave Group. 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 on 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. Since the policy of the Group provides not to represent the interest of minority shareholders in the component of the result of the period, in evaluating the value of the debt for the option any dividends that are expected to be distributed by EstEnergy Spa along the hypothetical life of the option itself were taken into account (the corresponding cash flows will in fact adjust the consideration to be paid at the date of exercising the option according to the contractual mechanism agreed between the parties). 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. However, it is important to underline that, given the structure of the operation, during the period in which the option is exercised, 48% of the profit generated by EstEnergy Spa will be distributed to Ascopiave Spa and 52% to the Hera Group. 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 in the amount of 48%) will be directly generated by EstEnergy, without thus determining during that period a real additional financial need for the Group.

The change in the put option compared with the previous year, therefore, derives from 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 shows the value adjustments during the year of the option described above:

	31 Dec 19	Financial expenses	Dividends paid out	Changes assumption	31 Dec 20
Sale option (fair value)	396.6	13.8	-	(8.5)	401.9
Sale option (future dividends)	156.7	5.5	(17.8)	8.6	153.0
Total non-current assets	**553.3**	**19.3**	**(17.8)**	**0.1**	**554.9**

"Payables for the acquisition of controlling interests and potential payments" 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 2020 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 5,4 million euro.

The item "Other financial liabilities", for the portion due after the current period, includes 2.3 million euro due to the Municipal Pension Fund of the Municipality of Trieste and the second instalment to be paid to Acer for the early redemption of assets previously held under a leasing contract for 1.1 million euro.

The current part mainly consists of payables due to:

- collections from customers under a safeguard regime, customers for last resort services of the gas sector, and advances on earthquake reporting for 60.8 million euro;
- collection of receivables factored without recourse still to be transferred to factoring companies at year-end, in the amount of 33.7 million euro;
- Advances for 10.3 million euro for contracts for the exchange of electric power carried out on the EEX platform, which provide for the daily settlement of differentials;
- The first instalment to be paid to Acer for the early redemption of assets previously held under a leasing contract for 1.1 million euro;
- payables for 0.5 million euro due to the Municipal Pension Fund of the Municipality of Trieste.

In "Overdrafts and interest expenses", the significant change compared with the previous financial period is represented by the disbursement of short-term loans, in the form of hot money, amounting to 138.9 million euro.

The table below shows the financial liabilities at 31 December 2020 and indicates the portion expiring within the financial year, within 2 years, within 5 years and after 5 years:

Type	Residual amount 31 Dec 20	Portion due within the period	Portion due within 2nd year	Portion due within 5th year	Portion due beyond 5th year
Bonds	2,806.1	252.0		531.5	2,022.6
Loans	604.3	62.3	115.2	179.2	247.6
Minority shareholder' sale option	556.4			1.5	554.9
Payables to acquire controlling shares and potential consideration	24.1	1.3	17.4	5.4	
Other financial liabilities	116.1	112.7	1.4	2.0	
Overdrafts and interest expenses	188.6	188.6			
Total	**4,295.6**	**616.9**	**134.0**	**719.6**	**2,825.1**

The main conditions of the bonds outstanding as of 31 December 2020 are as follows:

Bonds	Negotiation	Duration (years)	Maturity	Nominal value (mn)	Coupon	Annual rate
Bond	Listed	8	4 Oct 21	249.86 €	Annual	3.25%
Bond	Listed	10	22 May 23	68.0 €	Annual	3.375%
Green bond	Listed	10	4 Jul 24	329.29 €	Annual	2.375%
Bond	Unlisted	15	5 Aug 24	20,000 Jpy	Six monthly	2.93%
Bond	Listed	12	22 May 25	15.0 €r	Annual	3.50%
Bond	Listed	10	14 Oct 26	400.0 €	Annual	0.875%
Bond	Unlisted	15/20	14 May 27/32	102.5 €	Annual	5.25%
Bond	Listed	8	5 Jul 27	500.0 €	Annual	0.875%
Bond	Listed	15	29 Jan 28	700.0 €	Annual	5.20%
Bond	Listed	10	3 Dec 30	500.0 €	Annual	0.25%

At 31 December 2020 the outstanding bonds, totalling a face value of e 3,014.5 million euro (2,514.6 at 31 December 2019) and recorded at discounted cost of 2,806.1 million euro, have a fair value of 3,392.8 million euro (2,919.6 at 31 December 2019) 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 2020, the Group has committed credit lines of 650 million euro and uncommitted credit lines of 644 million euro (of which 122.5 million euro have been drawn). These credit lines are distributed among leading Italian and international banks and allow for adequate diversification of counterparty risk and competitive conditions.

Sureties and guarantees

	31 Dec 20	31 Dec 19
Bank sureties and guarantees	1,591.8	1,161.5
Insurance sureties and guarantees	306.2	412.5
Total	**1,898.0**	**1,574.0**

"Bank sureties and guarantees", the value at 31 December 2020 comprises the following:

- 737.4 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;
- 854.4 million euro for sureties and comfort letters issued to guarantee timely payment for the sourcing of raw materials

"Insurance sureties and guarantees", at 31 December 2020, 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 2020, 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 0.4 million euro.

28 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 matured receivables of the employee 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 19	Service cost	Financial expenses	Actuarial profit (losses)	Uses and other movements	Changes in scope of consolidation	31 Dec 20
Post-employment	112.0	0.8	0.2	1.5	(12.4)	0.1	102.2
Tariff reduction	7.9	-	0.1	(0.2)	(0.3)	-	7.5
Premungas	3.5	-	-	0.2	(0.5)	-	3.2
Gas discount	3.9	-	-	0.3	(0.4)	-	3.8
Total	**127.3**	**0.8**	**0.3**	**1.8**	**(13.6)**	**0.1**	**116.7**

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. "Actuarial gains (losses)" reflects 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. The effect for the period, amounting to 1.8 million euro, is due to the decrease of the yield curve as compared to the previous period, which was already significant in 2019 and resulted in a negative technical discount rate at 31 December 2020.

The item "Uses and other movements" mainly includes the amounts paid to employees over the course of the financial period.

The tables below outline the main assumptions used in the actuarial estimate of employee benefits, subdivided by geographical area:

	Central area	North-eastern area
Technical actuarial yearly rate	(0.14)%	(0.14)%
Overall increase of salary yearly rate	2.00%	
Yearly frequency of exit from work for reasons other than death	1.70%	2.02%
Yearly average frequency of use severance pay provision	2.00%	3.50%

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 0.7% for the year 2021, 1% for 2022 and 1.10% for the following years;
- for probabilities of death, ISTAT 2019 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 2020.

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 2020, 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 3.1 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 3.3 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 2020, 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 1.9 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 1.9 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.

29 Provisions for risks and charges

	31 Dec 19	Provisions	Financial expenses	Uses and other movements	Changes scope of consolid.	31 Dec 20
Provision third-party asset restoration	217.3	9.5	5.4	-	-	232.2
Provision for closure and post-closure landfill expenses	183.6	1.8	19.7	(26.1)	-	179.0
Provision for personnel legal cases and disputes	16.6	1.9	-	(4.0)	-	14.5
Provisions for waste disposal	7.2	6.5	-	(7.0)	-	6.7
Provision for plant dismantling	7.8	-	0.1	(2.0)	-	5.9
Other provisions for risks and charges	89.3	15.8	-	(5.2)	-	99.9
Total	**521.8**	**35.5**	**25.2**	**(44.3)**	**-**	**538.2**

The "Provision for third-party asset restauration" includes 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.

The "Provision for landfill closure and post-closure expenses" represents 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 in compliance with the provisions of IAS 37. 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. Changes in estimated closure and post-closure costs in relation to active or new landfills, which entailed the recording of an adjustment of the same amount as the value of the property, were classified under "Uses and Other movements".

"Uses and other movements" of the item "Provision for landfill closure and post-closure expenses" decreased by 26.1 million euro, as follows:

- 18.4 million euro for current cash outlays for the post-operational management of landfills, 7.6 million euro of which refer to internal costs included in "Other operating revenues";

- impairment loss of 10 million euro related for the completion, during the year, of the process of measuring at fair value the assets and liabilities of Pistoia Ambiente Srl, acquired in July 2019. For further details, reference should be made to paragraph 2.02.02 "Scope of consolidation";
- incremental reclassifications from other balance sheet items totalling 1.6 million euro ;
- changes in the assumptions on future outlays following the revision of the estimates of landfills in cultivation for 0.7 million euro and rising.

The financial expenses for the item "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 plant dismantling" includes the amounts allocated for the future dismantling of the WTE plants. During the year, appraisals for costs to be incurred for two waste-to-energy plants under concession were recalculated, resulting in a decrease in the provision of 2 million euro.

"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 2020 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 as at 31 December 2019.

"Other provisions for risks and charges" comprises provisions made against sundry risks. Below, there is a description of the main items:

- 18.7 million euro related to the potential risk of the amount of the WTE green certificates not being recognised calculated according to the difference between auxiliary services resulting from total self-consumption and services estimated on the basis of the benchmark percentage;
- 11.3 million euro, due to the potential liability related to existing obligations (guarantee on financial exposure given by AcegasApsAmga S.p.A.) in case of abandonment of the operations run by the foreign subsidiary Aresgas (Bulgaria).
- 6.3 million euro for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill;
- 6.6 million euro for the dispute that arose with the subsidiary Hestambiente Srl in connection with the payment of CIP6 incentives for the Trieste waste to energy plant for the years 2010-2012;
- 5 million euro for the potentially higher expenses that may be incurred in connection with litigation following a claim for compensation received after a contractual termination by the Group;
- 4.7 million euro for the potential risk of reimbursement of a portion of the sewerage and purification tariffs for the water service;
- 3.5 million euro million euro for 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;
- 3.3 million euro for the 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 .

"Uses and other movements" of the item "Other provisions for risks and charges" decreased by 5.2 million euro net. The item includes, for 4.1 million euro, for the effect of settling the dispute arising from the enactment of the Decree of the Ministry of Economic Development of 20 November 2012 "New procedures to determine the component of the avoided fuel cost (CEC)", under measure CIP6/92, which introduced new calculation criteria for determining the bonus that are different from those initially expected for the years 2010, 2011 and 2012; As a result of the unfavourable ruling by the Lazio Regional Administrative Court, the Group wrote off its receivables from the GSE using the provision for risks set aside in previous years.

30 Trade payables

	31 Dec 20	31 Dec 19	Change
Payables to suppliers	616.8	626.9	(10.1)
Payables to suppliers for invoices not yet received	880.7	764.9	115.8
Total	**1,497.5**	**1,391.8**	**105.7**

The increase of trade payables compared to previous year is mainly due to:

- delays on the part of the Integrated Information System (IIS) in the final reporting of commodity procurement, which also led to contracts being concluded with timelines different from the previous year;
- different compliance method adopted by the Group during the year for the fulfilment of the white certificate obligations of the previous period, based on the current legislation: still open at 31 December 2020 for 40% of the 2019 obligation, while at 31 December 2019 the 2018 obligation had been fulfilled in full;
- increase in the white certificate obligation allocated to the Group for the period 2020 compared to 2019.

The majority of trade payables are the result of transactions carried out in Italy.

31 Other current liabilities

	31 Dec 20	31 Dec 19	Change
Payables for advances to the fund for energy and environmental services:	360.5	382.2	(21.7)
Plant investment grants	211.0	202.5	8.5
Security deposits from clients	117.5	118.0	(0.5)
Fund for components and equalization of the electricity, gas and environment sectors	88.2	81.5	6.7
Personnel	55.6	50.2	5.4
Payables to social security institutions	53.2	51.6	1.6
VAT, excise and additional taxes	32.8	31.8	1.0
Anticipated revenues and other expenses	18.8	11.8	7.0
Employee withholding	20.7	17.6	3.1
Payables for damage in customs	12.7	14.3	(1.6)
Environmental damage	11.3	10.8	0.5
Other payables	73.9	75.6	(1.7)
Total	**1,056.2**	**1,047.9**	**8.3**

"Liabilities for advances to the Fund for energy and environmental services" comprises non-interest-bearing advances granted by the electricity sector Equalization Fund, as follows:

- 268.7 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 2009-2018;
- 90.1 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 2016-2017 thermic year;
- 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;

The decrease as compared to 31 December 2019 is mainly due to transactions involving the transfer of receivables from customers under the safeguard regime for which advances had been received, partially offset by collections relating to the reporting of safeguard regime receivables that had expired and not been collected for the year 2018 and of the default gas regime for the thermal year 2018-2019, as well as balances from previous periods.

"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:
- 59.7 million euro in contributions related to the FoNI fund (new water system investment fund);
- 38.2 million euro in contributions related to purification plants for the Servola plant built in the Municipality of Trieste;
- 35.8 million euro in contributions for investments earmarked for purification and sewer networks;
- 22.5 million euro in contributions to built rolling basins e underwater pipes in the area of Rimini.

The change as compared to 31 December 2019 is mainly due to the grants received for investments in the water sector, net of the company's share for the period.

"Security deposits from customers" reflect the amount paid by customers for gas, water and electricity provision contracts.

"Payables to social security institutions" and "Employee withholdings" relate to contributions and withholdings owed to social security institutions and the inland revenue for the month of December.

"Personnel" includes the vacation time accrued and not used, as well as the productivity bonuses accounted for by department, as of 31 December 2020. The change compared to the previous year is mainly due to the increase provided for in the national collective labour agreement and to the redundancy incentives not paid at 31 December, partially offset by the decrease in compensation for accrued and unused vacation, following the plan adopted by the Group for the use of past vacation days.

"Fund for components and equalisation of the energy and environmental services", reflects the liabilities for the Fund for energy and environmental 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 2019 is mainly due to a higher debit for certain components of all the services managed amounting to 12.3 million euros, offset by a lower debt for equalisation of both the gas and electricity service for a total of 5.6 million euro.

"VAT, excise and additional taxes" includes payables for VAT in the amount of 1.9 million euro (6.6 million euros at 31 December 2019), and excise and additional taxes in the amount of 30.9 million euro (25.2 million euro at 31 December 2019). As outlined in note 25, "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.

"Payables for damage in customs" includes the value of insurance deductibles that the Group must repay directly to damaged third parties or insurance companies.

"Anticipated revenues and other accrued expenses" include portions of revenues already invoiced pertaining to the following financial year and portions of lower taxes for tax benefits related to tax credits arising in the 2020 financial year for investments in new capital goods that the Group will use to offset taxes and contributions in subsequent financial years (equal to 5.9 million euro as of 31 December 2020). With regard to lower taxes due to tax benefits, please refer to note 12 "Taxes".

"Environmental damage" represents the payments to be made to municipalities, 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 and the changes in debt compared to the previous year are related not only to volumes but also to the timing of payments, which may vary between different periods.

The item "other payables" is mainly composed of the following:

- payments on account and specific tariff subsidies payable to customers amounting to 10.8 million euro (11.1 million euro at 31 December 2019) mainly referring to waste disposal and treatment service for 5.9 million euro and water cycle service for 4 million euro;
- requirement to return energy efficiency certificates for 8.1 million euro, comprising almost entirely grey certificates and renewable energy certificates, to the competent Authority;
- dividends owed to minority shareholders, amounting to 2.7 million euro (2.9 million euro at 31 December 2019).

32 Impairment test

Cash-generating and goodwill units

As required by the reference accounting standards (IAS 36), 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 2020 - 2024 business plan approved by the Board of Directors of the parent company at its meeting 13 January 2021.

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 the annual financial report in paragraph 2.02.07 "Information by operating segments".

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 2020-2024 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 the Authority 570/19 (RTDG) and 654/15 (TIT) resolutions for gas and electricity respectively, and taking into account the respective WACC values, approved through Resolution no. 639/18 for the three year period 2019-2021 in relation to the electric power sector and for the gas distribution and measurement (for the latter activity as amended by Resolution 570/19), and were updated for the following years in line with the methodology of resolution no. 583/15 and according to the forecasts of the financial and fiscal parameters integrated into the approved Business Plan. Revenues from energy sales under protected conditions have been estimated on the basis of the respective regulatory AEEGSI 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 AEEGSI resolution no. 580/19, 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 at the time the plan was prepared. 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 2021 - 2024 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 2025-2040 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 (2040) 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 5.22% was used for the environment and 4.32% for other businesses, while for the gas distribution managed in Bulgaria a WACC of 4.37% was used.

The results of the tests were positive. A sensitivity evaluation 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. Please refer to paragraph 1.08 "Covid-19 emergency management" for further sensitivity analysis of the current health crisis scenario.

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 2020 financial year, as a result of the consumption dynamics following the Covid19 pandemic, there was a significant effect on prices in Mgp despite the presence of a positive clean spark spread, broadly in line with that of previous years. 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.
- more significant role of renewable sources.

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 4.43% WACC, calculated in the same way as shown for the cash flow generating units.
The outcome of the test led to a revaluation of the investment in Set Spa for 1.5 million euro, and a further adjustment to the value of the loan to Tamarete Energia Srl for 0.8 million euro.

A sensitivity analysis was also developed assuming a Css of 1 €/MWh, with a consequent reduction in the cash flows developed over the life of the plants. This scenario would produce a further writedown of the carrying amounts of Set Spa for a total of 0.8 million euro.

At the end of the valuation process, the carrying amount of financial assets, equity investments and receivables attributable to Set Spa was 49.3 million euro, while the financial assets attributable to Tamarete Energia Srl were written down in full.

33 Operational activity

Taxes paid

The change from the previous year was due to the combined effect of:

- payment of substitute taxes of 84.1 million euro for redemption, i.e. recognition of tax deductibility, of the higher values implicit in controlling interests and the redemption of intangible assets recognised in the separate financial statements as part of business combinations in previous years;
- collection of receivables, partially restated, for IRES refund requests already filed in previous years in relation to the deductibility from IRES of the IRAP related to the cost of employees and assimilated personnel for 16.4 million euro (as reported in Note 24 "Current tax assets and liabilities").

For ease of comparison with the previous year, the breakdown of flows is given below:

	31 Dec 20	31 Dec 19
Income taxes	116.9	125.3
Substitute tax	84.1	
IRES refund	(16.4)	(2.2)
Taxes paid	**184.6**	**123.1**

Details of the redemption transactions carried out during the period and the related substitute taxes paid are as follows.

Company	Exemption	Business combination	31 Dec 20
EstEnergy Spa	Controlling shares	Ascopiave commercial activities	65.3
Herambiente Spa	Controlling shares	Pistoia Ambiente Srl	6.8
Hera Comm Spa	Controlling shares	Ascopiave commercial activities	6.5
Hera Comm Nord Est Srl	Customer lists	former Amga Energia and Servizi Srl	2.4
Hera Comm Marche Srl	Customer lists	Blu Ranton Srl and Sangroservizi Srl	2.2
Hera Comm Spa	Customer lists	CMV	0.9
Substitute tax			**84.1**

34 Investment activities

Investments in subsidiary companies and business units net of cash and cash equivalents

Over the course of the 2020 financial year, the Group gained control over the company Wolmann Spa; for further details, reference should be made to paragraph 2.02.02 "Scope of consolidation".

Other Equity investments

With a view to strengthening the partnership with the Ascopiave Group, which began at the end of 2019, a shareholding was acquired in Ascopiave Spa. The related shares are classified as financial assets at fair value through other comprehensive income. The capital increase of H.E.P.T Co. Ltd. has also been subscribed and paid. For further details see note 18 "Equity investments".

The table below details the main cash disbursements and cash holdings acquired, when present, associated with shareholdings in companies and business units.

31 Dec 20	Wolmann Spa	Ascopiave Spa	H.E.P.T. Co. Ltd	Other minor	Total investments
Cash outlays leading to the acquisition of control	1.8				1.8
Cash outlays in non-consolidated companies		45.5	1.2	0.1	46.8
Cash holdings acquired					-
Investments in companies and business units net of cash and cash equivalents	**1.8**	**45.5**	**1.2**	**0.1**	**48.6**

Divestments in consolidated companies and contingent consideration
The item includes 1.4 million euro related to the divestiture of the equity investment of 39.5% in the affiliated company Q.Thermo Srl, as described in paragraph 2.02.02 "Scope of consolidation".

35 Financing activities

Changes in liabilities generated by financing activities
The following is a breakdown of information on changes in financial liabilities during the 2020 financial year, differentiating between cash flows and non-cash flows.
For further details on "Acquisitions and divestments" please refer to paragraph 2.02.02 "Scope of consolidation", for further details on "Changes in fair value" please refer to note 21 "Derivatives", while for "Valuation income and expenses" and "Other changes" please refer to notes 10 "Financial income and expenses", 15 "Rights of use and lease liabilities" and 27 "Non-current and current financial liabilities" and paragraph 2.02.02 "Scope of consolidation".

Type	31 Dec 20	31 Dec 19	Change	Non-cash flows				Cash flows
				Acquisitions divestitures	Income Evaluation expenses	Changes in fair value	Other changes	
Banks, loans and non-current options	3,678.7	3,456.3	222.4	1.5	48.8	(5.0)	(315.8)	492.9
Banks, loans and current options	616.9	305.5	311.4	0.2	(0.8)		313.2	(1.2)
Lease liabilities	93.6	95.5	(1.9)	0.2	3.3		16.7	(22.1)
Liabilities generated by financing activities	**4,389.2**	**3,857.3**	**531.9**	**1.9**	**51.3**	**(5.0)**	**14.1**	**469.6**

"Acquisitions and divestitures" include the effects of the acquisition of control of Wolmann Spa.

"Evaluation income/expenses" mainly refers to:
- valuation at depreciated cost of bonds and financing for 28.4 million euro;
- discounting charges related to the option to sell the minority interest in EstEnergy Spa of 19.4 million euro;
- expenses related to leases for 3.3 million euro.

"Change in fair value" includes adjustments made to the carrying amount of the bond denominated in Japanese yen as a result of the hedging relationship (fair value hedge).

"Other changes" in the items "Banks and loans and non-current options" and "Banks and loans and current options" include mainly:
- the recognition of the amortised cost related to the issue of a new bond for 7.1 million euro;

- the change in the consideration transferred following the final valuation of the acquisition of Pistoia Ambiente Srl for 5.2 million euro;
- the change of the value of the sale option 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, in the amount of 2.7 million euro.
- the reclassification from the item "Lease liabilities" of the amounts not yet paid in relation to the early redemption of a leasing contract for 2.1 million euro.

"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, in addition to the above reclassification of 2.1 million euro.

Finally, it should be noted that non-monetary flows due to exchange rate differences were absent in 2020.

Acquisition of Interests in consolidated companies
The amount refers to the cash outlays related to the purchase of non-controlling shares in Hera Servizi Energia Srl, as described in section 2.02.02 "Scope of consolidation"

36 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. Details of the fair value of derivatives are provided instead in note 21.

31 Dec 20	Fair value recognised to income statement	Depreciated cost	Fair value recognised to comprehensive income statement	Total
Other Equity investments			50.7	50.7
Non-current financial assets		138.9	1.9	140.8
Non-current assets	**-**	**138.9**	**52.6**	**191.5**
Trade receivables		1,971.6		1,971.6
Current financial assets		32.7	0.1	32.8
Other assets	24.6	474.6		499.2
Current assets	**24.6**	**2,478.9**	**0.1**	**2,503.6**

31 Dec 19	Fair value recognised to income statement	Depreciated cost	Fair value recognised to comprehensive income statement	Total
Other Equity investments			7.7	7.7
Non-current financial assets		132.8	2.5	135.3
Non-current assets	**-**	**132.8**	**10.2**	**143.0**
Trade receivables		2,065.3		2,065.3
Current financial assets		70.0	0.1	70.1
Other assets	19.3	418.5		437.8
Current assets	**19.3**	**2,553.8**	**0.1**	**2,573.2**

With respect to "Other equity investments" reference is made to note 18. Please note that "Other equity investments", after the initial assessment, are measured at fair value through other comprehensive income components, in compliance with what set forth by the IFRS 9 accounting standard.
With respect to "Non-current financial assets" reference is made to note 19.
With respect to "Current assets" reference is made to notes 19, 23, 24 and 25.

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 21.

31 Dec 20	Fair value recognised to income statement	Depreciated cost	Hedged elements (fair value hedge)	Total
Non-current financial liabilities	561.8	2,972.3	144.6	3,678.7
Non-current lease liabilities		73.5		73.5
Non-current liabilities	**561.8**	**3,045.8**	**144.6**	**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	8.1	1,073.5		1,081.6
Current liabilities	**8.1**	**3,208.0**	**-**	**3,216.1**

31 Dec 19	Fair value recognised to income statement	Depreciated cost	Hedged elements (fair value hedge)	Total
Non-current financial liabilities	553.3	2,753.4	149.6	3,456.3
Non-current lease liabilities		76.1		76.1
Non-current liabilities	**553.3**	**2,829.5**	**149.6**	**3,532.4**
Trade payables		1,391.8		1,391.8
Current financial liabilities		305.5		305.5
Current lease liabilities		19.4		19.4
Other liabilities	7.6	1,127.2		1,134.8
Current liabilities	**7.6**	**2,843.9**	**-**	**2,851.5**

With respect to "Non-current liabilities" reference is made to note 15 and 27.
With respect to "Current liabilities" reference is made to notes 15, 24, 27, 30 and 31.

2.02.06 Reporting by operational 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 2020, 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 heating management;
- **Electricity** includes the costs of producing, distributing and selling electricity;
- **Water Cycle** includes aqueduct, purification and sewage services;
- **Environment** includes waste collection, treatment and recycling services;
- **Other services** includes public lighting, telecommunications and other minor services.

The following are assets and liabilities by business line for the 2019 and 2020 financial years:

31 Dec 20	Gas	Electricity	Water cycle	Environment	Other services	Total
Current period						
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
Equity investments	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**

31 Dec 19	Gas	Electricity	Water cycle	Environment	Other services	Total
Previous period						
Assets (tangible and intangible)	1,858.6	624.4	1,952.4	1,302.2	132.2	5,869.8
Goodwill	500.0	66.4	42.8	198.9	4.8	812.9
Equity investments	66.7	43.2	9.0	24.6	-	143.5
Not attributed fixed assets						20.1
Net fixed assets	**2,425.3**	**734.0**	**2,004.2**	**1,525.7**	**137.0**	**6,846.3**
Attributed net working capital	245.7	54.7	(153.9)	63.9	(10.6)	199.8
Non attributed net working capital						(112.8)
Net working capital	**245.7**	**54.7**	**(153.9)**	**63.9**	**(10.6)**	**87.0**
Other provisions	(168.9)	(29.8)	(147.6)	(298.2)	(4.6)	(649.1)
Net invested capital	**2,502.1**	**758.9**	**1,702.7**	**1,291.4**	**121.8**	**6,284.2**

The following are the main result measures by business line for the 2019 and 2020 financial years:

2020	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Current period							
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**

2019	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Previous period							
Direct revenues	2,878.8	2,443.0	875.6	1,122.4	107.4	16.5	7,443.7
Infra-cycle revenues	83.5	143.6	5.5	57.2	40.5	38.8	369.1
Total direct revenues	**2,962.3**	**2,586.6**	**881.1**	**1,179.5**	**147.9**	**55.3**	**7,812.8**
Indirect revenues	9.6	3.8	30.8	11.0	0.1	(55.3)	-
Total revenues	**2,971.9**	**2,590.4**	**911.9**	**1,190.5**	**148.1**	**-**	**7,812.8**
EBITDA	**341.6**	**178.5**	**265.3**	**264.2**	**35.5**	**-**	**1,085.1**
Direct amortisations and provisions	138.2	53.6	126.1	144.5	20.3	59.9	542.6
Indirect amortisations and provisions	6.2	2.8	28.7	21.7	0.4	(59.9)	-
Total amortisations and provisions	**144.4**	**56.5**	**154.8**	**166.2**	**20.7**	**-**	**542.6**
Operating revenues	**197.2**	**122.0**	**110.5**	**98.0**	**14.8**	**-**	**542.5**

2.03 NET FINANCIAL INDEBTEDNESS

2.03.01 Net financial indebtedness

		31 Dec 20	31 Dec 19
A	**Cash and cash equivalents**	**987.1**	**364.0**
B	**Other current financial receivables**	**32.8**	**70.1**
	Current bank payables	(188.6)	(111.5)
	Current portion of bank indebtedness	(307.1)	(63.1)
	Other current financial payables	(114.0)	(130.9)
	Current lease liabilities	(20.1)	(19.4)
C	**Current financial indebtedness**	**(629.8)**	**(324.9)**
d=a+b+c	**Current net financial indebtedness**	**390.1**	**109.2**
	Non-current financing and bonds issued	(3,101.8)	(2,869.1)
	Other non-current financial payables	(582.6)	(573.5)
	Non-current lease liabilities	(73.5)	(76.1)
E	**Non-current financial indebtedness**	**(3,757.9)**	**(3,518.7)**
f=d+e	**Net financial position - CONSOB Communication no. 15519/2006**	**(3,367.8)**	**(3,409.5)**
G	**Non-current financial receivables**	**140.8**	**135.3**
h=f+g	**Net financial indebtedness**	**(3,227.0)**	**(3,274.2)**

2.03.02 Net financial indebtedness according to the Consob notice DEM/6064293 of 2006

		31 Dec 20					31 Dec 19				
			A	B	C	D		A	B	C	D
A	Cash and cash equivalents	987.1	-	-	-	-	364.0				
	of which related parties										
B	Other current financial receivables	32.8					70.1				
	of which related parties		0.3	4.4	4.4	1.4		-	5.7	2.9	1.4
	Current bank payables	(188.6)	-	-	-	-	(111.5)	-	-	-	-
	Current portion of bank indebtedness	(307.1)	-	-	-	-	(63.1)	-	-	-	-
	Other current financial payables	(114.0)	-	-	(0.7)	-	(130.9)	-	-	(1.1)	-
	Current lease liabilities	(20.1)	-	-	(1.2)	(0.1)	(19.4)	-	-	(1.4)	(0.1)
C	Current financial indebtedness	(629.8)					(324.9)				
	of which related parties		-	-	(1.9)	(0.1)		-	-	(2.5)	(0.1)
d=a+b+c	Current net financial indebtedness	390.1					109.2				
	of which related parties		0.3	4.4	2.5	1.3		-	5.7	0.4	1.3
	Non-current financing and bonds issued	(3,101.8)	-	-	-	-	(2,869.1)	-	-	-	-
	Other non-current financial payables	(582.6)	-	-	(2.3)	-	(573.5)	-	-	(2.8)	-
	Non-current lease liabilities	(73.5)	-	-	(5.6)	(0.2)	(76.1)	-	-	(2.8)	(0.3)
E	Non-current financial indebtedness	(3,757.9)					(3,518.7)				
	of which related parties		-	-	(7.9)	(0.2)		-	-	(5.6)	(0.3)
f=d+e	Net financial position - CONSOB Communication no. 15519/2006	(3,367.8)					(3,409.5)				
	of which related parties		0.3	4.4	(5.4)	1.1		-	5.7	(5.2)	1.0
G	Non-current financial receivables	140.8					135.3				
	of which related parties		-	20.3	15.0	36.9		-	23.2	18.0	39.9
h=f+g	Net financial indebtedness	(3,227.0)					(3,274.2)				
	of which related parties		0.3	24.7	9.6	38.0		-	28.9	12.8	40.9

Legend of column headings for correlated parts:
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	2020	of which related parties						2019	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	7,079.0	-	27.4	293.5	14.2	335.1	4.7%	6,912.8	-	57.7	299.2	17.1	374.0	5.4%
Other operating revenues	2	467.8	-	0.2	9.2	-	9.4	2.0%	530.8	-	0.2	8.0	0.2	8.4	1.6%
Raw materials and stocks	3	(3,410.6)	-	(25.9)	-	(43.1)	(69.0)	2.0%	(3,458.2)	-	(11.9)	-	(46.9)	(58.8)	1.7%
Service costs	4	(2,424.9)	-	(9.4)	(22.1)	(34.1)	(65.6)	2.7%	(2,318.2)	-	(15.0)	(22.7)	(33.3)	(71.0)	3.1%
Personnel costs	5	(572.7)	-	-	-	(1.6)	(1.6)	0.3%	(560.4)	-	-	-	(1.4)	(1.4)	0.2%
Other operating costs	6	(58.9)	-	-	(1.9)	(0.6)	(2.5)	4.2%	(59.3)	-	0.1	(2.0)	(0.7)	(2.6)	4.4%
Capitalised costs	7	43.3	-	-	-	-	-		37.6	-	-	-	-	-	
Amortisation, depreciation and provisions	8	(571.7)	-	(2.3)	-	-	(2.3)	0.4%	(542.6)	-	-	-	-	-	
Operating revenues		**551.3**	-	**(10.0)**	**278.7**	**(65.2)**	**203.5**		**542.5**	-	**31.1**	**282.5**	**(65.0)**	**248.6**	
Share of profits (losses) pertaining to associated companies	9	8.2	-	8.2	-	-	8.2	100.0%	13.4	-	13.4	-	-	13.4	100.0%
Financial income	10	73.4	-	4.8	0.7	0.4	5.9	8.0%	108.2	-	2.2	-	0.4	2.6	2.4%
Financial expenses	10	(198.3)	-	(2.3)	(0.3)	-	(2.6)	1.3%	(247.6)	-	(21.8)	(0.6)	(5.3)	(27.8)	11.2%
Financial management		**(116.7)**	-	**10.7**	**0.4**	**0.4**	**11.5**		**(126.0)**	-	**(6.2)**	**(0.6)**	**(4.9)**	**(11.8)**	
Other non-operating revenues (expenses)	11	-	-	-	-	-	-		111.6	-	-	-	-	-	
Earnings before taxes		**434.6**	-	**0.7**	**279.1**	**(64.8)**	**215.0**		**528.1**	-	**24.9**	**281.9**	**(69.9)**	**236.8**	
Taxes	12	(111.8)	-	-	-	-	-		(126.1)	-	-	-	-	-	
Net profit for the period		**322.8**	-	**0.7**	**279.1**	**(64.8)**	**215.0**		**402.0**	-	**24.9**	**281.9**	**(69.9)**	**236.8**	
To attribute to:															
Shareholders of the parent company		302.7							385.7						
Minority shareholders		20.1							16.3						
Earnings per share															
Basic	13	0.206							0.262						
Diluted	13	0.206							0.262						

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 20	of which related parties						31 Dec 19	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	14.32	1,926.5	-	-	-	-	-		1,992.7	-	-	-	-	-	
Rights of use	15.32	95.9	-	-	-	-	-		96.9	-	-	-	-	-	
Intangible assets	16.32	3,924.4	-	-	-	-	-		3,780.2	-	-	-	-	-	
Goodwill	17.32	812.8	-	-	-	-	-		812.9	-	-	-	-	-	
Equity investments	18.32	187.9	-	139.7	-	2.0	141.7	75.4%	143.5	0.1	137.0	-	2.0	139.1	96.9%
Non-current financial assets	19.36	140.8	-	20.3	15.0	36.9	72.2	51.3%	135.3	-	23.2	18.0	39.9	81.1	59.9%
Deferred tax assets	20	156.6	-	-	-	-	-		174.8	-	-	-	-	-	
Derivative financial instruments	21	14.4	-	-	-	-	-		41.1	-	-	-	-	-	
Total non-current assets		**7,259.3**	**-**	**160.0**	**15.0**	**38.9**	**213.9**		**7,177.4**	**0.1**	**160.2**	**18.0**	**41.9**	**220.2**	
Current assets															
Inventories	22	171.7	-	-	-	-	-		176.5	-	-	-	-	-	
Trade receivables	23.36	1,971.6	-	2.8	50.3	17.9	71.0	3.6%	2,065.3	-	7.2	60.7	16.9	84.8	4.1%
Current financial assets	19.36	32.8	0.3	4.4	4.4	1.4	10.5	32.0%	70.1	-	5.7	2.9	1.4	10.0	14.3%
Current tax assets	24.36	11.7	-	-	-	-	-		42.1	-	-	-	-	-	
Other current assets	25.36	487.5	-	8.5	-	5.4	13.9	2.9%	395.7	-	1.2	(0.3)	5.1	6.0	1.5%
Derivative financial instruments	21	113.1	-	-	-	-	-		72.2	-	-	-	-	-	
Cash and cash equivalents	19.34	987.1	-	-	-	-	-		364.0	-	-	-	-	-	
Total current assets		**3,775.5**	**0.3**	**15.7**	**54.7**	**24.7**	**95.4**		**3,185.9**	**-**	**14.1**	**63.3**	**23.4**	**100.8**	
TOTAL ASSETS		**11,034.8**	**0.3**	**175.7**	**69.7**	**63.6**	**309.3**		**10,363.3**	**0.1**	**174.3**	**81.3**	**65.3**	**321.0**	

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 20	of which related parties						31 Dec 19	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves															
Share capital	26	1,460.0	-	-	-	-	-		1,474.8	-	-	-	-	-	
Reserves	26	1,198.1	-	-	-	-	-		948.0	-	-	-	-	-	
Profit (loss) for the period		302.7	-	-	-	-	-		385.7	-	-	-	-	-	
Group net equity		**2,960.8**	-	-	-	-	-		**2,808.5**	-	-	-	-	-	
Non-controlling interests	26	194.5	-	-	-	-	-		201.5	-	-	-	-	-	
Total net equity		**3,155.3**	-	-	-	-	-		**3,010.0**	-	-	-	-	-	
Non-current liabilities															
Non-current financial liabilities	27.36	3,678.7	-	-	2.3	-	2.3	0.1%	3,456.3	-	-	2.8	-	2.8	0.1%
Non-current lease liabilities	15.36	73.5	-	-	5.6	0.3	5.9	8.0%	76.1	-	-	2.8	0.3	3.1	4.1%
Post-employment and other benefits	28	116.7	-	-	-	-	-		127.3	-	-	-	-	-	
Provisions for risks and charges	29	538.2	-	2.8	-	-	2.8	0.5%	521.8	-	-	-	-	-	
Deferred tax liabilities	20	120.5	-	-	-	-	-		154.5	-	-	-	-	-	
Derivative financial instruments	21	20.1	-	-	-	-	-		27.4	-	-	-	-	-	
Total non-current liabilities		**4,547.7**	-	**2.8**	**7.9**	**0.3**	**11.0**		**4,363.4**	-	-	**5.6**	**0.3**	**5.9**	
Current liabilities															
Current financial liabilities	27.36	616.9	-	-	0.8	-	0.8	0.1%	305.5	-	-	1.1	-	1.1	0.4%
Current lease liabilities	15.36	20.1	-	-	1.2	0.1	1.3	6.5%	19.4	-	-	1.4	0.1	1.5	7.6%
Trade payables	30.36	1,497.5	-	15.0	16.7	24.5	56.2	3.8%	1,391.8	-	12.5	17.6	25.1	55.2	4.0%
Current tax liabilities	24.36	25.4	-	-	-	-	-		86.9	-	-	-	-	-	
Other current liabilities	31.36	1,056.2	-	1.4	5.7	0.3	7.4	0.7%	1,047.9	-	0.4	2.7	0.1	3.2	0.3%
Derivative financial instruments	21	115.7	-	-	-	-	-		138.4	-	-	-	-	-	
Total current liabilities		3,331.8	-	16.4	24.4	24.9	65.7		2,989.9	-	12.9	22.8	25.3	61.0	
TOTAL LIABILITIES		**7,879.5**	-	**19.2**	**32.3**	**25.2**	**76.7**		**7,353.3**	-	**12.9**	**28.4**	**25.6**	**66.9**	
Liabilities associated with assets held for sale		-	-	-	-	-	-		-	-	-	-	-	-	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**11,034.8**	-	**19.2**	**32.3**	**25.2**	**76.7**		**10,363.3**	-	**12.9**	**28.4**	**25.6**	**66.9**	

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 20	of which related parties
Earnings before taxes	**434.6**	
Adjustments to reconcile net profit to the cashflow from operating activities		
Amortisation and impairment of assets	457.1	
Allocation to provisions	114.6	
Effects from valuation using the equity method	(8.2)	
Financial (income) expenses	124.9	
(Capital gains) losses and other non-monetary elements	(6.7)	
Change in provision for risks and charges	(30.2)	
Change in provision for employee benefits	(13.5)	
Total cash flow before changes in net working capital	**1,072.6**	
(Increase) decrease in inventories	(3.8)	
(Increase) decrease in trade receivables	4.8	13.8
Increase (decrease) in trade payables	101.9	1.0
Increase/decrease in other current assets/liabilities	(65.1)	(3.7)
Changes in working capital	**37.8**	
Dividends collected	10.1	7.2
Interest income and other financial income collected	37.4	2.7
Interest expenses, net charges on derivatives and other paid financial charges	(81.9)	(0.1)
Taxes paid	(184.6)	
Cash flow from operating activities (a)	**891.4**	
Investments in property, plant and equipment	(140.6)	
Investments in intangible assets	(365.8)	
Investments in subsidiary companies and business units net of cash and cash equivalents	(1.8)	
Other Equity investments	(46.8)	(1.3)
Sale price of property, plant and equipment	3.6	
Divestments in consolidated companies and contingent consideration	2.0	1.6
(Increase) decrease in other investment activities	30.8	7.7
Cash flow from (for) investing activities (b)	**(518.6)**	
New issue of long-term binds	512.6	
Repayments of non-current financial liabilities	(2.0)	
Repayments and other net changes in financial payables	(18.9)	(0.8)
Lease payments	(22.1)	(1.4)
Acquisition of Interests in consolidated companies	(1.2)	
Dividends paid to Hera shareholders and minority shareholders	(163.3)	(57.5)
Changes in treasury share	(54.8)	
Cash flow from (for) financing activities (c)	**250.3**	
Increase (decrease) in cash and cash equivalents (a+b+c)	**623.1**	
Cash and cash equivalents at the beginning of the period	364.0	
Cash and cash equivalents at the end of the period	987.1	

2.04.04 List of related parties

The values reported in the table at 31 December 2016 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries

Green Factory Srl

Group B- Affiliated and jointly controlled companies:

Adria Link Srl
Aimag Spa
ASM SET Srl
Energo Doo
Enomondo Srl
H.E.P.T. Co. Ltd
Natura Srl in liquidation
Oikothen Scarl in liquidation
Set Spa
Sgr Servizi Spa
Sinergie Italiane Srl in liquidation
Tamarete Energia 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
Medeor 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 liquidazione
Società Italiana Servizi Spa - Asset
Te.Am Srl
Unica reti - Asset
Vanpart Srl
Auditors, directors, strategic executives, family members of strategic executives

2.04.05 Explanatory notes to relations with related parties

Service management

In most of the areas it serves competence and in almost all of 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, heat management 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, Hera 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.
Hera's mandate of 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.
As part of the latter resolution (AEEGSI resolution no. 664/2015/R/IDR) the National Authority also established that the Conventions be adapted on the basis of a scheme model it had identified. The adjustment for 2020-2023 is in continuity with the 2016-2019 two-year period; 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 Hera for the water service must be returned to 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.

Environment sector

The municipal waste service managed by Hera 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 national rate method (Authority resolution 2019/433) adopted by the national agency ARERA, 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 Hera 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 2020, the subsidiary Herambiente 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 where the existing concession has already expired and until the start of the new assignments; for the expired concessions, the procedures for the new assignments have already been started by the competent Agencies. With effect beginning on 1 January 2020, a new assignment was signed for the Ravenna-Cesena area, valid for 15 years.

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 the Hera Group company 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 main tariff regulations in force at the time of approval of these consolidated annual financial statements are Resolutions 571/2019/R/Gas of 27 December 2019 (Update of tariffs for gas distribution and metering services, for the year 2020), which replaced the 667/2018/R/Gas of December 2018 and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2020, as per Article 42 of the RTDG and 775/2016/R/Gas the amounts of bimonthly advance equalisation relating to the natural gas distribution service, referred to in Article 47 of the RTDG. The same measure also approves the maximum amount of the recognition of higher charges deriving from the presence of concession fees, pursuant to Article 60 of the RTDG, for distribution companies that have submitted an application and provided appropriate documentation.

The obligatory natural gas distribution and metering rates are differentiated into six 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-southwestern area, including the Lazio and Campania regions;
- the southern area, including the regions of Calabria and Sicily .

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 sector Authority ARERA, 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 concessionary company is obliged to apply 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 households. 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.

In addition, as a result of the Covid-19 emergency, with Resolution 190/2020/R/Eel the Authority implemented the provisions of 19 May 2020 decree no. 34 on "Urgent measures concerning health, support for work and the economy, and social policies related to the Covid-19 epidemiological emergency", redefining, among other things, the values of the mandatory tariff components for the distribution service for non-domestic low-voltage users and for the period from 1 May to 31 July 2020.

2.05 EQUITY INVESTMENTS

2.05.01 List of consolidated companies

Subsidiaries

Registered name	Registered office	Share capital (euro) (*)	Percentage held		Total interest
			direct	indirect	
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%
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		89.00%	89.00%
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%
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)	100,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
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 Comm Nord Est Srl	Trieste	1,000,000		100.00%	100.00%
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%
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%
Tri-Generazione Scarl	Padua	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Wolmann Spa	Bologna	400,000	100.00%		100.00%

(*) unless otherwise specified

Jointly controlled entities

Registered name	Registered office	Share capital (euro)	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 (euro)	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%
Set Spa	Milan	120,000	39.00%		39.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Sinergie Italiane Srl in liquidation	Milan	1,000,000		31.00%	31.00%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

*The share capital of these companies consists of 67,577,681 euros of ordinary shares and 10,450,000 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

th/ €	Acantho Spa	AcegasApsAmga SpA	AcegasApsAmga Servizi Energetici Spa	Aliplast Spa	Aliplast France Recyclage Sarl	Aliplast Iberia Sl	Aliplast Polska SP O.O	Amgas Blu Srl	AresGas Ead	Aresenergy Eood
ASSETS										
Fixed assets	60,277	993,871	87,264	31,472	1,374	634	438	151	74,138	27
Circulating assets	29,527	174,963	49,370	43,727	1,483	670	513	9,842	5,654	259
Total assets	**89,804**	**1,168,833**	**136,635**	**75,199**	**2,857**	**1,304**	**951**	**9,993**	**79,792**	**286**
LIABILITIES										
Share capital	23,573	284,677	11,168	5,000	1,025	815	263	10	11,541	26
Reserves	6,262	264,287	27,046	23,206	310	9	371	1,441	12,913	(147)
Net Profit /(Loss)	7,073	36,999	283	5,965	(279)	(1)	94	1,721	774	(43)
Provisions	18	30,482	-	847	-	-	-	41	367	-
Severance pay provision	537	15,388	1,343	753	-	-	-	98	-	-
Payables	52,341	537,000	96,795	39,428	1,801	481	223	6,680	54,196	449
Total liabilities	**89,804**	**1,168,833**	**136,635**	**75,199**	**2,857**	**1,304**	**951**	**9,993**	**79,792**	**286**
INCOME STATEMENT										
Production value	69,579	376,039	67,534	102,856	5,116	1,552	1,919	20,430	22,602	375
Production costs	(59,252)	(327,854)	(69,062)	(94,316)	(5,395)	(1,553)	(1,824)	(18,034)	(20,121)	(407)
Financial income/ (expense)	(710)	(864)	1,360	(512)	-		(1)	21	(1,620)	(11)
Extraordinary income/ (expense)	-	-	-	-	-		-	-	-	
Taxes for the period	(2,544)	(10,322)	451	(2,063)	-	-	-	(696)	(86)	-
Net Profit /(Loss)	**7,073**	**36,999**	**283**	**5,965**	**(279)**	**(1)**	**94**	**1,721**	**774**	**(43)**

As the companies AcegasApsAmga Spa and AcegasApsAmga Servizi Energetici Spa apply the international accounting standards, the values stated comply with them.

th/€	Asa Scpa	Ascopiave Energie Srl	Ascotrade Spa	Black Sea Gas Company Eood	Blue Meta Spa	EstEnergy Spa	Etra Energia Srl	Feronia Srl	Frullo Energia Ambiente Srl	Herambiente Spa
ASSETS										
Fixed assets	2,425	686	5,900	1,432	492	697,656	6	4,301	55,339	1,039,351
Circulating assets	16,453	39,501	98,852	2,824	27,170	65,298	4,472	720	12,434	287,157
Total assets	**18,878**	**40,187**	**104,752**	**4,256**	**27,662**	**762,954**	**4,478**	**5,021**	**67,773**	**1,326,508**
LIABILITIES										
Share capital	1,820	250	1,000	3	606	299,926	100	100	17,139	271,600
Reserves	622	7,680	13,182	1,516	4,158	385,008	1,065	267	24,118	42,340
Net Profit /(Loss)	-	7,457	19,490	497	5,724	37,818	946	(649)	4,899	17,793
Provisions	14,992	78	516	-	120	2,323	-	4,483	4,556	153,379
Severance pay provision	172	774	577	-	614	57	79	-	1,861	8,228
Payables	1,272	23,947	69,988	2,241	16,440	37,822	2,287	820	15,200	833,169
Total liabilities	**18,878**	**40,187**	**104,752**	**4,256**	**27,662**	**762,954**	**4,478**	**5,021**	**67,773**	**1,326,508**
INCOME STATEMENT										
Production value	3,017	130,255	284,883	5,405	64,535	121,485	9,349	196	25,699	468,141
Production costs	(3,174)	(119,996)	(257,859)	(4,804)	(56,612)	(107,187)	(8,090)	(1,120)	(18,973)	(429,009)
Financial income/ (expense)	162	26	65	(48)	20	26,579	6	47	(24)	(25,186)
Taxes for the period	(5)	(2,827)	(7,599)	(55)	(2,219)	(3,059)	(318)	229	(1,803)	3,847
Net Profit /(Loss)	**-**	**7,457**	**19,490**	**497**	**5,724**	**37,818**	**946**	**(649)**	**4,899**	**17,793**

The companies Ascotrade Spa, EstEnergy Spa, Frullo Energia Ambiente Srl and Herambiente Spa apply the international accounting standards, thus the values stated comply with them.

th/ €	Herambiente Servizi Industriali Srl	Hera Comm Spa	Hera Comm Marche Srl	Hera Comm Nord Est Srl	Hera Luce Srl	Hera Servizi Energia Srl	Heratech Srl	Hera Trading Srl	HestAmbiente Srl	Inrete Distribuzione Energia Spa
ASSETS										
Fixed assets	52,648	39,159	28,977	20,751	83,431	15,201	126	3,059	85,847	1,174,137
Circulating assets	57,992	1,618,558	29,475	61,830	47,843	103,663	57,560	717,628	18,141	279,367
Total assets	**110,640**	**1,657,717**	**58,452**	**82,581**	**131,274**	**118,863**	**57,686**	**720,687**	**103,989**	**1,453,504**
LIABILITIES						-				
Share capital	2,748	53,596	1,977	1,000	1,000	1,110	1,981	22,600	1,010	9,901
Reserves	22,519	272,955	6,085	19,172	40,479	10,096	3,285	35,339	15,665	540,984
Net Profit /(Loss)	(3,075)	136,427	5,626	6,297	6,101	7,344	2,033	30,059	3,874	39,565
Provisions	3,154	5,104	8	-	134	3,649	-	3,477	5,346	116,276
Severance pay provision	3,195	4,384	589	687	1,146	575	6,822	773	1,073	10,321
Payables	82,099	1,185,251	44,167	55,425	82,413	96,089	43,565	628,439	77,021	736,457
Total liabilities	**110,640**	**1,657,717**	**58,452**	**82,581**	**131,274**	**118,863**	**57,686**	**720,687**	**103,989**	**1,453,504**
INCOME STATEMENT						-				
Production value	126,918	2,824,586	90,400	202,354	71,350	77,155	115,495	2,810,256	68,429	381,266
Production costs	(130,491)	(2,689,612)	(84,748)	(196,076)	(64,243)	(66,768)	(112,552)	(2,768,757)	(61,387)	(313,636)
Financial income/ (expense)	(592)	43,025	(149)	148	1,293	(137)	(8)	(321)	(1,876)	(15,831)
Taxes for the period	1,090	(41,572)	123	(129)	(2,299)	(2,906)	(901)	(11,119)	(1,292)	(12,234)
Net Profit /(Loss)	**(3,075)**	**136,427**	**5,626**	**6,297**	**6,101**	**7,344**	**2,033**	**30,059**	**3,874**	**39,565**

The companies Herambiente Servizi Industriali Srl, Hera Comm Spa, Hera Comm Marche Srl, Hera Comm Nord Est Srl, Hera Luce Srl, Heratech Srl, Hera Trading Srl, HestAmbiente Srl and Inrete Distribuzione Energia Spa apply the international accounting standards, therefore, the values stated comply with them.

th/€	Marche Multiservizi Spa	Marche Multiservizi Falconara Srl	Tri-Generazione Srl	Uniflotte Srl	Wolmann Spa
ASSETS					
Fixed assets	225,081	3,194	793	105,954	979
Circulating assets	92,540	2,772	3,637	28,795	3,800
Total assets	**317,621**	**5,966**	**4,430**	**134,749**	**4,779**
LIABILITIES		-	-		
Share capital	16,289	100	100	2,254	400
Reserves	101,401	306	289	23,926	844
Net Profit /(Loss)	13,523	354	-	7,079	(972)
Provisions	35,086	330	-	-	96
Severance pay provision	6,600	981	-	2,208	81
Payables	144,724	3,895	4,040	99,282	4,330
Total liabilities	**317,621**	**5,966**	**4,430**	**134,749**	**4,779**
INCOME STATEMENT		-	-		
Production value	154,951	8,237	2,060	84,696	3,486
Production costs	(135,328)	(7,734)	(1,882)	(74,525)	(4,807)
Financial income/ (expense)	(2,071)	(18)	(174)	(2,365)	(96)
Taxes for the period	(4,030)	(131)	(3)	(727)	445
Net Profit /(Loss)	**13,523**	**354**	**-**	**7,079**	**(972)**

The companies Tri-Generazione Srl and Uniflotte Srl apply 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.

th/€		Enomondo Srl
ASSETS		
Fixed assets	37,856	
Circulating assets	19,208	
Total assets		**57,064**
LIABILITIES		
Share capital	14,000	
Reserves	22,374	
Net Profit /(Loss)	2,350	
Provisions	901	
Severance pay provision	14	
Payables	17,426	
Total liabilities		**57,064**
INCOME STATEMENT		
Production value	21,792	
Production costs	(18,637)	
Financial income/ (expense)	(46)	
Taxes for the period	(759)	
Net Profit /(Loss)		**2,350**

Summary of key figures of the financial statements of associated companies pursuant to Article. 2429, last paragraph, of the Civil code.

th/€	Aimag Spa	ASM SET Srl	Set Spa	Sgr Servizi Spa	Sinergie Italiane Srl in liquidation	Tamarete Energia Srl
ASSETS						
Fixed assets	263,857	16	143,813	1,754	1,719	60,855
Circulating assets	70,102	12,031	21,390	83,983	34,346	14,639
Total assets	**333,959**	**12,047**	**165,203**	**85,737**	**36,065**	**75,494**
LIABILITIES						
Share capital	78,028	200	120	5,982	1,000	3,600
Reserves	56,343	69	84,520	37,422	(4,053)	1,831
Net Profit /(Loss)	10,476	2,541	303	10,955	3,229	127
Provisions	29,393	32		92	2,162	3,052
Severance pay provision	2,862	303	260	1,299	7	
Payables	156,857	8,902	80,000	29,987	33,720	66,884
Total liabilities	**333,959**	**12,047**	**165,203**	**85,737**	**36,065**	**75,494**
INCOME STATEMENT						
Production value	100,177	27,136	102,158	144,872	114,263	20,463
Production costs	(94,472)	(23,674)	(98,743)	(129,728)	(109,775)	(17,580)
Financial income/ (expense)	6,531	8	(2,720)	202	81	(2,611)
Taxes for the period	(1,760)	(929)	(392)	(4,391)	(1,340)	(145)
Net Profit /(Loss)	**10,476**	**2,541**	**303**	**10,955**	**3,229**	**127**

2.06 INFORMATION REQUIRED BY LAW 124 OF 4 AUGUST 2017 ART. 1 PARAGRAPHS 125-129 AND FOLLOWING AMENDMENTS

Law 2017/124 Art. 1 paragraphs125-129, amended by Legislative Decree 2019/34 introduces some measures aimed at ensuring transparency in the system of public funding that is part of a European as well as national regulatory framework: for this purpose, see Legislative Decree 2013/33 reorganization of the discipline concerning the rights of civic access and publicity obligations, transparency and dissemination of information by public administrations.

The main criteria adopted by the Hera Spa and the Group's companies, in accordance with current regulation, are listed below.

Grants, subsidies, benefits, allowances or aid, in cash or in kind, not with a general purpose and without consideration, remuneration or compensation aim, received between 1 January and 31 December 2020 must were included. In contrast, aid with amounts lower than 10,000 euro, consideration, including remunerated assignments, bonuses, tax aid, disbursements from public bodies of other States, or supranational bodies (for example, the European Commission) were excluded. In the reporting period, there were no relevant cases to be reported under the regulation.

The following table shows the cases present within the Group:

Grants for current expenses

Issuing entity	Description	Amount received
Atersir	Regional fund of Emilia Romagna for Pay as you throw tariff	475,285
Emilia Romagna Region	Re-organization of urban waste collection services	395,194
Fondirigenti	Training provision	13,086
Municipality of Modena	Sorted waste collection	12,131

Plant investment grants

Issuing entity	Description	Amount received
Municipality of Rimini	Construction of the Ausa lamination basin and submarine pipelines	2,581,034
Emilia Romagna Region	Dreinage work and upgrading of water and sewerage networks	1,808,954
Aato Marche Nord - Marche Region - Ministry of the Environment	Upgrading the purifier of Borghera in the municipality of Pesaro	1,655,815
Authorithy for water and waste services - Friuli-Venezia Giulia region	Regional funds for purification plant of Servola, municipality of Trieste	1,485,606
Emilia Romagna Region	Drainage work on water networks	1,092,333
Aato Marche Nord - Marche Region - Ministry of the Environment	Upgrading of sewerage system	828,348
Emilia Romagna Region	Reorganization of waste collection services	733,734
Csea	Upgrading of water networks	400,000
Municipality of Ravenna	Upgrading the sewerage system in the Darsena area in the municipality of Ravenna	610,986
Regione Marche	Upgrading of sewerage system	243,895
Municipality of Marano sul Panaro	Upgrading the aqueduct system in the municipality of Marano sul Panaro	177,428
Authorithy for water and waste services - Friuli-Venezia Giulia region	Upgrading of water network	120,465
Consiglio di Bacino Bacchiglione - Veneto Region	Placement water-sewer system basin Montà	15,000
Municipality of Faenza	Extension of water networks	11,306

2.07 OUTLINE OF ARTICLE149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

thous. €	2020
Services provided to certify the financial statements	982
Provision of other services for the issue of an attestation by the independent auditor company	275
Provision of other services by the independent auditor	31
Total	**1,288**

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 2020.

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, 24 marzo 2021

2.09 REPORT BY THE INDEPENDENT AUDITOR

Deloitte.

Deloitte & Touche S.p.A.
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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Hera S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Hera group (Group), which comprise the statement of financial position as of December 31st, 2020, the income statement, statement of comprehensive income, statement of changes in net equity, cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31st, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Hera S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Revenue recognition – revenue earned but not yet billed	
Description of the key audit matter	As disclosed in the notes to the consolidated financial statements in the paragraph addressing *"Accounting policies and consolidation principles - Revenue and cost recognition"*, revenue from electricity, gas and water sales is recognised and accounted for when the service is rendered and includes an accrual for revenue earned but not yet billed at the reporting date. As disclosed in Note 1, this accrual, which as of December 31st, 2020 amounted to Euro 471 million, is determined, as far as electricity and gas are concerned, by estimating the daily consumption by customer, based on the customer's historical profile, adjusted to reflect the weather conditions and other factors that could impact consumption, while, as far as the integrated water network is concerned, by estimating the revenue guaranteed by the regulated reference tariff (guaranteed revenue commitment, *"VRG"*). We have considered the procedure used for the determination of the above accrual to be a key matter for the audit of the Group's consolidated financial statements for the year ended on December 31st, 2020 in view of: *i)* the discretionary component inherent in the estimated nature of the accrual; *ii)* the materiality of its total amount; *iii)* the high number of the Group's users; *iv)* the complexity of calculation algorithms adopted by the Group for the determination of the accrual, which made it necessary to have the support of IT specialists to perform the related audit procedures.
Audit procedures performed	The audit procedures that we carried out on the accrual for revenue earned but not yet billed at the reporting date included, among others, the following: • analysis of the IT procedures adopted by the Group for the determination of the accrual for revenue earned but not yet billed and of the related calculation algorithms, with the support of our IT specialists; • identification and understanding of the key controls implemented by the Group to monitor the risk of an incorrect accrual and testing of the effectiveness thereof. This work was performed with the support of our IT specialists; • testing on a sample basis to verify the completeness and accuracy of the main data used by management to determine the accrual; • testing, based on a sample of users, of the process for the estimation of quantities consumed and the application of the correct reference tariffs; • a comparative analysis of the key parameters pertaining to users and consumption used for the determination of the above accrual; • verification of the correct determination of the guaranteed revenue using the regulated reference tariff;

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- review of the adequacy and compliance of disclosure provided on the recognition of revenue earned but not yet billed at the reporting date with the applicable accounting standards.

Recognition and measurement of derivative financial instruments	
Description of the key audit matter	On account of the business in which it operates and of its financial structure, the Group holds derivatives to hedge its exposure to the risk of fluctuations in interest rates, in exchange rates and in natural gas and electricity prices. As disclosed in the paragraph in the notes to the consolidated financial statements addressing *"Accounting policies and consolidation principles - Derivative financial instruments "*, the Group enters into transactions, which, if they satisfy the requirements laid down by International Financial Reporting Standards to qualify for hedge accounting, are designated as hedging instruments and are classified as fair value hedges or as cash flow hedges; alternatively, they are classified as held for trading. The determination of the fair value of derivatives is performed by the Group using models developed internally that include an estimation component. Moreover, the recognition methods vary based on the nature of the derivative. Lastly, the impact of the fair value measurement of derivatives is material to the results and financial position. Specifically, as disclosed in detail in Note 21 to the consolidated financial statements, the following are recognised in the consolidated financial statements for the year ended December 31st, 2020: i) in the statement of financial position, assets and liabilities arising from the measurement of derivatives of Euro 128 million and Euro 136 million, respectively, and cash flow hedge reserve recognized in equity for a negative amount of Euro 6 million; ii) in the income statement, net operating income and net financial costs arising from the measurement of derivatives of Euro 5 million and Euro 12 million, respectively, as well as net operating income and net financial income realised during the year with reference to derivatives of Euro 54 million and Euro 4 million, respectively. For the above mentioned reasons, we have considered the recognition and fair value measurement of derivatives to be a key matter for the audit of the Group's consolidated financial statements for the year ended on December 31st, 2020.
Audit procedures performed	The audit procedures that we carried out on the recognition and measurement of derivatives included, among others, the following: • identification and understanding of the key internal controls implemented by the Group, as well as testing to check compliance with internal policy for the determination of the fair value of derivative

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financial instruments, for the designation of hedging instruments, for the measurement of their prospective effectiveness and for the determination of the ineffectiveness of the hedging relationship.

- understanding of the fair value hierarchy allocation criteria, of the valuation techniques and methodologies used to verify the effectiveness of hedging relationships and for the measurement of any ineffectiveness and an analysis of the reasonableness thereof in compliance with market standards and best practices;
- analysis and verification of the sources used by the Group for the determination of market parameters and verification of the reliability of the key market inputs used;
- verification of the consistency of the accounting treatment adopted by the Group with applicable accounting standards;
- independent determination, on a sample basis, of fair value of some derivative financial instrument, with the support of financial instrument pricing specialists;
- verification, on a sample basis, of the formal documentation for the designation and verification of the measurement of effectiveness, as well as verification of the accuracy of the effectiveness test;
- review of the adequacy and compliance of the disclosures provided in the explanatory notes with the applicable accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

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The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Hera S.p.A. has appointed us on April 23, 2014 as auditors of the Company for the years from December 31st, 2015 to December 31st, 2023.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Hera S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Hera Group as of December 31st, 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Hera Group as of December 31st, 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Hera Group as of December 31st, 2020 and are prepared in accordance with the law.

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With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Hera S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by other auditor.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
April 6, 2021

This report has been translated into the English language solely for the convenience of international readers.

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