



2023 CONSOLIDATED FINANCIAL STATEMENT

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



**2023
CONSOLIDATED FINANCIAL
STATEMENT**

TABLE OF CONTENTS

INTRODUCTION	
	LETTER FROM THE CHAIRMAN TO SHAREHOLDERS 6
	HERA IN A NUTSHELL 8
 DIRECTORS' REPORT	
	1.01 TRENDS AND CONTEXTS, STRATEGIC APPROACH AND GROUP MANAGEMENT POLICIES 17
	1.01.01 Trends and contexts Macroeconomy and finance Businesses and regulations Climate and the environment Technology and human capital
	1.01.02 Strategic approach and management policies Macroeconomy and finance Business areas and industrial strategy Climate and the environment: sustainable development Technology and human capital: innovation
	1.02 RISK FACTORS: ACTORS, METHODOLOGY AND AREAS OF MANAGEMENT 43
	1.02.01 Risk governance 1.02.02 Management methodology 1.02.03 Risk areas: identification and management of risk factors
	1.03 MAIN EVENTS OCCURRED 57
	1.03.01 May 2023 flood events
	1.04 OVERVIEW OF OPERATING AND FINANCIAL TRENDS AND DEFINITION OF APMs 64
	1.04.01 Operating results and investments 1.04.02 Financial structure and adjusted net debt 1.04.03 Parent company management report
	1.05 SHARE PERFORMANCE AND INVESTOR RELATIONS 82
	1.06 SUSTAINABILITY RESULTS 84
	1.07 ANALYSIS BY BUSINESS AREA 91
	1.07.01 Gas 1.07.02 Electricity 1.07.03 Integrated water cycle 1.07.04 Waste management 1.07.05 Other services
	1.08 SHAREHOLDERS MEETING RESOLUTIONS 115
	1.09 NOTICE CONVENING THE SHAREHOLDERS MEETING 116

CONSOLIDATED FINANCIAL STATEMENTS

2.01	FINANCIAL STATEMENT FORMATS	119
2.01.01	Income statement	
2.01.02	Statement of comprehensive income	
2.01.03	Statement of financial position	
2.01.04	Cash flow statement	
2.01.05	Statement of changes in net equity	
2.02	EXPLANATORY NOTES	125
2.02.01	Introduction	
2.02.02	Operational and financial performance	
2.02.03	Taxation	
2.02.04	Equity and financial structure	
2.02.05	Investment activities	
2.02.06	Shareholdings	
2.02.07	Derivatives and related instruments	
2.02.08	Provisions and contingent liabilities	
2.02.09	Operating working capital	
2.02.10	Other information	
2.03	FINANCIAL STATEMENT FORMATS AS PER CONSOB RESOLUTION 15519/2006	215
2.03.01	Income statement as per Consob resolution 15519/2006	
2.03.02	Statement of financial position as per Consob resolution 15519/2006	
2.03.03	Cash flow statement as per Consob resolution 15519/2006	
2.03.04	Net financial debt pursuant to Consob notice DEM/6064293 of 2006	
2.03.05	List of related parties	
2.03.06	Commentary notes to the relations with related parties	
2.04	EQUITY INVESTMENTS	225
2.04.01	List of consolidated companies	
2.04.02	Key figures in the financial statements of subsidiaries and associated companies	
2.05	INFORMATION REQUIRED BY LAW 124 OF 4 AUGUST 2017 ART.1 PARAGRAPHS 125-129 AND FOLLOWING AMENDMENTS	234
2.06	OUTLINE OF ARTICLE 149-DUODECIES OF THE CONSOB ISSUER'S REGULATION	236
2.07	DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENT PURSUANT TO ART. 154-BIS OF LEGISLATIVE DECREE 58/98	237
2.08	REPORT BY THE INDEPENDENT AUDITOR	238

KEY

The Hera Group's 2023 financial report is set out in two chapters:

DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

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.

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



Link to sustainability report



Link to sustainability thematic reports



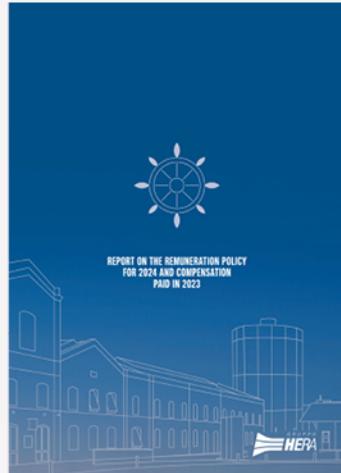
Link to corporate governance

CLIMATE CHANGE

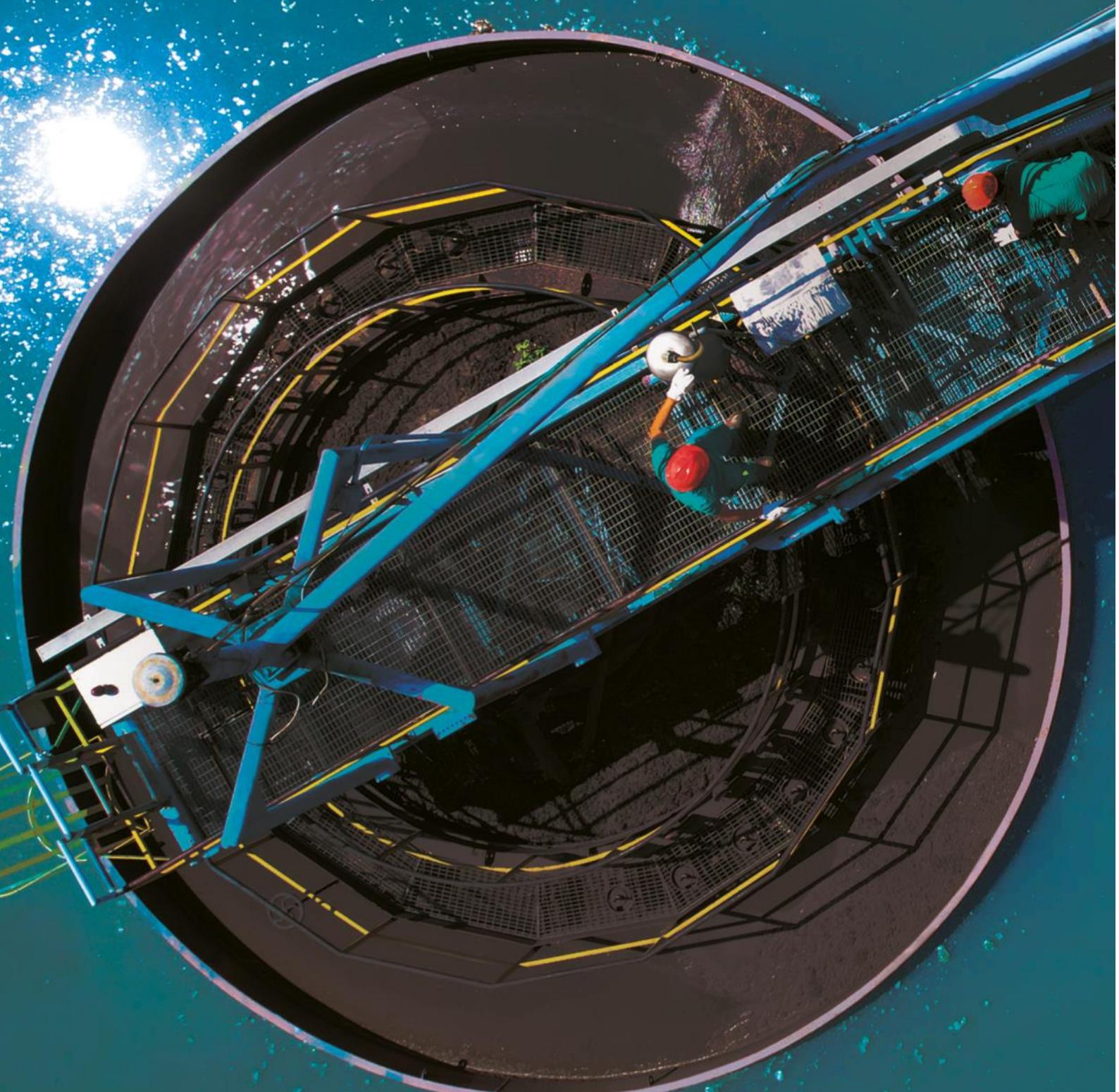


Climate changes (risks, opportunities, strategies)

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,

We closed the year 2023 with record performance in our main operating and financial indicators, and we achieved this within a macroeconomic environment that remained complex and uncertain.

Last year, in fact, the slowdown in the world economy continued, particularly in the eurozone, more affected than other areas by the war in Ukraine due to its proximity to the conflict zone and its dependence on Russian gas. The growth in the price level and the volatility of the energy markets reached its peak in August 2022 but also had effects during 2023, during which we witnessed a trend of reduction in prices which, however, has not yet led to the pre-crisis levels. We also had to deal with high levels of inflation which impacted our costs and led the Central Banks to significantly increase interest rates. Locally, some of the areas we have historically served were heavily affected by extreme weather and climate events with significant impacts on the affected populations and on the local economic fabric.

In this context, the results we achieved should make us particularly proud of the work we have done, increasingly aware of the crucial contribution our company makes to the wellbeing of local communities.

Economic growth is in fact the indispensable ingredient for continuing along our path of sustainable development. Our strategy is fully in line with the Group's purpose: to create economic value by improving people's quality of life, promoting more sustainable communities and generating shared value and prosperity for the local areas in which we operate.

In the 2023 budget, Ebitda reached almost 1.5 billion euro, up 15.4% over 2022, with growth of almost 200 million euros, the greatest ever for our Group, exceeding the target set out in our previous Business plan to 2026 three years ahead of schedule, with net profit rose to 417 million euro.

A measurement of our commitment to sustainable development is perfectly clear in our shared-value Ebitda, which reached 776 million euro in 2023, up 16% compared to 2022 and amounting to 52% of total Ebitda, in line with the targets set at 64% for 2027 and 70% for 2030. Moreover, the economic value distributed to stakeholders in the local areas in which we operate reached 2.3 billion euro.

All business areas contributed to these results, proving how effective our multi-business model is, well balanced between regulated and market activities which places us in the top positions on each of them at an Italian level. I think it is appropriate to underline the extraordinary growth occurred in the energy area, further demonstrating our company's ability to support our customers along the path to decarbonisation and to compete effectively in all liberalised markets with our now consolidated role as a system operator, capable of seizing the opportunities of these markets. As further confirmation of this capacity, I would also like to mention the recently awarded tender in the gradual protection service for non-vulnerable household customers, which will bring us more than 1 million new electricity customers beginning on 1 July 2024, thus further consolidating our position as the third largest operator in this sector in Italy by number of energy customers served.

Last year, gross operating investments increased by 15% compared to 2022 and reached 815.8 million euro, mainly allocated to work on plants, networks and infrastructures. Of these total investments, 69% responded to the call for action in the UN Global Agenda for Sustainable Development, of which 64% went towards strengthening the circular economy and 31% to projects promoting decarbonisation.

In addition to internal growth, last year we continued to expand through external lines, seizing the opportunities offered by a still highly fragmented market and continuing our tradition of consolidating the utility sector.

Our partnership with A.C.R., an important company operating nationwide in the remediation sector, with treatment of industrial waste, decommissioning of industrial plants and civil works related to oil & gas, became operational. In November 2023, the Hera Group's stake in EstEnergy, the largest energy operator in Northeastern Italy, rose to 75%, while in the field of renewable energy, acquisitions were made of the Ferrara-based company Tiepolo, which is currently constructing a photovoltaic solar park in Bondeno (FE), and of 60% of the Rimini-based F.Ili Franchini, active in installing thermohydraulic and electrical systems and photovoltaic solutions for business customers, have been acquired. Moreover, the Hera Group and Orogel established the NewCo Horowatt for the construction of a sustainable, state-of-the-art agrivoltaic plant within the Cesena facilities owned by this agricultural cooperative. Lastly, in the area of telecommunications, the acquisition with Ascopiave of 92% of Asco TLC – followed by its merger by incorporation into Acantho – enabled us to strengthen our connectivity, telephony and data centre services across more than one region.

Our positive cashflow financed operating investments and external growth, and also allowed us to reduce our debt by 10%. As a result, the net debt / Ebitda ratio stood at 2.56x, improving by 21% and lower than the figure seen prior to the energy crisis.

The contemporary growth in our operating and financial results allow us to propose to the Shareholders Meeting to be held on 30 April a dividend set at 14 cents per share, up 1.5 cents from the last one paid (+12%). This increase, higher than expected, will extend to our entire dividend policy, reaching 16 cents per share in 2027.

The results achieved thus confirm the validity of our strategic vision and represent a promising initial building block for our new Business plan, which foresees investments amounting to over 4.4 billion euro during 2023-2027, 40% of which will help make our infrastructures even more resilient in order to better guarantee quality and continuity in our services.

I would like to finish these reflections by recalling the disaster that struck Romagna in particular in May 2023. Our constant focus on service enabled us to deal with this emergency, relying on the substantial investments in networks and plants made by the Hera Group over the years. We were also supported by the efficient organisation of all our processes and by the professional and human skills of our people, who for entire weeks were continually on the front line to guarantee essential services to these local communities, trying to minimise the disruption and contribute to a rapid return to normality.

These are precisely the skills, passion and dedication that characterise us, combined with our economic and financial solidity and far-sighted vision. They have allowed us to build and develop an innovative industrial model, capable of creating virtuous, sustainable growth. All of this allows us to look to the future with lucidity and confidence.

Thank you for your kind attention,

Cristian Fabbri
Executive Chairman



MISSION

HERA AIMS AT BEING THE BEST MULTI-UTILITY IN ITALY

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

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



OUR CUSTOMERS,

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



OUR EMPLOYEES,

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



OUR SHAREHOLDERS,

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



OUR SUPPLIERS,

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



THE LOCAL AREAS SERVED,

because economic, social and environmental wealth represents the promise of a sustainable future.

PURPOSE AND STRATEGY



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



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

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

Measuring the shared value generated for the local area provides tangible, quantifiable evidence that Hera has adopted a model suitable to achieve **sustainable growth** and a "just" transition, in which stakeholders are invited to play an increasingly active role.

Overall, the Group's strategy combines business development with the needs of the ecosystem in which it operates, enhancing the reciprocal trust-based relationship it enjoys with its local areas, as is further shown by the formal inclusion of Hera's social and environmental purpose within its Articles of Association.

OUR LEADERSHIP, BY BUSINESS AREA

1st **WASTE SERVICES OPERATOR,**
by waste treated

7.7 **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

283.4 **MILLION M³**
OF WATER SUPPLIED



Abstraction, conveyance and treatment

Distribution and sales



Sewerage and purification

3rd **ENERGY SALES OPERATOR,**
by number of customers served

3.8 **MILLION ENERGY CUSTOMERS SERVED**



4th **GAS DISTRIBUTION OPERATOR,**
by volumes dispensed

2.2 **BILLION M³ DISTRIBUTED**



2.7

THOUSAND GWH OF ENERGY DISTRIBUTED



5th **ELECTRICITY DISTRIBUTION OPERATOR,**
by volume dispensed

5th **PUBLIC LIGHTING OPERATOR**

210
Municipalities served

638 THOUSAND
lighting points



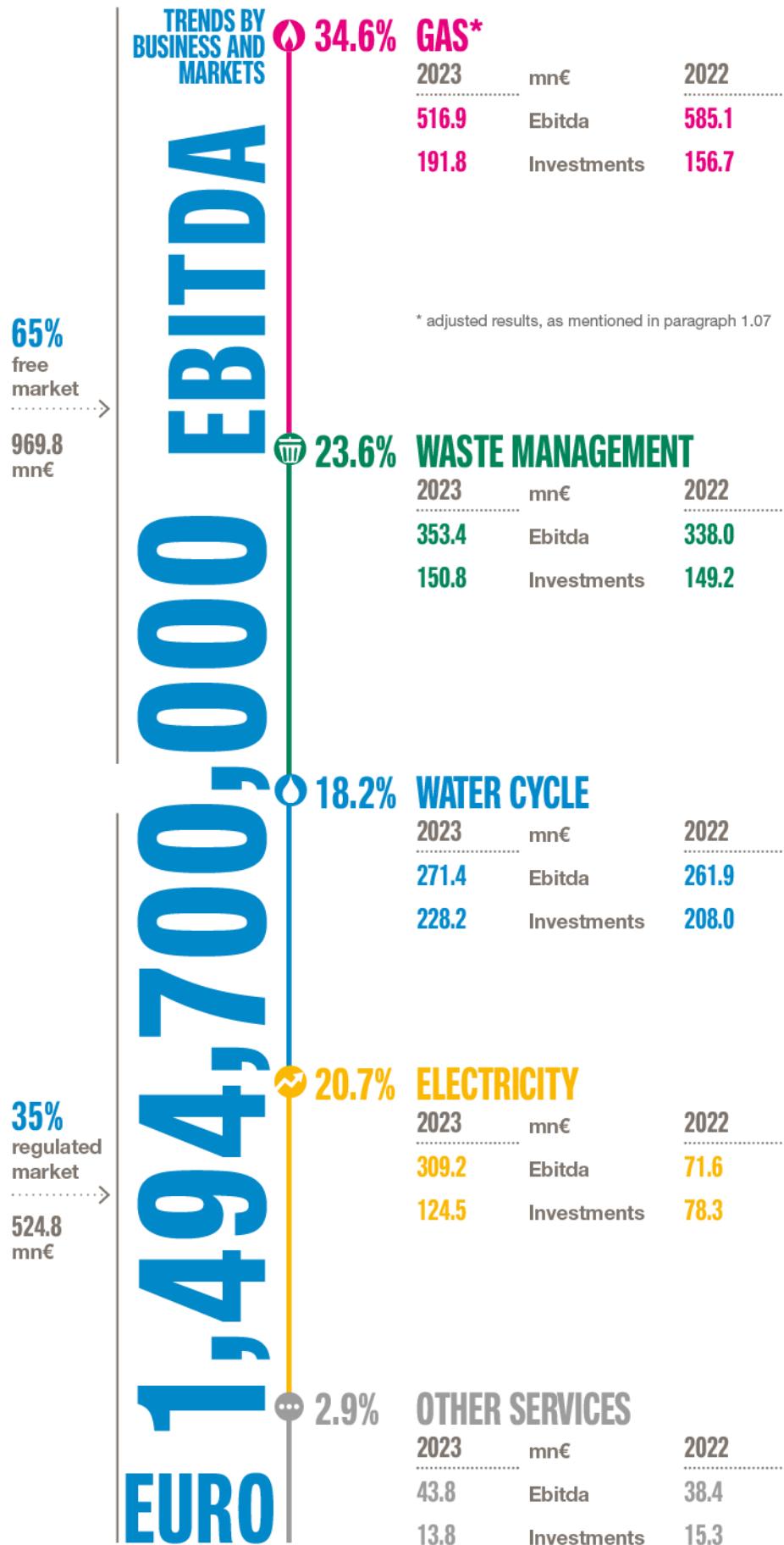
Rankings updated on 30 September 2023

☆ Activities regulated by Arera

MAIN OPERATING INDICATORS

MN€	2023	VS	2022	%
	REVENUES	14,897.3	20,082.0	- 25.8%
	EBITDA	1,494.7	1,295.0	+ 15.4%
	NET PROFITS	417.0	372.3	+ 12.0%
	INVESTMENTS	779.2	688.7	+ 13.1%
	NET DEBT	3,827.7	4,249.8	- 9.9%
	NET DEBT/EBITDA	2.6	3.28	- 22.0%





IdrogeMo project developed with Snam for the Hydrogen Valley in Modena, supported the NRRP funds obtained. ESCO Hera Servizi Energia Spa established, one of Italy's leading companies in the field of energy efficiency for industrial customers, residential buildings and public administrations. NRRP funds awarded for district heating network extension and upgrading. 8 out of 9 lots awarded in the last resort gas supply service and 9 out of 9 in the default distribution service for the 2023-2025 two-year period.

Partnership with A.C.R. di Reggiani Albertino Spa launched, creating Italy's leading operator in the reclamation and global services sector. Plant for producing biomethane from processed organic and agrifood waste developed in a partnership with Inalca (Cremonini Group) now operational. Partnership signed with Leonardo to test the use of recycled carbon fibre in the aerospace sector.

ARERA's technical quality awards presented in 2023 as well, referring to 2020-2021, with the Hera Group among the top places in the national rankings.

Ongoing investments in purification plants, reducing and containing network losses, and increasing network resilience to face adverse weather events.

Sustainable solutions dedicated to business customers reinforced by the acquisition of a majority holding in the company F.lli Franchini, involved in installing photovoltaic systems for businesses. Partnership signed with Orogel for developing an agrivoltaic plant. Company that developed a project for a 9 MW photovoltaic power plant acquired. Project presented for first urban Energy Park.

Asco TLC merged into Acantho, consolidating TLC and IT activities in new geographical areas. Approximately 56.3 thousand lighting points acquired for the public lighting service, and a 4.4% increase in those using LED lamps.

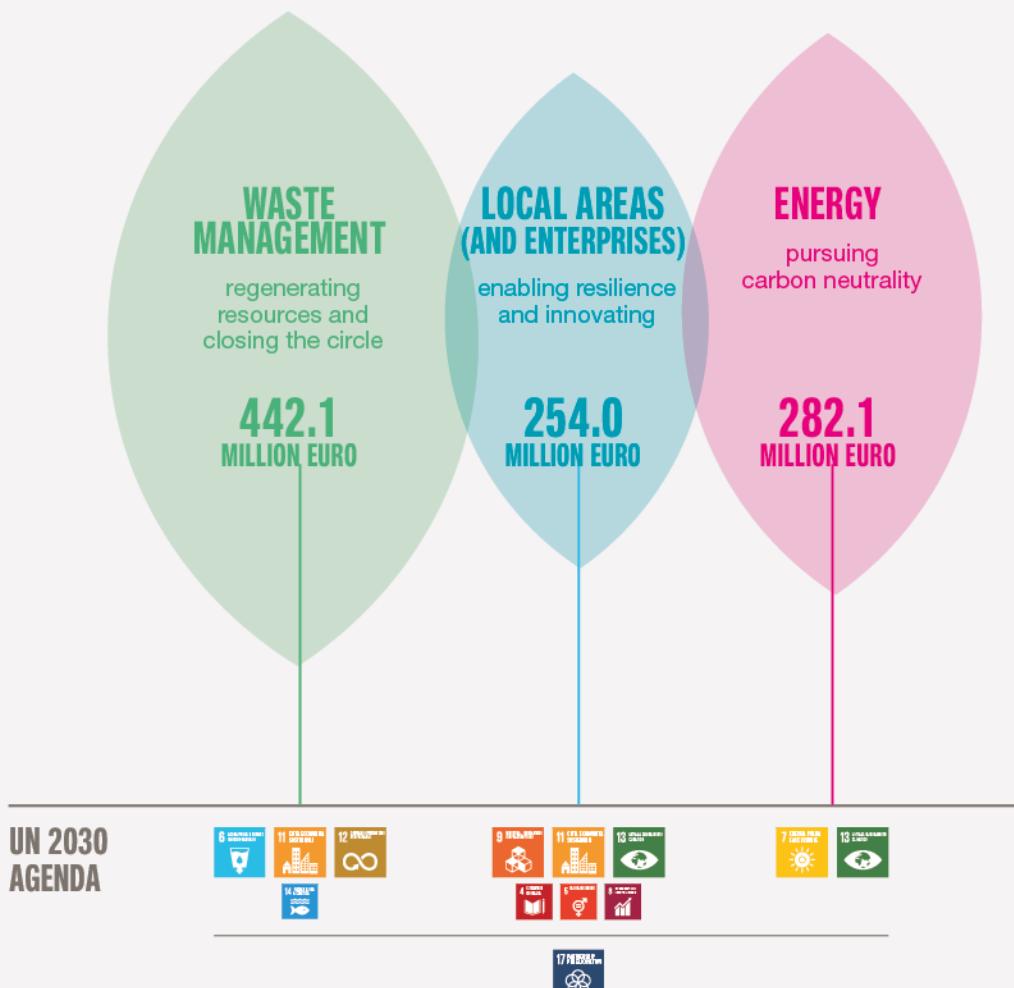
SUSTAINABILITY AND SHARED VALUE



Sustainability and shared value are the foremost operating principles indicated in the Group's code of ethics, and one of the cornerstones

upon which Hera's strategy is developed, combining operating and financial targets with environmental and social objectives.

DRIVERS OF SHARED VALUE



SHARED VALUE EBITDA
776.0
MILLION EURO

+16 % COMPARED TO 2022

+105.7 MN€

51.9% OF TOTAL EBITDA



REDUCED CO₂ EMISSIONS
CALCULATED WITH THE SBTi METHOD

-14%
(vs 2019)

SORTED WASTE

72.2%

(67.8% in 2022)

REDUCED INTERNAL WATER CONSUMPTION

-21.5%

PLASTIC RECYCLED AND SOLD BY ALPLAST SPA
(+42% compared to 2017)

84.6 K TONS

HERA RANKING WITH RESPECT TO ESG STANDARDS



The Group's Sustainability Report is prepared according to GRI standards (core level)



DOW JONES SUSTAINABILITY INDEX

82/100

In December 2023, Hera was confirmed in the Dow Jones Sustainability Index (DJSI), World and Europe, standing out among the 3,500 global companies with the largest capitalisation assessed by S&P Global. With a score of 82/100 (sector average 34/100), Hera was included in the Top 1% of the best performing companies in terms of sustainability in the Multi & water utility sector worldwide

SUSTAINALYTICS MSCI

16.6 Low risk

Hera achieved a score of 16.6, which places it among the companies with the lowest ESG risk (best European multi-utility). Hera's score improved by 1.6 points compared to 2022

MSCI

A

Hera has confirmed its A rating by MSCI. In particular, the Group showed a strong out performance in the Carbon Emissions category with a score of 10/10

INTEGRATED GOVERNANCE INDEX

2nd place global ranking

In 2023, Hera was among the first places once again for the integration of sustainability policies into its business strategies

CDP

A



TITLE AND RATING

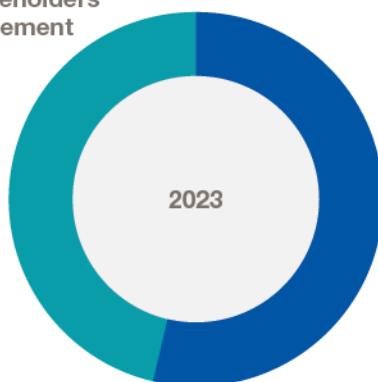
**S&P BBB+
STABLE OUTLOOK**

SHAREHOLDERS

Stable and balanced shareholder structure; highly diversified shareholder base (the largest shareholder has a stake of less than 10%)

45.8%
public
shareholders
agreement

54.2%
free
float



In 2023, Hera achieved level A-, improving over the level B obtained the previous year. This result classifies the Group at Leadership level. Hera's rating is higher than both the European regional average and the Energy network sector average, both B

**4.43 BILLION
EURO**

capitalisation at 31/12/2023

ALONGSIDE STAKEHOLDERS, FOR A JUST TRANSITION

292,351 HOURS OF TRAINING

(31.5 hours per capita. The Group's digital training plan further enhanced)



1,766 NEW HIRES

in the last three years, with a 6.4% turnover



6.0 MILLION EURO dedicated to WELFARE FOR EMPLOYEES



REMOTE WORKING FOR 77% OF EMPLOYEES



33% FEMALE PRESENCE

in roles of responsibility



143 ACTIONS TAKEN TO IMPROVE HEALTH AND SAFETY

over the course of the year



-60% DAYS OF ACCIDENT LEAVE IN 2023

best year ever in terms of days of absence
due to accidents (compared to 2013).
Increasing culture of worker health and
safety



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

2.3 BILLION EUROS

IN ECONOMIC VALUE LOCAL AREAS

distributed to



72% AMOUNT OF SUPPLIES COMING FROM LOCAL BUSINESSES



148.2

million euro invested in



INNOVATION in two areas:
ECOLOGICAL TRANSITION and
DIGITAL TRANSFORMATION

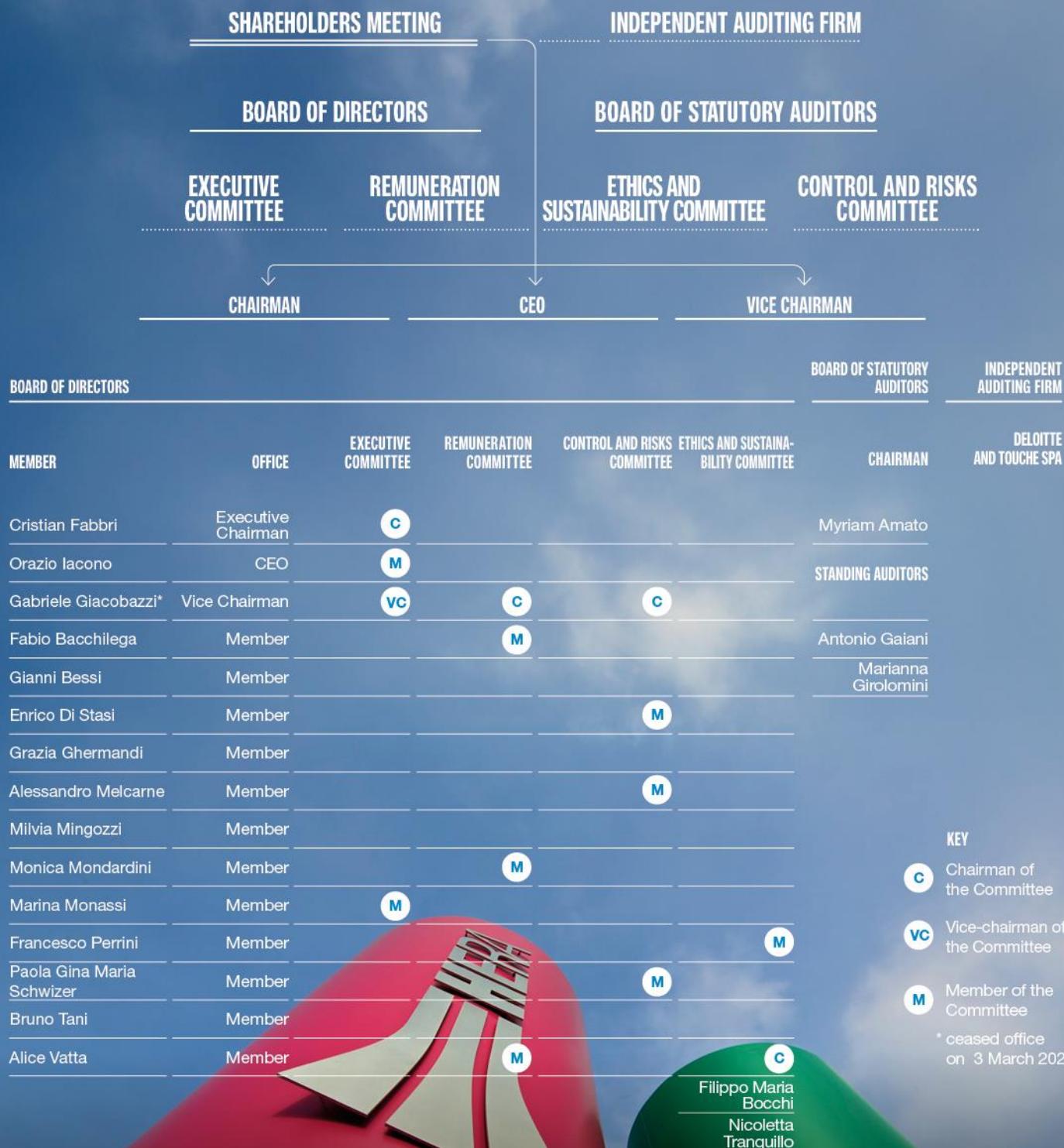
GOVERNANCE SYSTEM

Hera's corporate governance is aimed at understanding and evaluating the stimuli coming from an increasingly complex context, in order to continue growing and, at the same time, further consolidate the close links with the area served that have distinguished the Group since its establishment. Constant engagement and specific knowledge of the actors

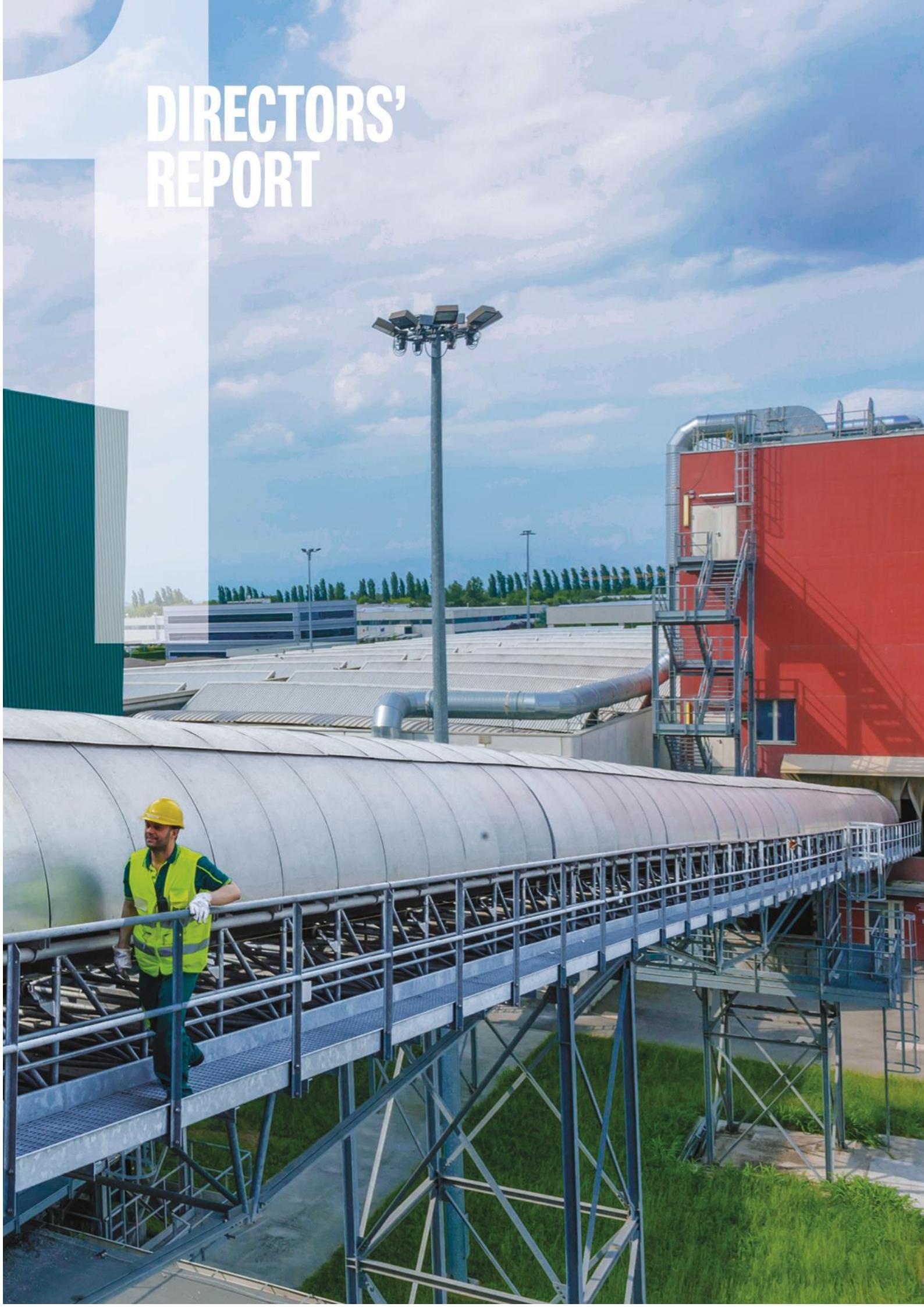
involved have led us to develop an open and transparent way of doing business. This distinctive trait has been implemented over the years thanks to the creation of corporate bodies that are integrated with each other and, in line with the Corporate governance code and the Code of ethics, enable the expectations of all those interacting with Hera to be satisfied.



For further information, consult the Corporate Governance Report



DIRECTORS' REPORT



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. 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 identified, so that its main management policies, which contribute to an industrial strategy consistent with its corporate purpose, can be defined accordingly.

Macroeconomy and finance

The global economic slowdown continued in 2023, prolonging the trend seen during the previous year following the phase of growth recorded in 2021 in the wake of the pandemic. The January 2024 World Economic Outlook Report (WEO Report) published by the International Monetary Fund (IMF) indicates that growth in global gross domestic product (GDP) stood at 3.1% in 2023, down from +3.4% in 2022 and far from the +6.2% seen in 2021.

World and European economy: year-end results

The foremost cause of this deceleration lies in the restrictive monetary policies adopted by the main central banks, including the Federal Reserve (Fed) and the European Central Bank (ECB), aimed at containing the inflationary pressure induced by the current complex geopolitical situation, above all the conflicts in Ukraine and, more recently, the Middle East, which has furthermore led to phases of slowdown in international trade and a more limited availability of raw materials. In this regard, note that the continuous interest rate hikes introduced by the Fed and the ECB over the last two years, which led the cost of money to settle at 5.5% and 4.5% respectively (compared to under 0.5% in early 2022), brought about a decrease in global inflation, which stood at 6.9% (annual average) in 2023, as against 8.7% in 2022.

The Eurozone, which is the area most strongly affected by the war in Ukraine due to its proximity to the conflict zone and its dependence on gas supplies from Russia, showed a significant slowdown in GDP growth (up by 0.5% in 2023, as against 3.4% in 2022). More specifically, the ECB's monetary tightening was confirmed in 2023, which helped to bring average European inflation down to 5.4%, as against 8.4% in 2022.

The European Commission's most recent projections for the next two years point towards a modest economic recovery, due to the impact of geopolitical tensions and the tightening of financing conditions on domestic demand, as well as the household and business confidence index. In 2024, world GDP is expected to grow by 3.1%, with a slight upturn to 3.2% in 2025; estimated growth for the Eurozone is more contained, standing at 0.8% and 1.5% in 2024 and 2025 respectively.

World and European economy: projected trends

The WEO Report does not foresee additional rises in interest rates, which should remain at their current restrictive levels until mid-2024 and then possibly decline gradually. World inflation is expected to keep declining and settle at 5.8% in 2024 and 4.4% in 2025; similarly, Eurozone inflation is expected to fall to 2.3% in 2024 and 2% in 2025.

At the national level as well, the Bank of Italy's analyses portray an economy affected by weak international trade and rigid credit conditions, but also partially bolstered by the implementation of the investments contained in the National Recovery and Resilience Plan (NRRP). In 2023, Italian GDP grew by +0.9%, while the average annual inflation decreased to 5.7%, compared to 8.1% in 2022, allowing for a gradual recovery in household purchasing power.

National data: economic results and projections

ISTAT's most recent estimates indicate that domestic demand was mainly driven by private consumption (+1.4% in 2023 compared to 2022), supported by the deceleration in inflation, a gradual (albeit partial) recovery in wages and a higher employment rate. Indeed, the employment rate in Italy stood at 61.8%

in November 2023 (+2.2% over the same period during the previous year), with the unemployment rate falling to 7.6%, the lowest level recorded in the last 20 years. These factors contributed to a significantly stronger Italian consumer confidence rate over the past year, following the sharp decline seen in the first three quarters of 2022.

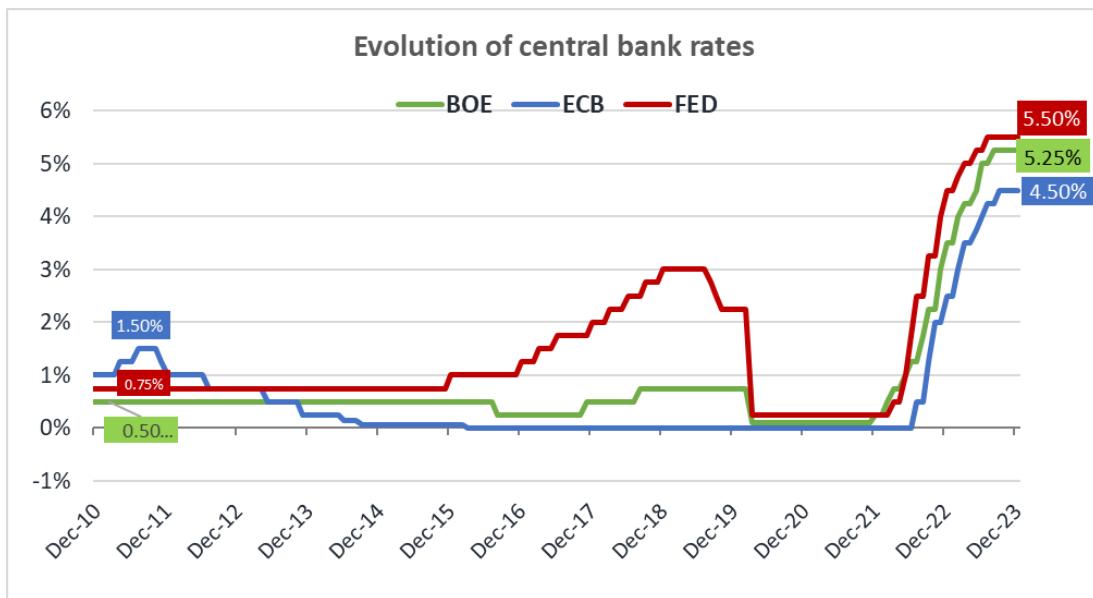
The European Commission's latest forecasts point towards a growth rate for the Italian economy in 2024 similar to that of the previous year, and an estimated 1.2% increase for 2025. Expectations for Italian inflation indicate a gradual descent, from 1.9% in 2024 to 1.7% in the following two years, due to the effect of the ECB's restrictive monetary policies, the slowdown in import prices and the fall in the prices of energy goods.

Financial markets

In 2023, stock and bond markets recovered most of the losses accumulated in 2022. Despite the tension in the banking system that appeared in March, most markets rebounded strongly from their lows of the previous year, with some sectors (IT and communications services above all) leading this recovery. Fears of a recession subsided, leading to a normalisation of investor positioning and lower price volatility. The higher awareness shown by investors, gained after the extraordinary events seen in recent years, was a positive factor for markets, which were more prepared to manage risks in advance and not be taken by surprise. This year, the foremost factors influencing financial markets consisted of the main central banks' monetary policy outlook and its potential effects on economic growth and inflation. Much of the rise in prices in the latter part of the year, in fact, was generated by the growing belief shown by traders that central banks are now close to containing the inflationary trend that has influenced the world economy since 2021. The positive data concerning inflation, as outlined above, led to forecasts of a future reduction in interest rates in both macro-areas (Eurozone and the United States), which not only pushed up stock markets, but also sharply narrowed corporate spreads and bond yields.

Monetary policy

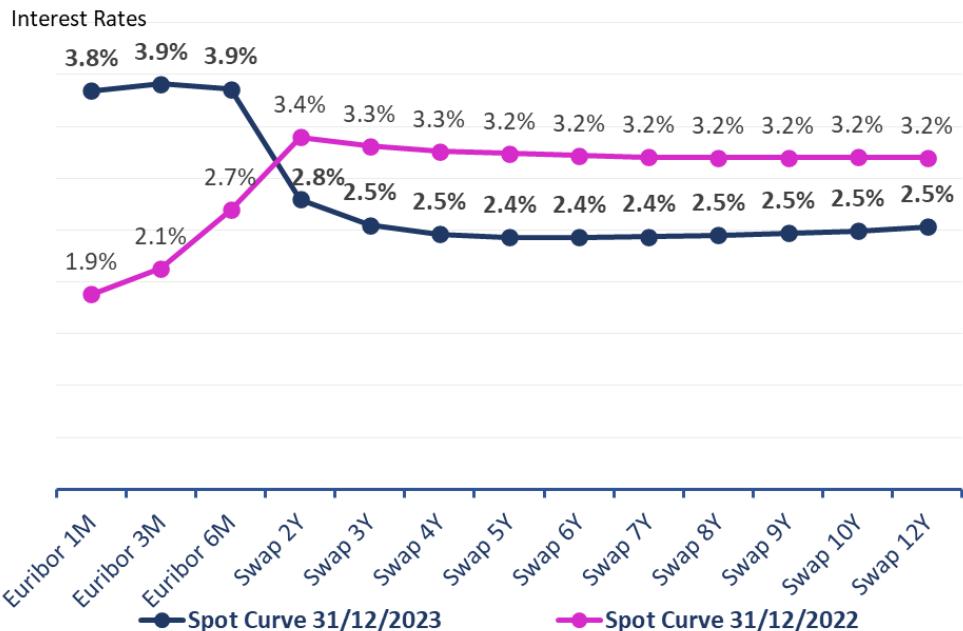
In the Eurozone, the ECB confirmed its restrictive monetary policy, which started in July last year, introducing further interest rate increases until September, which brought the reference refinancing rate to 4.50%. However, this upward trend was interrupted in October 2023, when the ECB decided to stop the trend of rising interest rates. This decision was maintained over the following months, consistently with market analysts' expectations. A similar choice was made earlier by the Fed in June, after ten consecutive hikes, and by the British Central Bank in August. Even though overall expectations are for a rate cut in 2024, central banks still consider it premature to move in this direction until there is evidence that the decline in inflation has stabilised. Indeed, it has been stated that a 'data-dependent' approach will continue to be pursued, to determine the most appropriate degree of restrictive monetary policy. In particular, interest rate decisions will be based on an assessment of the inflation outlook in light of operating and financial data, trends in core inflation and the transmission strength of monetary policies themselves. As regards the other monetary policy measures implemented to stabilise the system, the ECB gradually reduced its volumes of security repurchases under the Asset Purchase Programme and the Pandemic Emergency Purchase Programme, and confirmed at its latest meetings its intention to permanently discontinue security reinvestments at the end of 2024. Given that 95% of the repurchases involve government bonds, it is assumed that the end of the programme will not impact corporate bond spreads.



Interest rates

The interest rate curve for the Eurozone, at the end of the year, showed higher levels on the short-term section, peaking at 3.9%, and a linear trend on the medium- to long-term swap rates, remaining at roughly 2.5%. Compared to the previous year, this curve showed an unusual, inverted trend, with the short-term maturity section (one-six months) up by an average of about 164 basis points compared to December 2022, and the medium-long-term maturity section (two-twelve years) down by an average of about 75 basis points compared to the previous year.

In December, the one-year forward scenario showed an expectation for rates to fall by about 150 basis points on Euribor rates and about 30 basis points on swap rates, with levels increasing by maturity from 2.1% (two-four years) to 2.4% (nine-twelve years).

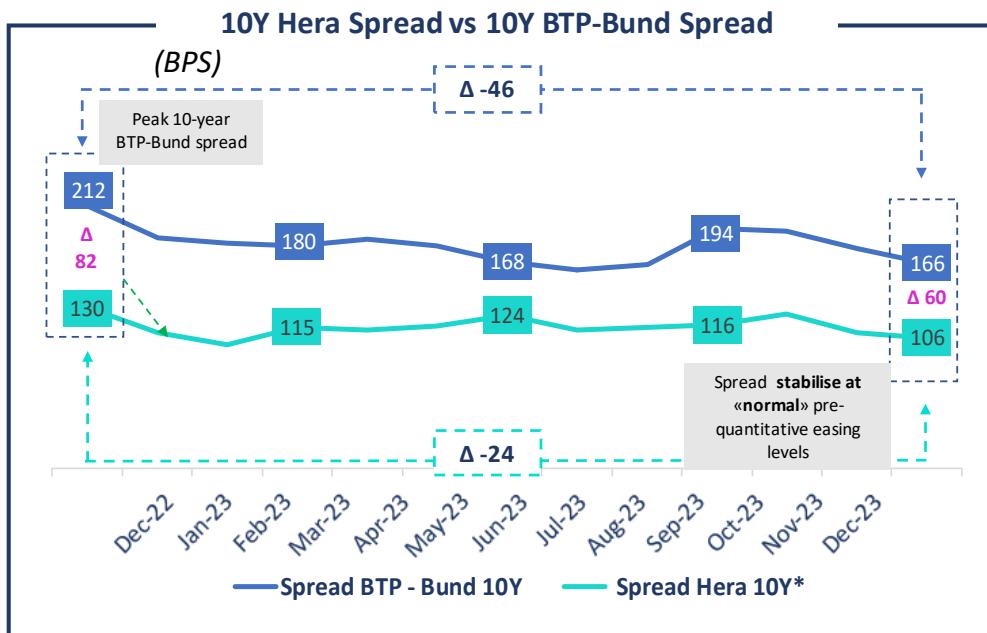


Hera spread

While the interruption of corporate bond purchases on the secondary market by the ECB did lead to a general increase in the spreads applied to companies, Hera's spread did not suffer this impact. On the contrary, it decreased year-on-year by 24 basis points, thanks both to the recovery seen in the utility sector and the Group's confirmed solidity and creditworthiness.

The Italian government bond spread decreased year-on-year by approximately 46 basis points, reaching roughly 160 basis points at the end of the year. Over the course of the year, it saw increases bringing it to around 190 basis points, but did not reach the previous year's peak of over 200 basis points, thanks to an improved default risk view and Moody's confirmation of the sovereign rating in October.

The differential between Hera's spread and the sovereign spread in December fell by 22 bps year-on-year, going from 82 bps to 60 bps, with the yield on ten-year Italian government bonds settling at roughly 3.7% and the yield on ten-year German bonds at approximately 2%.



Businesses and regulations

At European level, 2023 saw a significant reduction in gas consumption, due to a range of factors, including above-average temperatures in the winter months, an increase in renewable electricity generation and higher consumer sensitivity to limiting consumption, following the tensions on the supply market related to the Russia-Ukraine conflict. Over the last year, Italy recorded a drop in gas consumption coming to -8%, stabilising at 63 billion cubic metres (preliminary estimate provided by the Energy Market Manager). Note in particular the 55.6% decrease in gas imports from Russia compared to the previous year as a result of the diversification of gas supplies aimed at freeing the EU from its dependence on Russian gas.

Business trends

As regards electricity, the data released by the national transmission company (Terna) indicates a 2.8% drop in consumption for 2023, with national consumption coming to 306 TWh. At the same time, national renewable energy generation increased significantly (15.4% over the previous year), covering 36.8% of total energy consumption (compared to 31% in 2022), thanks to a positive contribution coming from all sources.

In the waste management sector, the latest data processed by the Institute for Environmental Protection and Research (Ispira, Municipal Waste Report 2023) indicate that nationwide production of municipal waste in Italy in 2022 amounted to 29.1 million tonnes, showing a 544 thousand ton decrease compared to 2021 (-1.8%), with 494 kg of waste produced per capita. Sorted waste collection improved, reaching 65.2%, up by 1.2 percentage points compared to 2021.

As far as the water business is concerned, the sector is facing numerous and increasing challenges concerning the quantity and quality of this resource, as well as infrastructural modernisation and efficiency. The negative effects produced by climate change, including the higher frequency and degree of drought, highlight the need for a strong commitment to investments in this sector.

In the energy sector, a further increase in competitive pressure was seen, resulting from the gradual elimination of the protected supply system. In 2022, the switching rate (change of supplier) for household customers increased by 2.2% compared to the previous year (ARERA, Annual Report 2023). As in

Competitive context

previous years, the Italian electricity and gas markets confirmed a widespread inclination to switching suppliers shown by household consumers, eager to seize opportunities to acquire more advantageous options in terms of tariffs and services.

In recent years, this competition has not only concerned the commodity component, but also involves value-added services (VAS), which operators must enhance in order to build portfolios of sales offers that reflect the needs expressed by customers, who are increasingly oriented towards sustainable and energy-saving solutions.

In the waste treatment and recovery sector, the main operators confirmed their interest in acquiring specialised companies equipped with plants and skills on the market. A similar trend concerned the growing attention shown by companies, including medium-sized ones, towards sustainability and improved environmental performance.

As regards regulated businesses, competition involves the procedures for awarding service concessions and their subsequent management.

Turning to legislative and regulatory factors, the most important aspects for the Group in 2023 include:

- various measures introduced by the government and the national regulatory authority concerning the criteria and modalities for eliminating the greater protection electricity service and the protected gas service;
- provisions for promoting the country's energy security (Energy-bis decree);
- measures taken to support residents affected by the flooding events in Emilia-Romagna and other regions;
- measures to support households and businesses in purchasing electricity and natural gas (so-called bills decree), and the new elements included in the 2024 Budget;
- the following measures adopted by the Regulatory Authority for Energy Networks and the Environment (ARERA):
 - the introduction of the general criteria and principles for the Regulation by expenditure and service targets (ROSS) for 2024-2031, concerning regulated infrastructure services in the electricity and gas sectors;
 - the text defining the regulation of electricity distribution and metering services for the sixth regulatory period (2024-2027), applying the criteria defined by the ROSS methodology to economic-tariff regulation and output-based regulation;
 - the rulings of the Regional Administrative Court of Milan and the State Council partially annulling Resolution 570/19/R/gas on gas distribution tariff regulations (2020-2025), referring in particular to the methodology used for recognising operating costs by cluster of companies;
 - the resolution updating upwards the capital return rates for energy infrastructure services (gas and electricity) for 2024;
 - the resolution defining the tariff method for the district heating service, applicable during the transitional period (1 January 2024 - 31 December 2024);
 - the integrated water service tariff method for the fourth regulatory period (MTI-4), which defines the rules for calculating the costs eligible for tariff recognition;
 - updated regulations for the technical quality of the integrated water service, for each of its individual services, and the application of the incentive mechanisms for the regulation of technical and contractual quality for the performance of water operators in 2020-2021;
 - a measure approving the standard outline of the service contract for the regulation of relations between commissioning bodies and municipal waste service operators;
 - the Authority's guidelines for defining a model tender scheme for awarding the integrated municipal waste management service;
 - the resolution introducing monitoring and transparency obligations concerning the efficiency of sorted waste collection and municipal waste treatment plants, as of 1 January 2024;
 - the measure setting out the rules for the two-yearly update (2024-2025) of the reference tariff revenues and tariffs for accessing facilities closing the minimum cycle, or the intermediate facilities at the origin of flows indicated as entering facilities closing the minimum cycle;
 - the rulings of the State Council concerning the repeal of the Emilia-Romagna regional resolutions and all subsequent acts attesting to the qualification of FORSU, WTE and landfill treatment plants as minimum facilities.

During 2023, the government took several steps to define the modalities for eliminating the protected electricity service. The Ministry of the Environment and Energy Security (MASE), indeed, approved regulations for the criteria and modalities for the informed transfer of household customers into the free electricity market (Ministerial Decree No. 169 of 18 May 2023). This decree establishes that non-vulnerable household customers will be transferred to the gradual protection service through a system based on auctions, and set the maximum amount of regional areas that can be allocated to each operator at 30%, also requiring household customers, who at the end of the gradual protection service have not autonomously chosen a vendor on the free market, to be supplied by the existing service vendor at the most convenient market offer.

Elimination of the protected electricity service

Acting on the regulations defined by the aforementioned decree, ARERA, with Resolution 362/2023/R/eel, provided indications for the transition to the gradual protection service (STG) for non-vulnerable household customers who, at the time of the elimination of the protected service, have not yet chosen a vendor on the free market. The gradual protection service (STG) guarantees continuity of supply to customers and will have a limited duration, coming to three years (from 1 July 2024 to 31 March 2027). The price applied to STG end customers will be the same throughout the country, with an equalisation system for vendors. Contractual conditions similar to those of Placet offers will be applied. In January 2024, auctions were held with a single, closed envelope, in a simultaneous round system for all areas to select the operators to supply the STG to non-vulnerable customers.

The elimination of the protected gas service, which also took effect on 10 January 2024, was instead governed by the "Help-bis" decree (Legislative Decree No. 115 of 9 August 2022), which does not provide for allocating customers through tenders, but through a modulation of suitable sales projections by the vendors who served these customers under the protected system. ARERA implemented the content of the aforementioned decree with resolution No. 100/2023/R/com; more specifically, this resolution sets out both the procedures for eliminating the protected gas service and an identification of the criteria for vulnerable customers. Provisions were also introduced concerning the information obligations of vendors towards end customers regarding the elimination of the service and the rights of vulnerable customers. Finally, changes were made to the gas Code of Conduct and the Offers Portal, following the elimination of price protection.

Elimination of the protected gas service

Other measures concerning competitive procedures were introduced by the Energy-bis decree (Law No. 11/2024 converting Decree-Law No. 181/2023), which set out the modalities for assigning the electricity supply service to vulnerable customers. Operators will be identified through competitive procedures and the procurement of wholesale electricity will be entrusted to the Single Purchaser. In addition, the same decree, again with reference to the electricity sector, established that, as of 1 January 2025, all electricity customers will no longer be charged prices indexed to the Single national price (PUN), but will be charged zonal prices defined based on trends in the wholesale electricity market, whose implementation criteria have been requested from the MASE and ARERA. Finally, note that as part of the definition of the rules for reinforcing the security of natural gas supplies, this decree introduced a sort of penalty for operators who do not reach the amount of energy savings they committed to in the tender for awarding the natural gas distribution service.

Energy security and measures protecting vulnerable customers (LD Energy-bis)

Measures were also taken by the government and the national regulator during 2023 to deal with the flooding events that occurred in the Emilia-Romagna region and other neighbouring areas.

Firstly, with resolution 216/2023/R/com and as of 1 May 2023, ARERA called for the suspension of the terms of payment of invoices issued or to be issued, and the non-application of the rules for suspension in case of arrears, with reference to electricity, gas and water supply as well as the integrated municipal waste cycle. Subsequently, the government, with the so-called Flood decree (Decree-Law No. 61 of 1 June 2023), identified the local area covered by the payment suspensions terms defined by ARERA, requiring the latter to regulate the timing and the length of the suspension of bill payments, in any case for a period not exceeding six months. ARERA then introduced further measures, which set at four months the period of validity for the suspension of bill payments and payment notices previously determined by the Regulator, clarifying that it was possible to extend this period up to a maximum of six months. Lastly, in late 2023, with resolution 565/2023/R/com, ARERA identified, in a more cohesive manner, the tariff concessions in favour of the residents most affected by the flooding events; these measures were subsequently confirmed by resolution 10/2024/R/com, which supplemented them by making certain changes, partially with a view to reducing the overall charges imposed on operators and managers.

Measures for the May 2023 flooding events

Lastly, among the more important regulatory interventions, note the law converting the so-called Bills decree (Law No. 56/2023 converting Decree-Law No. 34/2023), which enlarged the customer base that may benefit from the social bonus for electricity and gas and confirmed the reduction of general charges in the gas sector for the second quarter of 2023, as well as the tax credit for companies for purchasing electricity and natural gas. The Bills decree also extended, for 2023, the application of reduced VAT rates on the consumption of methane gas for civil and industrial use. Note, however, that the 2024 Budget (Law No. 213/2023) does not provide for the renewal of these tax breaks, and establishes that, as of 1 January 2024, the VAT rates would be brought back to their ordinary amounts.

Measures supporting the purchase of electricity and gas (Bills decree)

Moving on to an examination of the most relevant measures for the energy infrastructure sectors, note that, following a long consultation process that began in 2021, in early 2023 ARERA approved, with Resolution 163/2023/R/com, the Integrated Text of the Criteria and General Principles of the Regulation by expenditure and service targets (ROSS) for 2024-2031 (TIROSS 2024-2031). This text is currently made up of general indications (Part I) and general guidelines for the ROSS method in its basic content (Part II). The completed TIROSS will include a Part III, dedicated to the complete ROSS. The objective of the new regulation is to direct resources efficiently, eliminating the distortions created by the current regulatory instruments concerning the investment choices made by companies. The path towards the new method will begin with a simplified version, called basic ROSS, which will be applied as of 2024 to electricity distribution operators and as of 2026 to gas distribution companies. With regard to the criteria for determining the recognised cost following the basic ROSS approach, ARERA has established that the actual (total) expenditure of distributors will be compared annually with a reference expenditure defined by the Regulator (the so-called baseline). Furthermore, each distributor will be able to choose how to share any efficiencies/inefficiencies achieved with users, choosing between the two options of the incentive menu introduced by ARERA (low incentive potential and high incentive potential). ARERA has also defined the speed of tariff release by introducing a regulatory capitalisation rate that allows eligible expenditure to be divided into two portions: slow money, representing capital costs, and fast money, representing operating costs. Lastly, note that the tariff treatment of capital stock existing at the date of transition to the new methodology will be implemented with continuity in the criteria applied.

Introduction of the new Regulation by expenditure and service targets (ROSS)

The criteria with which the basic ROSS is applied specifically to the electricity distribution service were approved with resolution 497/2023/R/com, with which ARERA established that the new basic ROSS method will be applied to all electricity distributors serving at least 25 thousand PoDs and will include all types of operator costs, with the sole exclusion of capital costs pertaining to 2G smart metering systems. The most important change introduced by the resolution concerns the quantification of the operating cost baseline, which will be differentiated for each company on the basis of the amount of its actual costs as resulting from the Separate Annual Accounts (CAS) of the test year, 2022. Furthermore, it established that the total efficiency recovery will be fully allocated to operations management, meaning that the expenditure eligible for tariff recognition will be the sum of the total actual expenditure and the efficiency incentives allocated to operations management. Lastly, note that ARERA will take into account the inflation update that is actually aligned with the scope of capital and operating costs included in the tariff year, and the regulatory capitalisation rate will be differentiated by company based on their historical trend.

Once again regarding electricity regulations, note provision 617/2023/R/eel, which defines the regulation of the technical (TIQD) and commercial (TIQC) quality of the electricity distribution and metering service for 2024-2027. More specifically, with the TIQD ARERA has introduced a complementary rationale with respect to the ROSS tariff method, overcoming the approach to regulation, output-based until present, based on national service quality standards and introducing customised objectives, based on the historical performance of each distributor, with the intention of reflecting the regional contexts in which companies operate. With regard to the new integrated text for commercial quality (TIQC), instead, there is no change in the perimeter of the services subject to standards, but only a 15% increase in the value of the automatic compensation to be paid to users in cases of non-compliance with the maximum time limits for carrying out interventions.

New measures for technical and commercial quality of electricity

During 2023, the Milan Regional administrative court (TAR) published a number of rulings on the administrative appeals made by various operators against Resolution 570/2019/R/gas, related to the updates for the fifth regulatory tariff period (2020-25) for gas distribution. Among the grounds for the appeals upheld by the administrative judges, the main reason concerns the recognition of operating costs, on which the Milan TAR found that ARERA had failed to carry out a preliminary investigation during

Milan regional court ruling on tariff regulations for gas distribution

the consultation phase, and that the tariff method established was illegitimate, since it did not reflect the differences in companies' cost structure and could not account for the impact on these costs deriving from environmental shocks or from regional elements in prices for production factors. The content of the published sentences cannot be directly interpreted as regards its effects, for reasons including ARERA's decision to appeal to the State Council (CdS). The ruling on the appeal made by the Group company Inrete Distribuzione Energia has not yet been published.

In execution of these rulings, ARERA has appealed to the State Council, which rejected the Authority's appeal, confirming the inadequacy of the tariff method with respect to recognised operating costs. The State Council also generically limited itself to ordering that the rulings be enforced according to the motivational assumptions indicated, even though it is well known that the effects will necessarily be *erga omnes* (at least for the cluster of large operators).

With reference to both the electricity and gas sectors, note that ARERA, with Resolution 556/2023/R/com, revised upwards the rates of return on invested capital for infrastructure services in the electricity and gas sectors for 2024. WACC for electricity distribution will increase from the current 5.2% to 6.0%, and WACC for gas distribution will increase from the current 5.6% to 6.5%. This increase is mainly due to the rise in the Stable Countries' rates of return and the spread seen during 2023.

**2024 WACC for the
gas and electricity
distribution
services**

As regards the regulation of the district heating service, note that ARERA, after a lengthy consultation process, in late 2023 and with resolution 638/2023/R/tlr approved the district heating tariff method for the transitional period from 1 January to 31 December 2024 (Mtl-T). This measure established for the transitional period (defined as the 2024 calendar year) a tariff regulation based on the avoided cost method, introducing, however, a number of significant additions to what is currently in use among operators. More specifically, ARERA required operators to respect a revenue cap, which in any case leaves them the possibility of defining the scope of application of the tariffs. The revenue cap is determined as the overall sum of the avoided costs per unit (euro/MWh) for the quantities of heat supplied (MWh) with reference going to the various networks, to each month of the year and to each category of user. With this measure, ARERA accepted the request to include the safeguarding clause, formulating it in such a way as to limit to 10% the contraction in revenue resulting from the new tariff methodology, for the systems managed as a whole. Each operator therefore has the option of applying, instead of the revenue cap as ordinarily calculated, an annual safeguard restriction set at 90% of the revenues calculated by applying the tariff conditions prior to the Authority's regulation to the scale variables seen in 2024. In defining revenues, a cap must be applied to the production quotas not based on natural gas, set at €36/MWh; this provision essentially takes into account the fuel mixture of each district heating system, so as to ensure greater consistency between costs and revenues in networks characterised by a lower use of natural gas for the production of thermal energy.

**Transitory tariff
method for the
district heating
service**

As regards the regulation of the integrated water service, the measures introduced in 2023 having the greatest impact for the Group concern the tariff method for the fourth regulatory period (resolution 639/2023/R/idr), which confirmed the previously existing general structure, but extended the period from four to six years (maintaining the updating period at every two years). The resolution includes, among other elements, a valorisation of the most economically impactful indicators such as rates on invested capital and inflation. In particular, the rate defined to cover financial and tax expenses on invested capital was set at 6.13% for the two-year period 2024-25, a sharp rise from the 4.80% recognised up to 2023; this increase, similarly to what was seen in the energy sectors, was determined by the increase in the free-risk rate and the water risk premium recorded in 2023, in addition to an increase in the rate defined to cover the cost of debt, which rose from the current value of 2.4% to 3.0% (in real terms). Also note that the classes of assets subject to tariff recognition are now increased with categories associated with the new technical quality indicator as regards storage of the resource and management of rainwater (water resilience). For endogenous operating costs, the reuse of the efficiency mechanism for the previous period was confirmed, with an incremental effect and based on the retrocession of quotas (differentiated according to the behaviour and costs sustained by the various operators) of the margin recognised, for these costs, in 2020. Concerning the recognition of electricity costs, starting from the costs accrued in 2024 (and therefore applied to the 2026 adjustment), the previously hypothesised benchmark was introduced based on a "theoretical" mix of variable-price and fixed-price procurement costs (whose respective weights, for 2024, were set at 70% and 30%), valued based on the operators' final cost data in both instances. This benchmark, increased by a 15% allowance, constitutes the new cap for the recognition of costs in the event of an actual cost that is higher than the benchmark, while if

**Integrated water
service: new
tariff period and
regulations for
technical quality**

the actual cost is lower, the same actual cost will be recognised in addition to 50% of the efficiency achieved with respect to the amount of the benchmark itself (sharing).

In late 2023, regulations for the technical quality of the integrated water service were also updated by resolution 637/2023/R/ldr. The innovations introduced include: the new macro-indicator M0 on the resilience of the water system, aimed at monitoring the effectiveness of the supply system in satisfying water demand, numerous clarifications related to the construction of the previously existing macro-indicators as well as changes in the calculation of some macro-indicators, and a cumulative two-yearly assessment of the targets achieved (the latter now also concerning contractual quality).

With regard to regulations for the municipal waste management service, the measures finalised by ARERA in 2023 and having the greatest impact for the Group concern the publication of the standard outline of the service contract for the regulation of relations between the bodies responsible for tenders and operators in the municipal waste service (Resolution 385/2023/R/rif). Compared to the current form of the service contracts in force (which must be updated no later than 30 days after the adoption of the 2024-2025 tariff updates), higher certainty has been established in relations between the parties, particularly with regard to regulatory or contextual changes that will come into effect during the course of the concession.

**Waste service:
new form for the
service contract
between
tendering bodies
and operators
and outline for
tender
publications**

With consultation document 514/2023/R/rif, the Authority also set out its guidelines for defining a model outline for tender publications for awarding the integrated municipal waste management service. The model aims to ensure greater uniformity in the acts governing public procedures for assigning this service. The organisational structure of this sector is indeed characterised by a strong lack of uniformity nationwide, starting from the large number and disparate nature of the subjects that manage it. The guidelines contained in the consultation text focus, in particular, on the elements of calls for tenders that are able to reflect the technical, economic and industrial peculiarities of the integrated waste management service, and the criteria for determining the basic amount of the tender, for admitting participants and formulating and evaluating the technical and economic offers.

Furthermore, in 2023 ARERA introduced important monitoring and transparency obligations for the efficiency of sorted waste collection and municipal waste treatment plants, set forth in resolution 387/2023/R/ref. These monitoring obligations, whose results must be communicated periodically to ARERA, are based on indicators broken down into the categories of efficiency and quality of sorted waste collection, efficiency of residue management, continuity of the treatment service and commercial quality of the entire chain.

Concerning tariffs, resolution 389/2023/R/rif defines the rules and procedures for the two-year update (2024-2025) of the reference tariff revenues and access tariffs for "minimum facilities", introducing a series of adjustments to the MTR-2 tariff method. One of the most significant is the re-establishment of ARERA's tariff powers in light of the ruling of the Italian Administrative Court of Justice (sentence 7196/23), which states that the tariff method seems likely to cause distortions in competition for the pre-treatment segment between integrated operators and "stand-alone" plants. ARERA, in order to comply with this ruling, adjusted the tariff method by requiring, among other things, a deduction of costs and revenues involved in the pre-treatment of plastic packaging for the years 2024-2025, and the recovery of costs and revenues for the years 2022-2023. This resolution also revised the inflationary indices for updating the items covering operating costs, setting them at 4.5% for 2023 and 8.8% for 2024. In order to effectively apply these inflationary statistics, ARERA extended the limit on growth and requested the local authority in question to determine the value, up to a maximum of 7%, of the coefficient covering the higher charges for 2022 and 2023, without prejudice to a maximum value of the limit on growth set at 9.6%. Finally, ARERA recognised the possibility of redefining the amounts that exceed the growth limit for the years following the 2022-2025 regulatory period.

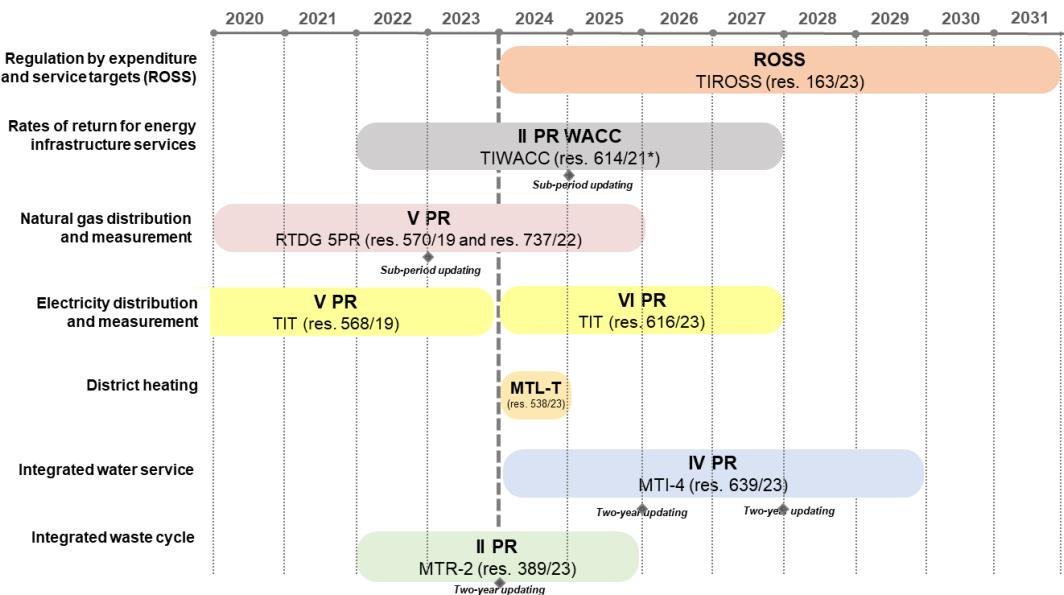
**Updated tariff
method for
waste
2024-25
(MTR-2)**

During 2023, the State Council issued a number of important rulings. One new sentence (10734/2023) confirmed the principles set out in a previous ruling (00486/2023), repealing Emilia-Romagna's regional resolutions and all subsequent acts attesting to the qualification of WTEs and landfills as minimum facilities. This sentence follows another one that had declared illegitimate the measures by which the Region provided for authoritative allocations of flows of the organic fraction of municipal solid waste (FORSU) in favour of minimum facilities, due to the presence of a competitive market that does not justify the identification of facilities intended for the end of the municipal waste cycle in this region. It also follows,

**Disputes over
the definition of
"minimum"
treatment
facilities**

in its principles, the more recent sentence 00486/2023, which confirmed a ruling by the Lombardy Regional Administrative Court (TAR) concerning the annulment of the resolution that had defined the waste tariff method (MTR-2) for the second regulatory period, 2022-2025, with regard to the part in which it regulates the criteria for defining minimum treatment facilities. The State Council confirmed what the TAR had ruled, arguing that ARERA and the Regions are not qualified to identify facilities as minimum. According to the division of jurisdictions provided for by the Constitution, the national government has jurisdiction over matters of environmental protection and ensuring competition. Therefore, the Regions and ARERA will have to act within the framework of rules to be defined by the national government. Sentence 10734/2023 unequivocally affirms that the previous sentence 00486/2023 (which resulted from an initiative of an operator of the Region of Puglia) must be extended to the decisions made by the Region of Emilia-Romagna, and clarifies that the application of the annulment extends to all acts subsequent to the regional act qualifying WTEs and landfills as minimum facilities.

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



- Resolution 614/21 set out the methodology for determining the rates of return on energy capital and established the WACCs for 2022 only; these rates were confirmed for 2023 as well by Resolution 654/22, while Resolution 556/23 updated the WACCs for 2024

Lastly, the table below indicates the main tariff references for each regulated sector, based on the regulatory framework in force in 2023 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	2023-2025 Second sub-period of the fifth regulatory period (resolution 737/22)	2020-2023 Second sub-period of the fifth regulatory period (resolution 568/19) 2024-2029 First sub-period of the sixth regulatory period (resolution 616/23)(1)	2022-2023 Second sub-period of MTI-3 (resolution 639/21) 2024-2029 Second sub-period of MTI-4 (resolution 639/23)	2022-2023 Second sub-period of MTR-2 (resolution 363/21) (2) 2024-2025 Second sub-period of MTR-2 (resolution 389/23)
Regulatory governance	Single level (ARERA)	Single level (ARERA)	Dual level (governmental authority, ARERA)	Dual level (regional authority, ARERA)
Recognised invested capital for regulatory purposes (RAB)	Previous cost revised (distribution) Weighted average between actual cost and standard cost (measurement) Parametric recognition (centralised capital)	Until 2023: Parametric recognition assets up to 2007 Previous cost revised for assets as of 2008 (distribution) As of 2022 Recognition based on a comparison between planned costs presented to ARERA (RARI motion) and actual expenditure (measurement) As of 2024: Introduction of the ROSS which, for the capital cost of distribution, confirms the revised previous cost method	Previous cost revised	Previous cost revised
Regulatory lag investment recognition	1 year	1 year	2 years	2 years
Return on investment (3) (real, pre-tax)	2022-2023 5.6%	2022-2023 5.2%	2022-2023 4.8% +1% for investments as of 2012, covering the regulatory lag	2022-2023 (4) 5.6% Collection (adjusted when tariffs are set for 2024-2025, until then 6.3%) 6.0% Treatment +1% for investments as of 2018, covering the regulatory lag 2024-2025 (4) 6.3% Collection 6.6% Treatment +1% for investments as of 2018, covering the regulatory lag
2024	2024 6.5%	2024 6.0%	2024-2025 6.1% +1% for investments as of 2012, covering the regulatory lag	
Recognised operating costs	Average actual costs by company grouping (size/density), based on 2011 (for revenues until 2019) and 2018 (for revenues as of 2020) (5) Sharing for efficiencies achieved against recognised costs Update with price-cap	Until 2023: Average actual segment cost values on a 2014 basis (for revenues until 2019) and (2018 for revenues from 2020) Sharing for efficiencies achieved against recognised costs Update with price-cap	Efficient costs: operator's actual 2011 values inflated Updatable costs: actual values with 2-year lag Additional charges for specific purposes (provisional nature)	Collection and treatment Actual operator costs with 2-year regulatory lag Additional costs for quality improvement and changes in the operator's scope (provisional) Additional charges for specific purposes (provisional nature)
Annual efficiency operating costs	Annual X-factor As of 2020: Distribution:	Until 2023: Annual X-factor Distribution: 1.3%	Efficiency mechanisms based on: sharing 2016 operator efficiencies	

	3.53% large companies 4.79% medium-sized companies	Measurement: 0.7% As of 2024:	Differentiated sharing level with respect to the distance between actual cost and efficient cost of the operator
	Measurement: 0% Marketing: 1.57%	Distribution + Measurement: 0.5% if the high-potential menu is chosen 0% for the low-potential menu	
Incentive mechanisms	From 2024 Z-factor: recognition of extra costs linked to the energy transition Public contribution: recognition of 10% of the amount in three quotas	Sharing of electricity costs based on energy savings achieved Recognition of 75% of margins from activities aimed at environmental and energy sustainability	Collection Sharing on revenues from the sale of material and energy (range 0.3-0.6) and from Conai fees Treatment Sharing not explicitly recognised by the method, although it can be traced back to the general principles supporting the development of the circular economy
Annual limit on tariff increases		On an asymmetrical basis and depending on: - investment needs - cost-effectiveness of management - changes in scope of operations	Collection On an asymmetrical basis and depending on the presence of: - changes in scope of operations - improved service quality Treatment Mechanism to guarantee operating and financial balance Limit to growth less tight since the efficiency factor is not provided for, it depending on: - inflationary growth - environmental impact of plants
			Collection and treatment Mechanism to guarantee operating and financial balance

(1) Resolution 616/23 defines the tariff regulation of electricity distribution and metering services for the period 2024-2027 by implementing, for the determination of the recognized cost, the application criteria of the new ROSS regulation (Regulation for spending and service objectives), governed by resolution 497/23/R/com

(2) Resolution 363/2021/R/rif updated the previous regulatory period and introduced tariff regulation for treatment where these are "minimum" facilities, i.e. essential for ending the municipal waste cycle.

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

(4) For 2022-2025, the reference deliberation for WACC in the waste sector is resolution 68/2022/R/ref. For 2024-2025, the reference deliberation for WACC is resolution 7/2024/R/rif.

(5) In February 2020, Inrete Distribuzione Energia Spa, the Group's main distributor, along with other operators in the sector, challenged the deliberation before the Lombardy-Milan Regional Administrative Court (TAR) with regard to the significant reduction in the recognition of operating costs introduced by resolution 570/2019.

Climate and the environment

Regulatory and economic interventions aimed at dealing with climate change, and the concrete opportunities that derive from addressing the risks associated with it, have become priorities for international and national institutions, as well as those operating in all economic sectors. The Group's main concerns in pursuing environmental sustainability coincide with the 17 goals on the 2030 Agenda for Sustainable Development (SDGs), as well as the indications contained in the Paris Agreement to limit global warming to below 2°C, and the long-term climate strategy "A Clean Planet For All" (adopted by the European Union), intended to achieve carbon neutrality by 2050 and to limit the increase in temperature to below 1.5°C. Further important elements moving in this direction include the change called for by the Green Deal, the European Commission's plan for a Europe that is more competitive in the fight against climate change and increasingly capable of transforming the economy and society by setting them on a path of sustainable development and, in the wake of this, the circular economy action

Climate change

plan (CEAP). The actions taken by European and national institutions are coordinated and converge towards the goals of a fair, sustainable and inclusive transition.

Adopting the Green Deal and related initiatives, aimed at tackling climate change and environmental problems in order to achieve carbon neutrality and transition to a regenerative and circular growth model, moves towards an industrial strategy that implements the circular economy in all sectors.

The Circular Economy Action Plan, presented by the Commission in 2020, has made it possible to outline a strategic framework for circular economic development in the European Union and, in so doing, is geared towards accelerating the transition and making the change foreseen by the Green Deal possible. The framework of initiatives incentivising reuse and recyclability of products, a reduction of overpackaging and rules for bioplastics has been rounded off by proposals for new obligations for the prevention, reduction and collection of textile and food waste. Furthermore, the promotion of the circular economy is also encouraged by new water management policies, in terms of both reuse of purified wastewater for irrigation in agriculture and minimum requirements for the use of reclaimed water.

Circular economy action plan

Opportunities

National policies are developing in a European context where priorities are defined and available resources allocated accordingly. In this sense, the National recovery and resilience plan (NRRP), which makes use of the European funds made available by the NextGenerationEU package supplemented by a complementary national fund, guides Italy in the implementation phase of the European Green Deal and, since there is an overall consensus concerning the need to introduce progressively more challenging climate targets, reinforced instruments have been made available to member states with the aim of:

- accelerating the process of ecological and digital transition;
- accelerating the transition to a regenerative and circular growth model;
- providing a tool to help investors in the transition to a low-carbon economy.



In order to face the energy crisis that began last year, in May 2022 the European Commission introduced a series of measures that can be initiated in the short term (REPowerEU), including a common gas purchasing platform, the promotion of market instruments aimed at making the cost of electricity more independent from short-term market dynamics, a diversification of supply, and a reduction of gas demand through energy efficiency and electrification of consumption. These were complemented in 2023 by proposals for regulations aimed at ensuring a secure and sustainable supply of critical raw materials and reducing the EU's dependence on imports, strengthening European supply chains including recycling, and enhancing Europe's industrial capacity in the production of net-zero technologies.

The drive to decarbonise the European economy has instead been addressed through long-term initiatives, in particular the Fit for 55 package, which foresees a series of measures (some of which have already reached the end of the approval process with a positive outcome) aimed at reducing climate-changing emissions by 55% by 2030, focusing on an increase in renewable energies in the production mix. In terms of energy efficiency, the current 2030 targets, revised upwards to meet the ambitious emission reduction target, will be pursued by giving a leading role to public buildings in the process of making Europe's real estate stock more efficient. In terms of renewable energies, whose increased production is decisive in replacing fossil fuels and reducing carbon intensity, the electrification of consumption will require considerable investments along the entire supply chain. As far as local energy planning is concerned, the recovery of waste heat from industrial processes is expected to offer significant potential for local areas. The development of renewable gases, including hydrogen, by constructing electrolyzers powered by renewable energy sources, will also be a priority.

In early 2018, the European Commission published the Sustainable Finance Action Plan, which aimed to reach three objectives: redirecting capital flows towards sustainable investments in order to achieve sustainable and inclusive growth; managing financial risks arising from climate change, resource depletion, environmental degradation and social issues; and promoting transparency and a long-term vision in economic and financial activities.

The first concrete action took the form of the EU's own definition of a Taxonomy for sustainable investments, aimed at directing investors' funds towards sustainable initiatives. In order to be aligned with this Taxonomy, economic activities must comply with three principles identified by the Regulation:

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

- respect minimum social guarantees.

Moreover, as of 1 January 2022, companies subject to the directive on non-financial reporting must indicate the amount of their activities that are eligible for the European Taxonomy.

As regards the Italian context, the six strategic missions of the NRRP that are built around the six pillars of intervention set out in the European Regulation for Recovery and Resilience and are accompanied by specific sectoral reforms have been flanked by a new chapter dedicated to the goals of REPowerEU, whose resources will be used to provide support to the production system in bringing about the ecological transition. As regards Mission 2, Green revolution and ecological transition, the largest in terms of allocating resources that concern the Hera Group, the project implementation phase is beginning.

For the water cycle and waste sector, the NRRP aims to modernise networks and plants and reduce the infrastructure gap between the north and south of the country, assigning a central role to the national Plan for the water sector (as regards providing public funding), and to the national Programme for waste management.

In the energy sector, the NRRP focuses on developing renewable energy sources, modernising electricity grids (to increase their digitalisation and resilience against climatic events) and energy-saving solutions. Other key actions include the integrated development of the hydrogen supply chain, promoting production- and consumption-side projects at the same time and the principle of energy efficiency as the first zero-emission fuel.

All countries that signed the Paris agreement made a commitment to a strategy for reducing climate-changing emissions reaching 2050. The strategy will move towards improving knowledge of climate impacts, intensifying climate risk planning and assessment, accelerating adaptation actions and developing resilience to climate change globally. People are becoming increasingly sensitive to environmental and social inclusion issues and are thus driving the increase in demand for green & digital interventions, consistently with EU recommendations on economic recovery and resilience. In order to get various stakeholders and civil society involved in the adoption of sustainable behaviour, the European Commission has created the European Climate Pact. This initiative offers individuals and organisations opportunities to learn about climate change and find solutions, also providing space for individuals to interact and promoting a European climate movement. Organisations can identify their own ambassadors with a focus on gender equality and, in order to support the beginning of concrete actions, the Pact's platform makes it possible to share experiences, funding opportunities and know-how.

Strategy for decarbonisation



The inevitability of climate change, which has led the European Commission to anticipate its emission reduction targets to 2030, with the hope of achieving full decarbonisation by 2050, is also forcing local authorities to revise their priorities and courses of action. Moreover, the pandemic made it urgent to implement actions to make cities and local programmes more resilient and has increasingly oriented regional policies towards circular economy initiatives, sustainable mobility, carbon neutrality and digitisation. This scenario is increasingly ambitious and offers new opportunities to the utility sector. All types of customers (household, industrial and public administrations) will be called upon to introduce technological improvements that can reduce their energy needs.

Opportunities In the utility sector

Promoting and selling products and services for energy efficiency and supporting the energy efficiency of buildings are some of the initiatives being promoted.



Stakeholders, both financial and non-financial, given that they are increasingly interested in sustainability issues, are therefore also moving towards green financing, which can raise liquidity on the capital market at rates that are potentially lower than the alternatives.

Following a rationale based on value sharing between companies and communities, oriented towards finding solutions benefitting both, ensuring the engagement of the community and individuals is becoming increasingly important. The main megatrends are those built on the UN 2030 Agenda, theoretical references and successful experiences of shared value approaches and new business opportunities.

The new lines of development will continue to include the full exploitation of data (seen as a real corporate asset) and a greater focus on cybersecurity, to protect the company and its data. The speed of change makes it essential to define training plans that enable the corporate population to better manage change (first and foremost digital change). This includes training that may be fragmentary but is still able to provide the necessary continuity (self-development).

Technology and human capital

Digital technological evolution involves a continuous acceleration of some major ICT trends and, in addition to moving beyond the paradigms found in economic and social contexts with increasing speed, it alters entire market segments and social relationship patterns. The rise of artificial intelligence (including the generative branch), robotic process automation, data collection and management (internet of things, data governance and data analytics), as well as cloud-based platforms all favour an increase in the amount of data produced and the speed of its availability, generating further opportunities for companies. Utilities are actors capable of promoting a wider use of innovation thanks to their contribution to digitisation and technological development, giving attention to IT security as well. The internet of things and digital interaction between people (exemplified by the automation of more standardised customer relations through chatbots) favour a continuous and growing flow of data, which allows not only rapid analyses of different situations (real time analytics), but also a more precise definition of the decisions and actions to be taken, often with the support of artificial intelligence, which is becoming more qualitatively efficient every day. In this direction, the EU Commission, adopting the communication "Digital compass for 2030: the European model for the digital decade" has confirmed the path for an ethical digital development in Europe, with clear targets to 2030 benefitting citizens and businesses.

Technological evolution

Furthermore, note the increasing regulatory focus on artificial intelligence, as exemplified by the European Union's AI Act, which aims to immediately adopt regulations for AI providers and users, in order to exploit the great potential of this technology through solutions with risk profiles thoroughly foreseen by the regulatory framework.

The benefits of digitally-aware development have been defined in Italy by the "Strategy for Technological Innovation and Digitisation", one of whose main challenges is to accelerate the transition to a digital society, prepared to achieve the above-mentioned European targets. This strategy intends to innovate while safeguarding economic, environmental and social sustainability and guaranteeing equal opportunities for participation. Embracing this strategy, in 2023 more than 50% of employees in large Italian companies adopted forms of remote working, working from home at least one day a week. Italy also ranks third in terms of readiness for 5G. Investments in telecommunications, networks, software, automation and other technological infrastructures, which are essential for reaching European targets, must be accompanied by the spread of a culture and training that will enable new technologies, which in turn are oriented towards a sustainable and circular economy, as well as hinging on digitisation and artificial intelligence. The NRRP intends to direct 22% of the available funds towards a major digital acceleration in the country, as a lever to give a decisive boost to the country's competitiveness. Thanks to their relationship with public administrations and SMEs, utilities play an important role in supporting the digital transformation, in particular through digital services for optimising the yield of production processes, but also through sensors installed for data collection and analysis, without forgetting connected machinery for automatic task performance and predictive maintenance. Examples of this can be found in various applications in the respective businesses, such as data-driven energy management solutions, thanks to connected and smart-sensor-equipped systems and devices inside public buildings, or sensors and smart devices distributed throughout the local area, coordinated and integrated by digital platforms that process the generated big data for resource planning and service optimisation.

The widespread presence of digital technology affects all aspects of business operations, extending the changes to the point of translating into additional and new value-added services. The increase in infrastructural requirements, which continues to drive the demand for investment in connectivity and remote collaboration tools, for utilities focuses on the need for connectivity and security applied to remote working and also multi-channel interaction with the customer, without forgetting the management and sensitisation of infrastructures across the area served. The digitisation process is also fuelled by incremental investments in artificial intelligence and hyper-automation, internet of things and internet of behaviours (IoB), distributed cloud and 5G. Operation technology (OT) or remote management, which had developed over the past few years as a niche area limited to plant effectiveness and with little attention to cybersecurity aspects, requires companies to increase investments in order to reduce system fragility. In this context, it is essential to continue to deploy all available technological skills and resources to increase the level of protection and attention to cybersecurity risks, in order to counter threats and minimise possible consequences. Customers in all sectors, who are increasingly inclined to interact through digital channels, expect real-time responses and uninterrupted service availability, and therefore the advantage goes to the most proactive suppliers in terms of attention to behaviour and optimisation of consumption, but also, increasingly, additional services such as smart houses and e-mobility.

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

Community and human resources

Valorising the human component is also fundamental for achieving balance between technology and people, focusing the organisation of resources on value-added activities, according to a model of intelligent integration, which is not limited to mere cost-efficiency and a rationale of pure replacement, but fits into the broader horizon of the just transition desired by the European Union. The reference context presents new challenges and the current trends are strongly interconnected, requiring an integrated approach to human resource management strategy, that takes into account both macro-transitions and the major emerging changes.

This context, also referred to as a “poly-crisis”, focuses on environmental issues as well as the search for sense, community and inclusion. A structural ageing of the workforce is under way, with rises in unemployment and the NEET (not in education, employment or training) population, as well as an increasing focus on the gender gap and the protection of mental health and individual well-being. This constantly changing socio-cultural ecosystem requires an optimal management of generations (age management), diversity and multiculturalism, in pursuit of greater perceived equity.

These transitions (ecological, energetic and environmental) are having an increasing impact in terms of investments and opportunities, with a consequent increase in effort and skills required in Stem (Science, Technology, Engineering and Mathematics) disciplines. The role of companies in implementing the necessary change management and reskilling programs remains a priority, especially in view of the disruptive impact expected from generative artificial intelligence, from which great benefits and/or some risks are expected, especially in administrative and creative areas.

Purpose provides both a path that guides companies in facing challenging goals and a bond that unites the organisation and orients it towards a project that goes beyond customer satisfaction and shareholder remuneration. Today, more than ever, it is crucial to seek the greatest alignment between an organisation's purpose and an individual's purpose. To be competitive, purpose must be given meaning and must be acted on, in order to set people's engagement in motion and transform it into virtuous behaviour.

To remain competitive, companies must be able to respond quickly to changes in the market environment, anticipating emerging trends and adapting organisational models with a focus on the human capital of the entire ecosystem in question. This change concerns all dimensions of talent attraction and engagement, and involves adopting new and practices that enable business agility. Regulatory and procedural agility also plays a highly significant role in this area, understood as the ability to adopt flexible and rapid solutions with tools that are designed for prescriptive purposes.

1.01.02 **Strategic approach and management policies**

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

This type of analysis involves a process aimed at testing a strategy's resilience under different assumptions describing possible future states. For the Hera Group, it is essential to analyse the potential impact, positive or negative, of various economic-financial, business, regulatory, competitive, environmental, technological and human capital scenarios that are different from each other, but equally plausible and internally consistent.

The study of scenarios has also been applied to climate change, in order to understand how physical and transitional climate opportunities and risks may plausibly affect business and its various areas over time.

The Hera Group's corporate purpose is the essential reference for defining the broadest aspects of its strategy. More specifically, the Group's path for development to generate value for shareholders and create shared value for its stakeholders is based on five strategic references and an enabling lever:

- **profitability and financial sustainability**, through a search for efficiencies and the identification of development initiatives with good profitability, even in challenging external scenarios, and at the same time the definition of an amount of investments that does not compromise financial-operating balance;
- **resilience**, diversifying the portfolio by balancing free-market and regulated activities and mitigating risks (including climate risks) in favour of the resilience of the services offered;
- **carbon neutrality**, pursuing decarbonisation goals within the Group's scope of operations and supporting its stakeholders' energy transition;
- **resource regeneration**, promoting and adopting circular business models to reduce the consumption of the planet's natural resources by encouraging responsible stakeholder behaviour;
- **social equity and prosperity**, contributing to the development of local ecosystems, thus benefitting businesses and citizens, with particular attention to situations of vulnerability.

Pursuing these strategic references will leverage the support offered by innovation and digitalisation, to enhance the evolution of the Group's activities, thanks to the opportunities offered by the most advanced technologies. The aim is to increase efficiency and quality of the services provided, multiplying opportunities for stakeholder engagement and accelerating the spread of behaviours and skills capable of responding to the challenges of a constantly evolving context.

Macroeconomy and finance

The debt structure towards which the Hera Group is oriented responds to its business needs, not only in terms of the duration of loans, but also interest rate exposure. The Group's financial strategy, in turn, is aimed at minimising its expenses while maintaining a prudential risk strategy.

The Group's financial structure is based on an attentive long-term planning of the necessary financial resources, which it carries out by analysing and monitoring cash flows, with a view to maintaining a flexible and efficient financial structure. The average cost of debt, in particular, is constantly monitored, through financial risk management activities, which in order to limit the risk of interest rate fluctuations also involve the use of derivative instruments, and through the evaluation of liability management operations aimed at seizing favourable market opportunities and maintaining a debt repayment profile evenly that is distributed over time.

Financial planning

Whereas the Group's financial structure currently shows a 96% portion of fixed-rate debt, by the end of the period covered by the current Business plan, in 2027, it is expected that the residual debt will be 59% of the current amount, of which 58% will be fixed-rate and 1% variable-rate. Refinancing for maturing debt has been planned. The Group, in a scenario that still presents high rates and a market that is still uncertain about the future monetary policy decisions to be made by central banks, intends to optimise the cost of debt by taking out, in relation to its residual needs, financing whose type of rate will be defined on the basis of future market conditions and in compliance with the limits of its financial risk policy.

The plan confirms the Group's will to meet its financial requirements by issuing bonds, including green and/or sustainable bonds, and through subsidised lines of financing (including loans granted by the European Investment Bank), in order to meet its investment needs with further efficiency gains and thus guarantee the implementation of innovative and sustainable projects in the waste management, water and energy sectors. The funding strategy is reflected in the actions included in the business plan for projects to reduce greenhouse gas emissions and increase the amount of recycled plastic.

Most of the Group's business is concentrated in Italy, and Hera's rating is thus closely linked to the country's rating, macroeconomic trends and political scenario. Hera's actions and strategies remain oriented towards maintaining and improving adequate ratings; its habitual communications with the rating agencies Moody's and Standard & Poor's (S&P) have resulted in positive feedback in terms of the solidity and excellent balance of its business portfolio, and in terms of its excellent operating performance, efficient and proactive risk management and resilient creditworthiness indicators. In 2023, Moody's rating was confirmed at BAA2, with an improvement in the outlook from negative to stable, in line with the sovereign rating's outlook, updated in November 2023 (since, even though the Group's operations are recognised as sound and sustainable, a company's rating cannot be more than 1 notch higher than that of the country in which it operates). S&P's rating was also confirmed at BBB+ with a stable outlook. The Group's ratings are one notch higher than the sovereign rating and among the best compared to other

Credit ratings

Italian and foreign utilities, confirming the significant growth achieved over the years and results that are always in line with multi-year forecasts.

Over the period covered by the plan, the ongoing adoption of sustainable financial reporting best practices will support the Group's green financing and ratings. Hera has been committed to green funding for some time, since it was the first Italian company to issue a green bond in 2014 and adopted a fully-fledged Green financing framework (GFF) in 2019. In 2022, the Green financing framework was updated and aligned with the latest regulatory changes on sustainability, becoming Taxonomy compliant. In October 2021, Hera published its Sustainability-Linked Financing Framework, updated in December 2023, which includes two environmental indicators and related intermediate and long-term targets. In particular, the first indicator concerns the Group's greenhouse gas emissions (Scope 1+2+3 from downstream electricity and gas sales), while the second involves the amount of plastics recycled by the Group. As part of this framework, the Group issued two Sustainability-Linked Bonds in 2021 and 2023, expanding its debt portfolio with sustainable funding instruments. Consistent with these guidelines, the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) have already been implemented by the Group and include the definition of climate scenarios, climate change-related risks and opportunities, processes for managing these risks, and targets for reducing climate-changing emissions.

Sustainable financial reporting



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

Business areas and industrial strategy

The Hera Group's 2023-2027 Business Plan confirms the strategic aspects that reflect its corporate purpose: to generate sustainable value for all stakeholders by implementing projects that balance the company's growth with the development of the local area, working towards a "just" transition. The framework aims to address the challenges arising from the geopolitical context, in line with EU policies and responding to the specific contingencies of the utility sector, built on the pillars of ecological transition, innovation, cohesion and social development.

The Group has confirmed its commitment to decarbonisation and resource regeneration, to encourage and support the ecological transition in the areas it serves: 60% of total investments over the five-year period will be allocated to initiatives contributing to carbon neutrality and the circular economy.

In order to guarantee service quality and continuity, the Group will continue to invest in the resilience of its networks and plants, to respond to exogenous events with a climatic or cyber origin, including extremely significant ones, by implementing development plans and efficiency measures for local system infrastructures.

Innovation is an enabling factor and a lever with which to accelerate the achievement of the environmental, social and economic-financial goals that the Group has set for itself. This involves the use of cutting-edge technologies and systems to optimise and reorganise processes and assets falling under the various organisational units, and thus supporting the chains in evolving and increasing their respective businesses. The implementation of predictive models, new systems and applications based on artificial intelligence will enable advanced remote monitoring and network management, at the same time guaranteeing service quality and continuity. The Group's investment plan will allocate over 30% of resources to innovation and digitisation initiatives.

The Group's strategy in free-market businesses aims to support the growth of the customer base, by promoting the ecological transition for customers and local areas, including through the use of digital tools, by offering integrated solutions.

Free-market businesses

In the energy sector, the Group offers to act as a partner in the energy transition of its customers, providing a rich portfolio of value-added services (VAS) alongside its sale of commodities, including renewable or energy-saving solutions (photovoltaics and the related storage systems, electric mobility, insulation for buildings), as well as assistance and maintenance services. Hera's ability to grasp commercial opportunities will bring it to reach 4.3 million energy customers by 2027, partially thanks to the acquisition of 1.1 million customers as a result of the gradual protection service tender, concluded in early 2024.



Hera's role in the offer of decarbonisation services also includes the technological and environmental sustainability proposals of the Group's ESCos. Now that the period in which incentives were provided by the 110% SuperEcobonus for condominiums is over, in the coming years increasing attention is expected to be paid to energy requalification offers, in particular for real estate belonging to public administrations, and the use of integrated services, including other market segments.

The commitment to the pursuit of carbon neutrality also involves the Group's intentions concerning consumption efficiency, relying on projects capable of promoting the production and use of renewable energy vectors. The objective over the period covered by the Plan is to encourage the development of owned photovoltaic plants, favouring plant solutions that do not involve further land consumption, such as the agrivoltaic plants and photovoltaic parks on Group sites.

In the waste treatment and recovery sector, a growing awareness of environmental protection and resource regeneration is what underlies the design and development of new services and state-of-the-art plant solutions.

In particular, in special waste management, the Group intends to expand and diversify its portfolio of treatment services with 360° "global waste" proposals, covering the entire life cycle of waste, in order to ensure the circularity of the system. Furthermore, by leveraging the Group's market leadership and the operating capacity of the newly acquired A.C.R. di Reggiani Albertino Spa, the Plan calls for the development of new technologies for managing reclamation and decommissioning services for industrial plants, including through the participation in new tenders and the consolidation of partnerships with major operators.

In the plastics recovery market as well, the Group's strategy calls for the development of new projects, both to expand plant capacity in segments already covered, such as the production of PET and recycled polymers for cosmetics and food use, and in more innovative niche segments. In particular, as regards infrastructures, during the period covered by the Plan, the Modena plant for rigid plastic recovery and the Imola (Bologna) plant for carbon fibre recycling will be activated.

Hera's strategy for regulated businesses will focus on increasing the resilience of all assets under **Regulated businesses** management, thanks to the support provided by digital technologies and the use of predictive maintenance models, as well as a commitment to evolve networks and adapt them to the energy transition.

In electricity distribution, the installation by 2025 of about 450,000 second-generation (2G) electricity meters will allow for a more precise measurement of consumption, as well as remote control and maintenance. To accompany the areas served towards the electrification of consumption, the Group is planning investments to adapt primary and secondary substations and electricity grids to support the ever-increasing demands for connection.



In gas distribution, thanks to approximately 310 thousand NexMeter gas smart meters, patented by Hera in 2019 and able to work with "green gas" mixtures, it will be possible to improve safety functions in the event of leaks or earthquakes and offer customers a greater awareness of their consumption, leading to increased energy savings.

To contribute to decarbonisation and the energy transition by regenerating resources and reducing climate-changing emissions, assets in the gas distribution business will be adapted to accommodate alternative carriers to traditional ones, such as green gases.

During the period covered by the Plan, the Bologna power-to-methane plant will become operative. Connected to one of the area's main water cycle purification plants, it will use wastewater and electricity from renewable sources to produce biomethane to be fed into the grid and oxygen that, in the future, can be used to increase the plant's purification capacity and efficiency.

Other assets enabling the ecological transformation of the local areas served include district heating networks, for which the Group plans further developments and investments to maximise the use of heat from renewable sources, by increasing the technical efficiency of the networks (thanks to the interconnection of several systems with each other, such as in the municipalities of Bologna and Forlì), as well as the enhancement of geothermal energy and the development of the Ferrara network.

In the water sector, the challenges raised by climate change make it necessary to prepare for drought with an infrastructural development of the networks, which are entrusted with guaranteeing a quality service and a reliable and sustainable supply, through interventions aimed at resilience and the introduction of technological innovations designed to improve operational efficiency. The objectives involving waste reduction are complemented by those concerning wastewater reuse and sustainable water resource management, thus helping to reduce the effects of the footprint on climate change, while promoting responsible and sustainable behaviour.

In particular, in period covered by the Plan, activities will be carried out to increase the resilience of infrastructures in order to reduce network losses, since district-based interventions will guarantee constant control over portions of the network, able as they are to remotely control and intervene on pressure regulation or detect hidden leaks. To make networks smarter and more efficient, approximately 310,000 smart meters will be installed, to automate the management and maintenance of water resources. Various circular economy initiatives are also planned, both at our customers' facilities and within the Group's activities and offices, including the effective optimisation of sewage sludge management and recycling materials from water cycle waste with dedicated plant engineering and innovative tools.

In the area of municipal waste management, the Group has confirmed its commitment to achieving its ambitious recycling targets. This includes increasing the quality and quantity of sorted waste collection, which will increase to 77.7% by 2027, up 10 percentage points from the 67.8% recorded in 2022.

The industrial strategy outlined hereto makes it possible to project growth in the Group's Ebitda coming [Group indicators](#) to over 350 million euro in 2027 compared to the 2022 figure, reaching a 1,650 million euro target at the end of the period covered by the Plan.

The investment plan amounts to 4.4 billion euro, 48% of which will be reserved for development initiatives and acquisitions. Out of total investments, 55% will be allocated to regulated businesses, while the remaining 45% will help drive growth in free market-based businesses. Alongside the investments financed by the Hera Group over the period covered by the Plan, one must add the social and economic value of the additional works that will be carried out in the local areas served, thanks to the almost 400 million in grants received, equally divided between resources coming from the NRRP and other institutions.

The margins generated during the five years falling under the Plan will make it possible to respect the significant financial commitment required in terms of investments, also allowing the Net debt / Ebitda ratio to be brought back to 2.7x by 2027, confirming the Group's solidity.

As proof of Hera's commitment to sustainable growth, shared-value Ebitda is expected to rise to 64% of total Group Ebitda by 2027, reaching more than 1 billion euro (approximately 1,049 million, as against 670 million in 2022), in line with the target set at 70% by 2030.

Lastly, the Plan to 2027 confirms that the Group will approach its 2030 targets concerning carbon neutrality and circular economy, including the ambitious 37% emissions reduction target (compared to 2019, with SBTi validation) and a 150% increase in recycled plastics (compared to 2017 data).



Climate and the environment: sustainable development

Hera's shared value framework, introduced in 2016, has oriented the Group's strategy towards growth based on responses to the problems coming from the external context, capable of maximising shared value, both for the company and for the community. The Group's objective is to create shared value through business activities that are strongly integrated into the socio-economic fabric of the communities served, generate operating margins and respond to the drivers of the Global Agenda, i.e. the calls to action for change indicated by policies at a global, European, national and local level.

The latest revision of this model includes the topics of resilience and adaptation to climate change, drinking water (included within the scope of sustainable management of water resources) and

Shared value framework

Priority SDGs directly linked to business activities on which the Group has a direct impact



Other important SDGs on which the Group has an indirect impact due to internal processes or business activities



biodiversity. These are issues to which the Group has been committed for years, which complement the other dimensions of Hera's framework (such as the circular economy and sustainable management of water resources). In 2023 as well, the validity of the initiatives launched by the UN Global Agenda to 2030 was confirmed, responding to the existing megatrends: fragile planet, technological disruption and accelerated urbanisation were considered the most closely linked to Hera's business, having a direct impact on corporate activities. Hera's contribution is most significant for seven sustainable development goals on the 2030 Agenda: 6) clean water and sanitation, 7) clean and affordable energy, 9) business, innovation and infrastructure, 11) sustainable cities and communities, 12) responsible consumption and production, 13) combating climate change and 17) partnership for the goals.

The Group's website (www.gruppohera.it/gruppo/sostenibilità) and its Sustainability Report (Sustainable Strategy and Shared Value section) offer further details on the actions that the Group intends to promote by contributing in a broad sense to the 17 Goals of the UN 2030 Agenda. The Group has set itself clear industrial objectives for both 2027 and 2030, to make a significant contribution to achieving carbon neutrality. As mentioned above a part of the presentation of the industrial strategy, note the strong commitment to reduce carbon dioxide emissions from the industrial chain by 37% within 2030 (compared to 2019), calculated according to Science Based Target references. The most significant contributions to achieving these targets lie in the energy efficiency solutions offered to all types of customers (valorising multi-business assets) in addition to those adopted within the Group, developing projects that promote the production and use of renewable energy vectors, and planning investments for infrastructural network upgrading.



In order to promote a culture linked to these SDGs among the Group's entire workforce, dedicated training events have been made available on its corporate training platform, concerning the circular economy in particular; the UN Agenda is also included in training for all newly hired employees. The main actions include those aimed at promoting energy efficiency, sustainable management of water resources, the selection of suppliers with qualifications in terms of environmental and social sustainability aspects, the development of employment and new skills, and a broader use of innovation and digitalisation. Awareness of the significance of climate change is considered by the Group to be the first necessary step towards incorporating precise responses to the ensuing risks and opportunities into its corporate strategy, consequently reflecting the effects of these responses in the drafting its multi-year plans.

Promotion of energy efficiency and energy transition

Among the initiatives identified to grasp the opportunities emerging from an analysis of the hypothetical climate scenarios, the most promising have been included in the business plan to 2027, which also outlines the actions identified as mitigation and in response to the risks. In particular, the Group's strategy to promote energy efficiency and an energy transition towards carbon neutrality is mainly substantiated by the following actions, briefly outlined in the area of industrial strategy:

- increasing the portion of renewable electricity sold to end customers and promoting energy efficiency by offering green solutions, services and products dedicated to household and industrial customers;



- reducing the Group's energy consumption, following up on the initiatives included in its energy improvement plan (2027 goal to reduce its own energy consumption by 9% compared to 2019 consumption);
- increasing photovoltaics with the aim of being involved in producing electricity renewables, including through the installation of plants on Group sites, not consuming land by insisting on using disused buildings and sites, landfills or areas included in urban regeneration initiatives (e.g. energy parks);
- developing renewable energies by constructing dedicated plants for the production of hydrogen (Hydrogen Valley and Power to Methane);
- increasing the portion of renewable thermal energy produced, by increasingly turning to geothermal and waste-to-energy sources.

Resilience and regeneration

The resilience of networks and plants, recycling, sorted waste collection, purification and sewage, and saving water resources are some of the main areas that guide resource regeneration in the various sectors. By way of example, the design and execution phases of engineering works show a significant focus on sustainability issues, reducing the environmental footprint and minimising the use of virgin soil. The construction of new treatment plants is increasingly oriented towards giving value to the organic portion of solid municipal waste. Particular attention is also paid to the plastics recycling market, in terms of increasing the recycling capacity of flexible plastics, as well as the construction of plants for recycling new types of plastics (rigid and carbon fibres). The rationale underlying circularity also involves the Group's main purchasing processes: Hera's strategic approach includes an increasing focus on materials or goods that meet the principles of the circular economy and extends the adoption of minimum environmental criteria (MEC) to the definition of product characteristics, not only to components for water connections but also to other standard elements of the networks such as gas and water reducers and sewer lifts.



The Group considers regenerating resources to be a fundamental asset of its system, and thus widely adopts circular economy solutions with medium- and long-term industrial objectives and projects based on defined deadlines, through technological and behavioural solutions. These solutions are geared towards improving volumes and quality of separate waste collection, enabling new plant capacity for the treatment, recovery and recycling of special urban waste, soil regeneration through remediation and decommissioning of industrial plants, reducing internal water consumption through the adoption of water-efficient solutions, and increasing the volumes of wastewater reused by promoting agricultural and industrial initiatives. Actions to increase the resilience of the Group's activities also include the installation of remote-controlled accessories and sensors in all networks (to ensure remote monitoring and management), the installation of smart meters in each business area, and the implementation of programming and modelling tools based on artificial intelligence to anticipate critical events or optimise maintenance.

To benefit the wider use of circular models, greater attention will also be paid to the various customer engagement tools, so as to use the different communication/dissemination channels according to the features of the various geographical areas, as well as to improve and expand the tools already in place by paying attention to the different types of customers.

The campaign to raise awareness of environmental challenges will continue to involve schoolchildren (environmental education projects), and will be carried out through the main media at a local level (press tour on environmental issues).

Hydrogen as a new energy carrier

Decarbonisation policies reduce dependence on fossil fuels and therefore contribute to guaranteeing the security of the system. The Group's plant assets also have further potential to seize opportunities related to the development of new renewable energy vectors, such as hydrogen. The Group intends to become involved in the various phases of this chain, and has already launched experimental projects moving in this direction. In the sustainable hydrogen production phase, a circular solution comes from synergies between the electrolytic process and the water purification process, with multiple circular flows of material between the two activities (oxygen as input for purification, and biogas from sewage sludge as material for hydrogen methanation). The Group's Waste-to-Energy plants will be able to use biogenic electricity (considered renewable) to power electrolyzers capable of obtaining hydrogen for industrial customers, mobility or the distribution network. Once again with reference to gas distribution, the second phase of experimentation has been positively concluded on the Group's assets to assess the optimal blending percentage between methane and hydrogen for the operation of cogeneration assets and plants for industrial and household users. This experimentation, the first of its kind in Italy, involves all operators in the gas supply chain, from transport to manufacturers of technological equipment, up to manufacturers of domestic appliances.



For Hera, the need to guarantee quality and continuity in essential services in such a changing context, subject to increased climate risks, represents a cost, but at the same time an opportunity. The necessary increase in investments to improve the resilience of its assets puts the Group, thanks to its solidity and financial capacity, in an advantageous position compared to smaller competitors, who could face greater difficulties in dealing with such a volume of investments. In addition, reinforcing internal skills, accompanied by growth through external lines and tenders, allows the Group to seize opportunities for development in the most effective way.

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

Technology and human capital: innovation

The Group intends to leverage technological advances in the chemical and engineering industries to identify plastic recycling processes that are complementary to mechanical recycling and make the process effective even for less pure and less valuable plastic portions. The same advances make it possible, for example, to experiment with solutions that use excess renewable electricity (otherwise unusable) to split water molecules into hydrogen and oxygen and then convert the result into synthetic methane gas by adding carbon (from CO₂).

A strategy moving towards green innovation

Hera has adopted a Group strategy to exploit all available information and to be able to guarantee the quality and exchange of data flows. The principles that have guided the implementation of this strategy involve an organisational approach to data architecture, which is articulated in the organisation of information by domains, development according to a product strategy, on a self-service technology platform and with the adoption of a federated governance model.

Digital strategy



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

In order to consolidate its role in the Italian utility sector, Hera intends to leverage the specialisations it has built up over time, by implementing new analytical methods and developing automation and process digitisation projects. The main pillars for developing the digitisation of the Group's activities include:

- more sensors in the field of operation and thus greater control capacity, through the enhancement of remote monitoring, the installation of smart meters in the various businesses and the expansion of predictive maintenance systems;
- digital customers, both in terms of making personalized offers to customers through the management of 2G meters, and through artificial intelligence applied to sales channels and customer interaction;
- data strategy, aimed at exploiting all available information and ensuring the quality and exchange of data flows, i.e. implementing data products;
- reporting on digital transformation initiatives according to the corporate digital responsibility (CDR) framework.
- launching a well-structured Open Innovation practice, as a further lever to accelerate the Group's digitalisation, to foresee and appropriately assess global innovation trends, and to promote the adoption of innovations already on the market. All this is achieved through a more detailed scouting programme focused on start-ups in innovation hubs around the world and an increasing focus on developing an ecosystem of partners for innovation.

Further developments in digitisation include the definition of a specific training plan dedicated to strengthening employees' skills in the areas of innovation and sustainability, ongoing data analytics and artificial intelligence projects to support the digitisation of processes in all of the Group's business areas

and, in particular, the areas of circular economy and energy transition, as illustrated below among the human capital development strategies.

Planning the data strategy is increasingly aimed at transforming the Group into a data-driven company, **Technology** where data-driven decisions, valued as a corporate asset and subject to an ethical and conscientious interpretation, highlight the growing importance of data management and the resources dedicated to protecting it.

The global trend of increasing cyberattacks was also confirmed in 2023. In addition to the effects produced by international geopolitical instability, which increased cyberwar actions involving in particular the energy sector and critical national infrastructures, criminal activities also continued, leading to an increase in cybersecurity incidents in all sectors. To face this external scenario, which was also confirmed by the numerous bulletins issued by the National Cybersecurity Agency, Hera maintained a high level of cybersecurity monitoring alerts in 2023, which also brought about an increase in the management of anomalous events by the Group's SOC (Security Operation Centre). Cybersecurity improvement initiatives continued in 2023, increasing the coordination between initiatives of individual IT (Information Technology) and OT (Operational Technology) Managers and Group-wide initiatives, and maintaining a balance between the macro-environments relating to technologies, processes and people.

As regards processes, during the year, the Group's cybersecurity management procedures concerning systems, networks and users were revised and communicated to all IT and OT managers. This revision mainly concerned the cloud area, in addition to other more technical aspects linked to increasingly rapid technological developments including the possibility of adopting passwordless solutions or the use of artificial intelligence in the Group's IT applications.

The increasingly close relationship between centralised monitoring of IT and OT environments was accompanied by the identification of new sources such as, for example, the agents on smartphones and tablets introduced during the previous year and a new monitoring platform for the Group's cloud environments. As part of monitoring, vulnerability assessments were carried out during the entire year on the Group's external surface, i.e. scans were done on all public and exposed IP addresses on the Internet, aimed at identifying vulnerabilities on systems and devices in production, as well as two cybersecurity assessments on industrial plants. In 2023 as well, activities aimed at increasing cybersecurity awareness and culture continued through informational campaigns for the entire corporate population, along with specific interventions for technical roles in the IT and OT fields. Periodic ethical phishing campaigns also continued, involving roughly 7 thousand employees for each campaign and reaching a total of over 70 thousand emails during the year. As regards the activities dedicated to technical roles, instead, incident simulation exercises were carried out using special platforms, capable of simulating the company's IT environment and enacting, in a protected environment, the actual activities that would have to be implemented in the event of a real incident.

The evolution of technology and digitalisation, which calls for an ongoing development of employees' skills and consequently needs for training, confirms the Group's strategic decision to introduce cloud-based platforms to increase individual productivity and as major tools for collaboration, since cooperation between humans and technology requires a continuous evolution of the working methods. With this in mind, process automation projects (virtual factory and digital lab) favour the wider presence of a culture of technological integration, focusing on initiatives for applying artificial intelligence, and generative intelligence in particular, as well as community empowerment through digital workplace tools.

The Group intends to use data to generate value for people and for its business, and this intention is confirmed by the gradual digitisation of human resource management processes and the creation of a reference architecture for integrating the systems and data available, along the lines of prescriptive analytics.

In a context where the pace of innovation is progressively increasing, the average age of the working population is rising and there is a need for large-scale professional requalification in a very short amount of time, training is increasingly becoming a strategic asset, not least to compensate for the gap between industrial needs and the education system.

The Hera Group's Employee value proposition (EVP), intended as a response to this context, therefore aims at developing an agile organisation that encourages continuous learning. Each person is thus a protagonist of growth and participates in creating shared value, within a purpose-driven strategy that is integrated with the evolution of the business. This strategy is therefore aimed at recognising that people play a leading role in personal and collective development, which must be enabled and encouraged by

Human resources

a strong cultural alignment and the development of processes that are increasingly advanced, usable and consistent with the expected objectives.

Five priority actions have been derived from the context and the strategic direction defined by the EVP:

- guide the evolution of working methods by giving value to the development of each person, promoting a culture inspired by trust, transparency, a sense of community and guided by a widespread and authentic leadership;
- encourage behaviour and strengthen skills that enable people to deal consciously and effectively with the opportunities and challenges related to the energy, environmental and digital transitions;
- develop the ability to rapidly reconfigure strategy, business models, structure, processes, skills and technologies to support the Group's business;
- create a working environment that welcomes diversity and encourages everyone to be authentically themselves, fully expressing their potential;
- put people's needs at the centre of the evolution of technologies linked to human resource management processes, to make them participatory, aware and responsible, facilitating them in carrying out their roles.

In order to encourage the ethical values and behaviour that represent a distinctive model for the Group, a result-oriented culture is promoted, as are relations between individuals and the broad presence of a purpose-guided leadership. The Group's programmes for culture and an agile approach to improving performance, thanks to well-rooted trust, responsibility, autonomy and work ethics, are guided by the continuous development of a work-by-objectives culture. As part of the Group's strategy, it is fundamental to make everyone perceive that their work and sense of belonging are correlated to the company's overall results and performance. As a consequence, developing a talent attraction strategy guided by the company's purpose is fundamental. In order to enable everyone to express their potential and accelerate the organisation's growth, favouring harmony between work and private life and guaranteeing an ethical approach to work, welfare initiatives dedicated to individual physical, psychological and financial wellbeing will continue, in line with the priorities identified by continuously listening to people and with the aim of enhancing their wellbeing.

As regards the digital transition, the Group has introduced a specific training programme, HER@futura, with a focus on digital reputation. As mentioned among the previous development pillars for digitalisation, this will introduce increasingly innovative and customised initiatives to develop digital culture, processes and skills, increasing digital proficiency at all levels of the organisation and integrating aspects of corporate digital responsibility in the execution of projects and business processes.

An integrated approach between the ecological transition and the digital transition will be adopted, to improve the level of Energy and Green transition proficiency, accelerating the implementation of the ecoHERA programme so as to strengthen the widespread and/or specialised skills related to the impact of the energy and environmental transitions on the Group's business.

An equally important focus will go to knowledge management processes, to create a broader and more innovative know-how related to the transitions, as well as to evolve partnerships and projects with the education system (schools, institutes, universities, business schools, etc.) to promote ecosystem approaches and effectively address transition-related challenges.

In order to go beyond the concept of equality and achieve true equity in treatment, thus recognising individual specificities, the Group will continue to evolve its performance management, with the aim of making dialogue between team leader and team member increasingly effective, orienting it towards accountability regarding measurable objectives and greater delegation and autonomy in the organisation of work-related activities. Human resource management and development processes are designed to preserve the skills and distinctive values built up over time and, while also developing individual talents, regardless of gender and age, seeking innovation in all aspects that can generate added and sustainable value over time. In order to develop people's unique characteristics, targeted policies and programmes are foreseen to enhance inclusiveness and diversity, oriented at fostering a culture of innovation and continuous improvement. Creating more frequent and immediate moments for listening (e.g. pulse surveys, focus groups, etc.) aimed at grasping the intersectionality of people's characteristics, developing specific training programmes to recognise and remove bias, promoting a broad language that avoids prejudice and stimulating differentiated and accessible forms of communication are all priorities, to create a work environment that welcomes diversity and encourages everyone to be authentically themselves.

It is no coincidence that, in addition to retaining the Diversity management working group (introduced in 2011), Hera, a signatory of the Utilitalia Pact - Diversity makes the difference, will continue to promote

inclusive policies at all levels of its organisation, progressively refining measures to reconcile work-life balance and adopting a merit management system that is not only transparent, but above all neutral with respect to gender, age and cultural diversity, with the use of systems aimed at monitoring progress and internal and external awareness policies. This is proven by the achievement, in 2023, by the Group's main companies, of gender certification pursuant to the UNI PDR 125 reference practice.

1.02 RISK FACTORS: ACTORS, METHODOLOGY AND AREAS OF MANAGEMENT

1.02.01 Risk governance

The Hera Group's organizational structure is designed to uphold management effectiveness and profitability across the entire value chain while at the same time managing any risk exposure arising from its businesses.



Hera's corporate governance system enables strategies to be handled uniformly and consistently. The Risks Committee is the main policy-making, monitoring and reporting organ for risk management strategies. Additionally, under article seven of the Self-Governance Code, the Controls and Risks Committee oversees the internal auditing system, the efficiency of corporate operations, the reliability of financial reporting and compliance with laws and regulations, as well as the protection of company assets. In order to maximise the consistency of the management strategy, these bodies meet periodically. During 2023, the Risks Committee met four times and the Controls and Risks Committee met six times.

The Group has adopted a three-tier risk defence strategy, appropriately distinguishing between:

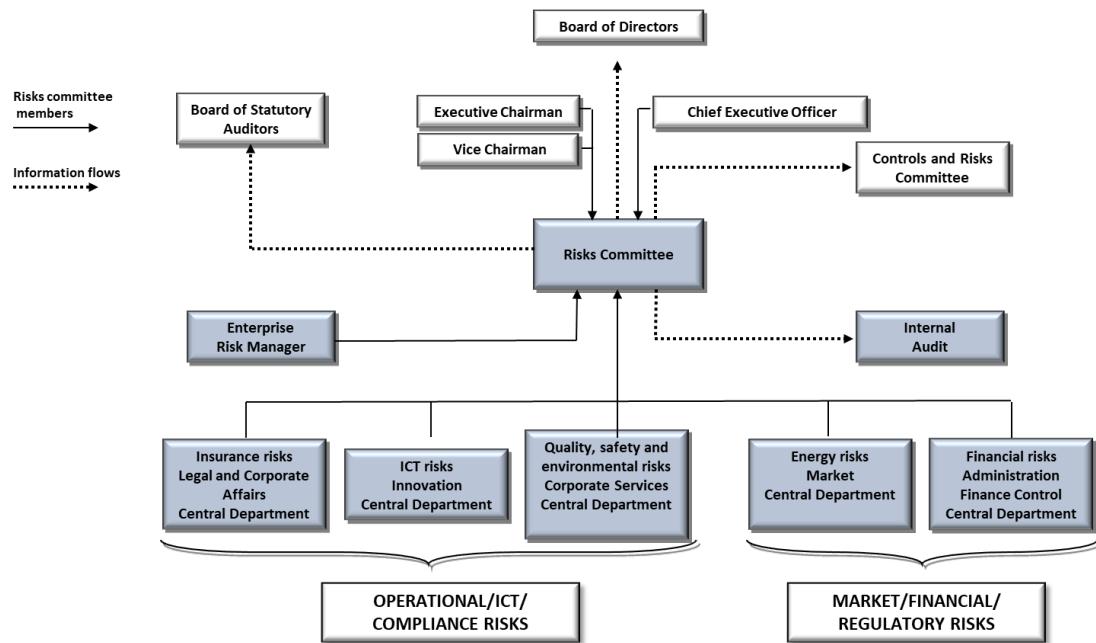
- the role of risk management, entrusted to the risk owners in charge of the various organizational sections;
- the role of risk guidance and control, entrusted to the Risks Committee, which relies on risk specialists who carry out second-level controls, i.e. who are responsible for defining, applying and updating risk analysis methodologies and carrying out control activities for the areas under their responsibility (review challenge and control);
- the role of assessing the effectiveness of risk management processes and the internal control and risk management system, entrusted to the Internal Auditing department.

The Risks Committee sets the general risk management guidelines, maps and monitors corporate risks, ensures that risk policies are set forth and outlines the information protocols targeted to the Controls and Risks Committee, the Internal Auditing management and the Statutory Auditors.

The Board of Directors approves the risk policies and measurement parameters, guides and assesses the adequacy of the internal control and risk management system. The Controls and Risks Committee supports the Board of Directors in defining internal control and risk management guidelines.

The Executive Chairman and the CEO supervise, each within their area of responsibility, the internal control and risk management functions. The Vice Chairman oversees coordination between the Risks Committee and the Controls and Risks Committee, maintaining an independent status.

The risk governance structure is outlined here below:



1.02.02 Management methodology

Hera has introduced the Enterprise Risk Management (ERM) process, to provide the Board of Directors with useful elements for assessing the nature of corporate risks and defining the Group's risk profile, particularly in the medium to long term. The definition of the risk profile is made explicit by the Board of Directors itself through the approval of the Group risk management policy and the risk limits established therein.

The risk management framework is formulated through three key elements:

- the **risk model**, which identifies the types of existing and emerging risks to which the Group is potentially exposed, and is subject to periodic review;
- the **Group's risk propensity**, which defines acceptable risk levels consistently with a given risk management strategy, through the identification of:
 - key risk factors;
 - risk metrics;
 - the limitations associated with each key risk;
 - 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, including 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 21 February 2024, the ninth Enterprise Risk Management report on the 2024-2027 Business Plan was presented to the Board of Directors. Over the course of 2023, the ERM analysis made further improvements, while at the same time not revealing any critical risks, either in terms of reputation or operating-financial impact.

In the area of significant risks, compared to the previous year, the possibility of a worsened net financial position due to the scenario involving a downgrading of the Group's rating to non-investment grade was added. Two scenarios present during the previous year were eliminated, concerning a deterioration of the net financial position due to extreme commodity price volatility and possible market criticalities for

the sale of receivables arising from energy efficiency initiatives, thanks to the appropriate actions implemented by the Group.

In the same area, the risk of a reputational impact deriving from possible proceedings undertaken by supervisory/regulatory/investigation bodies was confirmed, generated by the degrees of discretion on the start of verification/investigation procedures, in the presence of non-univocal interpretative guidelines (despite the Group's conduct always complying with the law), as was an operating-financial risk, deriving from high-intensity seismic events relating to networks.

The risk arising from the possibility of fires at waste treatment and recovery plants, while confirmed, has a negligible impact in terms of consequences on the Group's results and none whatsoever for the environment and business continuity. However, due to the growing social awareness on the issue, such events can lead to significant reputational consequences due to perceived risk.

As part of a process based on ongoing development and refinement of its control and risk management system, the Group's larger companies have adopted or are in the process of implementing a tax control framework model, in order to detect, measure, manage and control tax risk, understood as the risk of incurring violations of tax regulations or contrasting with the principles and purposes of the law. In particular, the Group has adopted a tax strategy that outlines the principles for managing tax variables and strategic lines aimed at ensuring compliance with regulations, as well as processes and procedures to mitigate tax risk, providing for a decision-making escalation correlated to the magnitude of the risk. The Board of Directors annually reviews the report on the progress of tax risk management and is the corporate body in charge of making final decisions should cases arise that present the highest risk profile due to uncertainty in legislative interpretation.

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 a constantly increasing attention towards climate change and sustainable development. Paragraph 1.01, "Contexts and trends, strategic approach and Group management policies", provides a detailed analysis of the factors constituting some of the fundamental prerequisites for identifying these risks.

In order to mitigate exposure to these risks, introduce optimisation measures (including technological and efficiency improvements) within current structures and develop strategic planning that offers coherent responses, Hera carries out the specific analysis, measurement, monitoring and management activities described below.

RISK TREATMENT AND MANAGEMENT

AREA	TYPE	IDENTIFICATION
OPERATIONS AND FINANCE	DEBT MARKET	Fluctuation in interest rates, exchange rates, credit spreads and liquidity crises.
	COMMODITY PRICE	Fluctuation in commodity prices.
	COUNTERPARTIES	Counterparties unable to meet the obligations undertaken, both in respecting the economic conditions and in the execution of contractual provisions.
BUSINESS AND REGULATORY	COMPETITIVE AND MACROECONOMIC	<p>Business activities involving increasing competition on the free market, carried out mainly in Italy, with an economic context of limited growth:</p> <ul style="list-style-type: none"> ▪ changes in energy consumption; ▪ reduced production of volumes of waste treated at Hera's plants, affecting the achievement of pre-set targets.
	REGULATORY AND LEGISLATIVE	<ul style="list-style-type: none"> ▪ Interventions by the regulatory Authorities of the sectors in which Hera operates; ▪ Regulatory interventions with a possible impact on both network / municipal waste collection and free-market businesses.
	STRATEGIC	<ul style="list-style-type: none"> ▪ Failure to achieve the strategic targets set in the long-term planning process; ▪ Loss of the necessary licenses, authorisations and permits for the regular performance of the company's activities.
CLIMATE AND THE ENVIRONMENT, TECHNOLOGY AND HUMAN CAPITAL	ENVIRONMENTAL-CATASTROPHIC AND CAUSED BY CLIMATE CHANGE	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Reduced occupational health and safety and limited social protection for workers; ▪ Skills mismatch; ▪ Reduced attractiveness of the workplace environment.

MANAGEMENT

- Diversified and optimised 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 a strong focus on skills and a single interface for constant market monitoring.
- Structured process of origination and selection of counterparties through credit checks;
- Constant monitoring of positions towards counterparties;
- Possible external transfer of risk through credit assignment.

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

- Communication with national and local authorities through an organizational structure designated for this purpose;
- Timely alignment of commercial offers with 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 handling multiple adverse risk scenarios following an enterprise-wide rationale;
- 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 on commitment in the area of climate change;
- Activating projects to promote the production and consumption of energy from renewable sources and reduce energy consumption;
- Support for customers in reducing their own greenhouse gas emissions;
- Incentivizing recovery strategies.

- Centralized and constantly operating network monitoring systems, with real-time detection of potential critical factors;
- Continuous technological assessment and improvement of the Security by Design process;
- Governance and organisational structures intended for this purpose and training;
- Monitoring of key Cyber Security indicators.

- Precise identification of hazards and assessment of emerging needs;
- Continuous and targeted initiatives to raise awareness about improving protection and prevention processes in terms of safety, and technical-regulatory training accompanied by training to develop risk perception awareness;
- Constant monitoring and identification of evolving needs in terms of skills, and qualitative adjustment of existing skills and those to be acquired;
- Establishment of a welfare system based on attention to people.

Operating and financial area

Identifying commodity price risk

The Group operates in an integrated manner in the supply and sale of electricity and gas at different stages of the value chain. Hera is therefore exposed to risks arising from the volatility of energy markets, which are only partially mitigated by an integrated assessment of these markets and associated management strategies. Energy market risks are centralised in the Central Market Department, which is responsible for the purchase and sale of electricity and gas.

Managing commodity price risk

In order to standardise the approach to risk taken by 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 these processes to achieve an effective management of procurement and hedging concerning the energy market, with a clear focus on the skills involved. The Group's approach provides for a single interface for the management of risk deriving from the energy market: Hera Trading. A unified risk management approach, in compliance with the assigned policies, provides advantages in terms of achieving higher levels of coverage, cost optimization by resorting less to the market, and greater flexibility in structuring procurement and supplying customers.

Identifying risks associated with the debt market

The operating and financial area, in addition to being characterised by fluctuating energy and commodity prices, may show different scenarios as a result of changes in interest rates, exchange rates, the credit spread and as an effect of possible liquidity crises. These fluctuations may have an impact on 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 it may only be able to do so on unfavourable economic terms, due to an inability to liquidate assets on the market, or due to a changed risk perception. Among the factors determining this perceived risk, the creditworthiness assigned to Hera by rating agencies plays a key role, as it influences the possibility of accessing sources of funding and the related economic conditions.

The Group's debt structure is not subject to financial covenants on debt balances, with the exception of the corporate rating limit (i.e. the assignment of a rating lower than BBB) defined on a portion of debt equal to approximately 150 million euro. On the other hand, with respect to the remaining outstanding debt, mandatory early repayment is provided for only in the event of a significant change of control over the Group, in the event that a concession is revoked (concession event), or assets are sold (sale of assets event), resulting in downgrading the Group to non-investment grade or lower, or terminating the publication of the rating.

Managing risks associated with the debt market

Hera's financial management is centralised in the Administration, Finance and Control Central 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 45% of the Group's financial debt is long-term (more than five years) and 83% of this is represented by bonds with repayment at maturity. See note 26 to the consolidated financial statements, "Non-current and current financial liabilities", for further details in terms of worst-case scenarios.

Moreover, the Group's activities and strategies are particularly focused on ensuring that the highest rating level is maintained, as appears in its BBB+ rating with a stable outlook confirmed by S&P, or the Baa2 rating with a stable outlook confirmed by Moody's.

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, where necessary, to reduce its exposure to interest and exchange rate fluctuations.

At 31 December 2022, the Group's exposure to the risk of interest rate fluctuations was 3.9%, while the remaining 96.1% of debt is at a fixed rate. A 1% increase in the benchmark interest rate with respect to the business plan scenario would increase financial expenses by an average of approximately 6.5 million euro per year.

Identifying risks from counterparties

Hera operates with counterparties that might fail to fulfil their obligations, unable to comply with either economic terms or any contract provisions (delivery of goods or services). Additionally, credit risk affects the Group across the board, above all in the areas where commercial activities are carried out: the sale of energy commodities and services, waste treatment activities and telecommunication services.

Managing risks from counterparties

Hera has provided itself with a structured origination process, formalised in specific credit risk management procedures; this process allows the Group to adequately select its counterparties through credit checks and requests for guarantees, where applicable. In addition, its positions in relation to the counterparties are regularly monitored while articulated, proactive actions are planned, including external risk relocation through credit transfer, where appropriate. Expected losses are constantly estimated and monitored; the Group employs measures of default probability, exposure at default and loss-given default developed on the basis of its own historical series, customer payment behaviour and current credit processes. In order to test the soundness of the models, both internal and external information is used that may serve as a benchmark for the evolution of the macroeconomic environment.

In 2023, the 24-month unpaid ratio related to invoices issued in 2022 of the Group's main sales companies amounted to 0.76%.

Regulatory and business area

Identifying competition and economic risks

Within the final reference market, which is mainly limited to Italy, the economic and geopolitical context, volatility in the prices of energy and other raw materials, as well as the difficulties connected to global logistics chains, all contribute to putting pressure on sales margins which, added to the increased competition on the free market, may impact the Group's profitability.

The difficulty in forecasting volumes to cover the needs of the sales portfolio, continuously changing, may furthermore require Hera to purchase or sell additional energy on potentially unfavourable terms.

A potential reduction in waste production, related to the economic context and European and national regulatory frameworks and from new trends in customer behaviour, together with the unavailability of treatment and recovery infrastructures, may have a negative impact on the Group's ability to pursue its objectives. The risks of the waste management business related to the management of its set of plants are concentrated in the Herambiente Spa.

Managing competition and economic risks

The Group has maintained elevated flexibility in energy commodity procurement sources while at the same time developing hedging activities to minimize exposure to operating risks from electricity generation, thus ensuring alignment with the market and maximising natural hedging.

In waste management and treatment activities, the Group's diversified plant equipment features technologies that are cutting-edge and high-performance in terms of environmental impact, which to date have enabled the Group to achieve its strategic objectives. The implementation of a circularity strategy – for example, through the polymeric material recycling process carried out by Aliplast Spa – and the development of recycling lines for other types of plastics make it possible to seize the opportunities offered by the evolution of European regulations.



Free-market businesses have gained increasing importance in the Group's portfolio, contributing significantly to its operating performance but also exposing it to growing competition. The Group responds to the challenge of competition by continuously innovating its sales offers and introducing new products in a timely manner, increasing its presence and customer base on the free market, and aiming to ensure the fulfilment of expectations in terms of service range and quality.

Risk analyses deriving from changes in the economic context (GDP and inflation) and energy market conditions (gas and electricity prices) make it possible to quantify the sensitivity of the Group's Ebitda to changes in primary operating and financial indicators.

In particular, a 1% reduction in GDP compared with the business plan's scenario would lead to an average annual drop in Ebitda coming to approximately 3.5 million euro.

A 1% reduction in the inflation rate compared with the business plan's scenario would lead to an average annual drop in Ebitda coming to approximately 13 million euro (regulated market). A 1€/MWh increase in the price of gas and an ensuing rise coming to 2€/MWh in the price of electricity on the wholesale market compared to the indications set out in the business plan would lead to an average annual drop in Ebitda coming to roughly 0.9 million euro.

Identifying regulatory risks

Hera carries out part of its activities in a regulated market, and its operations are therefore influenced by the regulatory measures taken by the sector authorities and the government (in particular concerning tariffs and market structure), the concessions granted by local authorities (for regulated activities relating to waste collection services, gas distribution, integrated water service and public lighting) and national authorities (for electricity distribution), as well as by the impacts expected from changes in the market structure and its liberalisation, and from the evolution of supply and demand in the energy and waste management sectors.

Periodic updates of the legislative and regulatory framework, both at national and European levels, may therefore significantly impact the sectors in which Hera operates, influencing its profitability as a consequence.

Regulatory risks impact network businesses (water cycle, gas and electricity distribution and district heating) and the municipal waste collection 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.

Tenders for gas distribution, the integrated water service, waste collection and street sweeping scheduled for the time covered by the Plan determine the risk of losing some of the areas currently managed, especially in contexts with a significant presence of competition, only partially offset by compensation for the portion of invested capital not yet amortized.

Managing regulatory risks

The Group's organisational structure liaises with national and local authorities and carries out extensive consultation with institutional stakeholders, actively taking part in working groups established by authorities and adopting a transparent, co-operative, proactive approach towards possible regulatory instability.

The Group operates by making the most of its technical skills and management efficiency. Indeed, Hera's focus on service quality, cost efficiency and innovation is a competitive strength in tenders for gas distribution, the integrated water service and waste collection and street sweeping services.

Identifying strategic risks

Strategic risks, associated with long-term planning, financial sustainability, 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.

Achieving 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 its Business plan against a variety of adverse risk scenarios, which supports an integrated risk projection from an enterprise-wide viewpoint. Thanks to this model, it is possible to perform scenario analyses, stress testing and what-if analyses 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.

Sensitivity analysis

Hera constantly monitors the authorisation processes and proactively participates in the working tables for obtaining permits, licences and authorisations, to avoid the possibility of jeopardising the regular performance of its activities.

Environmental-catastrophe, climatic, technological and human capital areas

Seismic, atmospheric and other climatic events may impact the Group's performance. Hera intends to continue valorising its resources and to ensure that they are preserved and developed, so as to continue to enjoy their benefits in the future. The physical and transitional risks linked to climate change, as well as accidents in plant equipment, may generate potential environmental damage, and therefore the operating and strategic implementation of best practices in risk management and the opportunities deriving from climate change, are a fundamental objective for the Group. Risks arising from cybercrime, which Hera also assesses in terms of their impact on service continuity, are also being given increasing attention. Since accidents may pose a risk to people's rights and freedoms, i.e. if they cause physical, material or immaterial damage, the Group's policies regarding the parameters and acceptability thresholds are published on its web portal.



The risk management approach is organised according to the specific areas in which environmental, technological and human capital risks occur.

Identifying environmental-catastrophe risks

Hera, while aware of the need to preserve natural resources, uses them to provide essential services to its customers. The Group's activities, in turn, make use of environmental, water and carbon resources, and adopting mitigation and adjustment measures to reduce environmental-catastrophe risks is therefore fundamental. In keeping with the ambitious goal to reduce current levels of greenhouse gas emissions compared to their current level, as set out by international organisations, the physical and transitional climate change risk scenarios relevant to the Group's activities have been identified. For further details, please refer to the next section, "Identifying climate change risks".



As regards the environmental standards with which Hera must comply in carrying out its businesses, 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 climate change, 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 by which these natural resources are affected by their very nature, in order to meet water demand.

In addition, note the risks stemming from the impact on the Group of weather variability in relation to the electricity and gas demand deriving from the various scenarios.

Managing environmental-catastrophe risks

Investments aimed at preventing and reducing the frequency of harmful events and measures to curb their severity, play a key role.



The Group's commitment to reducing carbon dioxide production began with reporting on its own performance and commitments in the area of 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 mitigating environmental risks by complying with the energy efficiency objectives set by national legislation 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 only 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. For example, the Rimini seawater safety plan, currently underway, in addition to maintaining the quality of marine resources, increases the resilience of the



stormwater drainage infrastructure in the event of extreme events. For further details on specific initiatives, please refer to the section "Mitigating climate change" in the Hera Group's Sustainability Report.

Hera has adopted an environmental control system that is effective both in terms of the governance of environmental certification processes and related audits, and in terms of the operational management of controls and surveys. The Group succeeds in tackling environmental hazards by constantly monitoring potential pollution factors and ensuring transparency in surveys, as well as through substantial investments in technological plants that ensure consistently better air and water quality than required by legal limits. For more details, see the sections on "Protection of air, soil and biodiversity" and "Sustainable water management" in the Sustainability Report. Moreover, in line with its circular economy strategy, Hera has already invested (and continues to do so in the medium-to-long term) in sorting, recovery and composting plants, increasing the amount of waste treated while at the same time reducing the use of landfills, thus anticipating the requirements of European and national regulations. For further details, see the "Transition to a circular economy" section in the Sustainability Report.

Strengthening the resilience of the Group's water supply and distribution system in a medium to long-term outlook continues. Furthermore, the reduction of the water footprint is pursued through the water management system, which aims to promote a 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 energy 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 scenario set out in the Business plan, would lead to an average annual drop in Ebitda of approximately 16 million euro.



Identifying climate change risks

The physical and transitional risks from climate change scenarios pertinent to the Group's activities have been classified according to their potential consequences on business, and submitted to further impact and mitigation assessments in relation to their criticality (some examples include extreme weather phenomena such as floods and droughts as well as health and economic risks).

Climate scenario analysis is a methodology to test the resilience of business plans under different assumed future developments. Hera selected the two most relevant scenarios, of which the IEA ETP 2DS transition scenario by the International Energy Agency, chosen as an ambitious climate scenario, envisages a future evolution characterised by strong decarbonisation processes in order to keep the temperature increase below 2°C: this scenario has been used in identifying transition risks. The IPCC RCP 8.5 physical scenario, chosen as a pessimistic scenario, instead envisages a "business-as-usual" trend and consequent sharp temperature rise (approximately 4°C): this scenario has been used in identifying physical risks.



Based on these scenarios, eight physical risks and eight transition risks were identified, associated with related business impacts:

Type	Causes
Physical risks	<ul style="list-style-type: none"> ▪ heat waves; ▪ abnormal winter temperature changes; ▪ flooding and floods resulting in landslides and mudslides*; ▪ extreme weather phenomena*; ▪ rising sea levels; ▪ changes in the timing of annual and average rainfall*; ▪ drying soils; ▪ rising temperatures*; the risk associated with decreased gas consumption and district heating for residential use as a result of an increase in temperature was also assessed as significant in the long term.
Transition risks	<ul style="list-style-type: none"> ▪ electrification of energy consumption and development of renewable energy sources*; ▪ introduction of measures requiring structural and non-structural efficiency upgrades*; ▪ limits on the production of greenhouse gas emissions*; ▪ an increase in the cost of raw materials and greenhouse gas emissions; ▪ stigmatisation of the sector in which the company operates, i.e. limited access to the capital market; ▪ absence and/or obsolescence of the highly specialised skills required by the market to develop new technologies or replace existing products; ▪ legal disputes; ▪ obsolescence of existing plants and the associated need to introduce new, more sustainable solutions/technologies.

*These are the most significant risks currently being addressed, as described in section 2.04, "Climate Change Mitigation", of the Sustainability Report.

Each risk and opportunity has been associated with a timeline, a priority level (defined as the combination of the probability that the context in which Hera operates will change and the impact of the risk/opportunity on the business) and consequent management methods and business initiatives, in the case of the opportunities identified. In particular, physical risks are distributed over two medium- and long-term periods, consistent with the principle that climate change impacts will become more evident in the medium-long term. Transition risks, on the other hand, are mainly concentrated in the medium term.



In order to assess potential impacts on the Group's assets deriving from extreme phenomena related to climate change, a flood risk analysis was completed in 2022, with a medium/long-term time projection. The results show that the average annual loss referred to timelines reaching 2030 and 2050, in accordance with the PCP 8.5 scenario, increases by 0.2 million euro and 0.5 million euro, respectively, compared to current conditions.

Risk assessment activities are also continuing with the appropriate level of detail, especially with regard to transition risks and their modelling. Based on the current analyses, there are no risks that could lead to the need for impairment losses on the Group's assets.

For assessments of the potential effects in terms of impairment tests, specifically in relation to gas consumption, see note 25 of the consolidated financial statements in Chapter 2.02, "Explanatory notes".

Managing climate change risks

Hera has launched a series of initiatives to mitigate the effects of climate change, and at the same time reduce its own carbon footprint. One or more management modalities have been associated with each risk: 21 management modalities have been identified for physical risks and 13 for transitional risks; some of the ensuing actions have already been integrated into the investments made, and included in the business plan. For further details, see the section "Hera for the climate" in the Sustainability Report. The investments and the mitigation and adaptation actions planned to date, defined on the basis of the energy transition towards carbon neutrality and the environmental transition towards a circular economy, as well as technological evolution, are in line with European strategies and the goals set out in the UN 2030 Agenda, have become part of the Group's modus operandi and are often carried out ahead of the estimated timeframe thanks to the Group's positive results.



Type	The Group's main initiatives/actions
Mitigation activities	<ul style="list-style-type: none"> ▪ reduction in internal energy needs through efficiency investments; ▪ specific investments for the growing role of renewable energy production, such as those planned in plants for biomethane production and initiatives to build electrolysis plants for producing green hydrogen; ▪ sales of renewable electricity and gas with compensated emissions; ▪ offers of photovoltaic generation systems; ▪ offers of energy efficiency services to retail and institutional customers; ▪ acceleration towards the reuse of raw materials through polymer recovery and regeneration activities with consequent reduction of CO2 emissions.
Adaptation activities	<ul style="list-style-type: none"> ▪ consolidation of the resilience of Group infrastructure to climate change, increasing its capacity to adapt to adverse physical conditions; ▪ development of project hypotheses for the integration and partial replacement of water sources, as well as the construction of interconnections between them, in order to deal with emergency conditions by 2030; ▪ interventions for district-based water networks and monitoring leakage; ▪ agreements and investments for the reuse of purified wastewater, reducing pressure on primary water resources and thus water stress on the area served, which will be accentuated by climate change in the coming decades.

Identifying operational and ICT security risks

Despite careful planning and insurance protection, negative externalities generated by exceptional events may jeopardise business continuity and increase the financial requirements for restoring normal operations. The provision of public utilities therefore requires both preventive activities and actions to counter interruptions, delays or poor service levels. Technological risks include the operational security of distribution networks (fluids and electricity), the logical security of information, the security of communication networks and information systems, and the reliability of remote-control systems. The main threats to on-premise systems (hosted in company data centres) or in the cloud include identity theft, phishing aimed at taking control of a personal computer and then attacking central systems, and attacks on exposed services such as public websites.

The security of the information used, produced and processed by the company depends on the way it is managed and the human and technological resources involved. The loss of confidentiality, integrity and availability of corporate information, whether business-critical information or personal information (i.e. any data relating to natural persons, as more fully defined by the European regulation GDPR and the privacy code of Legislative Decree 196/03) may result in serious financial losses with consequent damage to market image. A business impact analysis has been carried out on all ICT systems used by the Group, and a security risk analysis is carried out annually to identify and assess risk, using a methodology based on a framework that considers three areas of security: availability, integrity and confidentiality. Monitoring ICT performance and risks, using specific Cyber Security indicators, is a key aspect of security.

Managing operational and ICT security risks

The main service for managing operational risks is centralised network monitoring (remote control of fluids and the electricity grid), which ensures continuous real-time monitoring and supervision and, in some areas, remote management. In operational terms, centralised monitoring makes 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.

As regards IT security, the Group's Security Operation Centre is active, i.e. the centralised service for real-time monitoring of events affecting information systems, IT infrastructures and industrial areas (OT). In addition to this, as every year, testing activities continued in order to continuously assess the level of penetrability of exposed systems and network security, as well as carrying out training campaigns to raise the awareness of all Group employees.

During 2023, interventions continued to be implemented aimed at ensuring the confidentiality, integrity and availability of Hera's systems. One example, in the context of industrial plants, concerns the ongoing development of the cyber security monitoring model converging between the IT (information technology) and OT (operation technology) areas. In order to detect any vulnerabilities on systems or applications

that could be exploited by an attacker, vulnerability assessment activities also continued in the industrial plant area.

Identifying people's safety and development risks

People and their behaviour increasingly influence the effectiveness of corporate strategies. Protecting people thus remains a key element that must be reflected in workplace health and safety and in terms of social protection. The Group therefore continually focuses on the emerging needs and requirements of all employees.

Hera's structured process for identifying hazards and the related risk assessment in the area of health and safety concentrates on an analysis of roles, work activities, processes, workplaces, equipment, vehicles, plants and substances used. The risk mitigation measures adopted and the effectiveness of their implementation are periodically monitored and reviewed. In this regard, a specific checklist has been developed allowing the heads of the various organisational units to periodically monitor personnel behaviour.

With the aim of identifying, measuring and monitoring the risks that threaten the Group's assets and the continuity with which it provides essential services, a risk assessment model has been implemented for the physical security of these assets. This model aims to prevent and mitigate threats and impacts caused by events (malicious, culpable or accidental) such as fire, theft and acts of sabotage/vandalism.

Managing people's safety and development risks

In order to ensure worker health and safety and mitigate on-the-job injury risk, the Group is constantly committed to measures promoting better monitoring as well as to the enhancement of safety protection and prevention practices aimed at reducing the frequency and severity of accidents. The teaching methods chosen for worker training are no longer solely technical or normative, but geared towards developing self-awareness in the perception of risk and in adopting safe and aware behaviour.

The prevention and protection measures put in place by the Group aim to minimize the probability of an adverse event occurring, and lower the severity of the consequences following the event. It is of fundamental importance for Hera to develop workers' awareness of the risks associated with their work, and the company increasingly uses training courses that encourage people to gain greater awareness, modifying their own behaviour in terms of risk perception and becoming a virtuous example for other workers. Focusing on these aspects is an essential element of operations, in order to maintain a steady decrease in the number of injuries, the accident frequency rate, the severity rate and the number of days of absence due to injury. In this respect, the Group has obtained important certifications for occupational health and safety, such as ISO 9001 (quality management system), ISO 14001 (environmental management system) and ISO 45001 (health and safety on the workplace). The process of hazard identification and risk assessment and control is carried out in a preventive and proactive (rather than reactive) manner, in order to identify appropriate risk reduction and control measures.

The ongoing commitment shown by people and the integration of safety into processes and training are the cornerstones of the Group's safety culture. This strategic element of risk management is based on the premise that everyone is responsible for their own health and safety, as well as that of the people with whom they interact. This principle has been included in the procedure for managing the process of identifying hazards and assessing risks to the health and safety of workers. This procedure ensures that each employee promptly reports and halt any risky situation or unsafe behaviour. In addition, in 2023, the heads of the organisational units completed and managed approximately 5,000 control checklists, aimed at monitoring the measures adopted and potentially reporting the need for any improvements (for example, enhancing training for personnel).

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

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

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

1.03 MAIN EVENTS OCCURRED

07.03.2023

The Hera Group and **GranTerre** sign an agreement for energy efficiency and the decarbonisation of production processes which, partially thanks to a collaboration with CPL Concordia, will allow this food company to increase its self-produced energy from 27% to 50% of its requirements in five years.



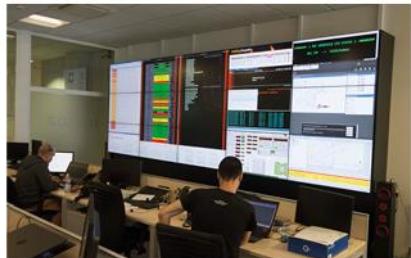
08.03.2023

The Hera Group, through its subsidiary Herambiente Servizi Industriali (Hasi), acquires 60% of **A.C.R. Reggiani**. This partnership marks the birth of Italy's largest operator in the environmental remediation and industrial waste global services sectors, with nationwide coverage.



14.04.2023

The Hera Group allocates over 1 billion in financing to the green transition thanks to its second sustainability-linked bond, worth 600 million euro and having a 10-year duration, and a 450 million euro **Sustainability-Linked Revolving Credit Facility**.



01.10.2023

The merger of **Asco TLC** into **Acantho** comes into force, following the acquisition on 14 March 2023 of 92% of Asco TLC by this Hera Group subsidiary and Ascopiave. Acantho takes over the management of telephone and data centre services, strengthening its position in the IT-TLC sector.

10.10.2023

The Hera Group inaugurates its approximately 1 MW photovoltaic plant at the depleted landfill in Galliera (Bologna), the first one entirely developed internally by Hera. It is expected to produce 1.37 GWh per year, equivalent to the consumption of over 500 households, saving 610 tonnes of CO₂.

10.11.2023

The Hera Group's shareholding in **EstEnergy**, the largest energy operator in the Northeastern Italy with over one million customers, rises to 75%, following the sale of a further 15% of the share capital by Ascopiave, having a value of 137.5 million euro.

11.05.2023

The Hera Group and Orogel establish the NewCo **Horowatt** to produce renewable energy by constructing, thanks to an investment coming to approximately 8 million euro, an innovative agrivoltaic plant that will meet 25% of the energy requirements of Orogel's Cesena plant.



29.06.2023

Hera Comm acquires 60% of **F.Ili Franchini**, which has a consolidated experience in technological systems for companies, public administrations and hospitality facilities, and in the production of high-yield renewable sources for public and private industrial clients throughout Italy.



06.07.2023

The Hera Group finalises its acquisition of **Tiepolo**, to construct a photovoltaic solar park in Bondeno (Ferrara), with an 8.9 MW capacity and production coming to 13 GWh/year. This investment falls within the Group's numerous initiatives to support decarbonisation and electrification of consumption.



09.12.2023

For the fourth consecutive year, the Hera Group is included in the **Dow Jones Sustainability Index, World and Europe**, achieving the highest rating in the Environmental and Social areas among companies in the Multi-Utility & Water sector.

12.12.2023

A memorandum of understanding is signed for the creation of a **hydrogen production hub** in Modena, built by the Hera Group and Snam, intended to produce up to 400 tonnes/year of renewable hydrogen, with a possibility for expansion. The aim is to contribute to the decarbonisation of Emilia-Romagna.

28.12.2023

Hera Spa is included by the Revenue Agency in the **cooperative compliance system**, pursuant to Legislative Decree 128/2015, starting from the fiscal year 2022. This inclusion responds to the growing interest shown by stakeholders and the company towards prudent and balanced tax policies.

Business and financial events

Agreement with GranTerre and CPL Concordia	<p>On 7 March 2023, the Hera Group and GranTerre, one of the main players in the made-in-Italy food sector (and the owner of brands such as Teneroni, Parmareggio and Senfter), signed an agreement for energy efficiency and production process decarbonisation, which, thanks in part to a collaboration with CPL Concordia, will allow the food group to increase its energy self-production from 27% to 50% of its needs over the next five years. This framework agreement is aimed at putting at the service of the food group the skills that Hera has developed over the years in the field of innovative and integrated solutions for energy efficiency, energy production and water cycle management. The Hera Group, including through its own ESCo Hera Servizi Energia (HSE), has the know-how not only to identify possible efficiency improvement opportunities, but also to see to designing and implementing the technological solutions required to achieve these efficiencies.</p>
Sustainability-linked bond	<p>On 20 April 2023, Hera Spa issued its second sustainability-linked bond with a nominal value of 600 million euro, repayable in ten years. This second sustainability-linked bond instrument, similarly to the one issued in 2021, met with great interest and requests for subscription came to roughly 2.7 billion, equivalent to 4.5 times the offer. The coupon is expected to have a fixed rate of 4.25%, while the yield at the time of issue is 4.31%. Starting from the interest payment date of 2032, a possible step-up (interest rate increase) has been foreseen in the event that the company does not meet the targets for reducing greenhouse gas emissions, measured in tonnes of CO₂ (0.30% rate increase), and increasing the amount of recycled plastic, measured in thousands of tonnes (0.20% rate increase). As described in the section dedicated to strategic approach, the Group aims to reduce greenhouse gas emissions by 37% by 2030 (compared to 2019) and increase the amount of recycled plastic by 150% by 2030 (compared to 2017). The bond was listed, as of the date of issue, on the regulated market of Euronext Dublin, on the regulated market of the Luxembourg Stock Exchange and on the ExtraMOT Pro multilateral trading system of Borsa Italiana.</p>
Photovoltaic plant built over landfill	<p>On 10 October 2023, the Hera Group inaugurated an approximately 1 MW photovoltaic plant built on the roof of the depleted landfill in Galliera (BO). This new photovoltaic plant consists of 2,498 panels with a total power output coming to approximately 1 MW, and is expected to produce 1.37 GWh of electricity per year, equivalent to the consumption of more than 500 households, with lower carbon dioxide emissions coming to 610 tonnes. The energy produced, net of self-consumption, will be fed into the grid. The Galliera plant is the first to be developed in-house by the Hera Group, from design to construction, and it fully complies with national and regional guidelines that promote the implementation of similar projects on depleted landfills, areas which are difficult to convert to other uses, through incentives and simplifications. In the case of the Galliera landfill, an incentive was obtained that will stabilise the value of the energy fed into the grid for a 20-year period.</p>
Biomethane	<p>On 19 October 2023, a biomethane production plant was inaugurated in Spilamberto, in the province of Modena, built by the company Biorg, born out of a partnership between Herambiente Spa and the company Inalca (Cremonini Group), an Italian leader in meat production and food product distribution. The total investment, amounting to approximately 28 million euros, allowed a biodigester to be reconverted and fuelled by input coming from sorted organic waste collection and agri-food waste. When fully operational, the plant will produce 3.7 million cubic metres per year of biomethane, a 100% renewable fuel for automotive use, and approximately 18 thousand tonnes of compost.</p>
Dow Jones Sustainability Index	<p>With a communication released on 8 December 2023, the Hera Group was confirmed, for the fourth consecutive time, as part of the Dow Jones Sustainability Index, which includes the listed companies showing the best performances in Environmental, Social and Governance & Economics factors. As in past editions, Hera was included in both the global and European indices. In particular, the Group achieved the highest rating in the Environmental and Social areas among all companies in the Multi-Utility & Water sector included in the indices.</p>
IdrogeMo	<p>On 12 December 2023, a memorandum of understanding was signed in Modena for the creation of a hydrogen production hub, built by the Hera Group and Snam, capable of producing up to 400 tonnes of hydrogen from renewable sources per year, with the possibility of future expansion to increase production. The aim is to contribute to the decarbonisation of Emilia-Romagna, creating a true Hydrogen Valley. This document was also signed by the Municipality of Modena, Seta, Unimore, Agenzia per</p>

I'Energia e lo Sviluppo Sostenibile (AESS), Consorzio Aree Produttive (CAP), Agenzia Nazionale per le Nuove Tecnologie, Energia e Sviluppo Sostenibile (ENEA), Democenter Sipe Foundation and the Chamber of Commerce of Modena.

This project, called IdrogeMO, involves a total investment coming to over 20 million euro.

In late December 2023, Hera Spa was included by the Italian Revenue Agency in the collaborative compliance system, pursuant to Legislative Decree 128/2015, starting from the 2022 tax year. The collaborative compliance system, which is further strengthened by the tax reform currently being implemented, involves constant and preventive communications with the Italian Revenue Agency in order to gain certainty as regards complex tax issues. Thanks to this type of interaction, ensured by an effective internal tax risk control system (Tax Control Framework), the Tax Authority carries out its analyses in a preventive and continuous way.

Inclusion in the collaborative compliance system

Hera Spa's inclusion in the collaborative compliance system responds to the growing interest shown by stakeholders and the company towards prudent and balanced tax policies, and ensures a proper reinforcement of good corporate governance as regards interactions with the Italian Revenue Agency.

Significant corporate operations

A.C.R. Spa

On 8 March 2023, the Hera Group, acting through its subsidiary Herambiente Servizi Industriali Srl, acquired 60% of the company A.C.R. di Reggiani Albertino Spa (A.C.R. Spa), headquartered in Mirandola (Modena) and one of Italy's leading companies operating in the remediation, industrial waste treatment, industrial plant decommissioning and oil & gas-related civil works sectors. This operation created the leading national operator in remediation and global service activities, with a widespread presence throughout the country. The synergies between the Hera Group's set of plants and its multi-business strategy, and A.C.R.'s consolidated experience in environmental and industrial reclamation, are unique nationwide in terms of know-how and waste treatment capacity, and are able to create significant and positive economic impacts in the sectors in which the two companies operate. Through its subsidiary Herambiente Servizi Industriali, the Hera Group now manages 18 multi-purpose sites dedicated to the treatment of waste produced by companies and processes 1.3 million tonnes of industrial waste every year.

Asco TLC

The Hera Group, acting through its subsidiary Acantho Spa, and Ascopiave Spa were awarded the public tender called by Asco Holding Spa for the sale of 92% of the shares in Asco TLC Spa, held by Asco Holding itself and by the Treviso-Belluno Chamber of Commerce. The partnership between Ascopiave and Acantho called for a shareholding in this tender involving 60% and 40% respectively. Asco TLC, a company operating since 2001 and providing ICT services mainly to corporate customers and public administrations, owns a significant local network, located in the Veneto and Friuli-Venezia Giulia regions and extending for over 2,200 km of fibre optics, with 56 radio broadcasting bridges and 24 xDsl exchanges in unbundling, and provides its services to more than 2,700 customers. The closing of this transaction, following the fulfilment of the conditions precedent called for by the procedure, came about on 14 March 2023.

On 1 October 2023, the deed of merger by incorporation of Asco TLC into Acantho Spa was signed. This operation, in addition to representing a strategic step for the Hera Group in the evolution of its ICT business portfolio, consistently with its business plan, will enable it to achieve significant operational and commercial synergies and to provide customers with increasingly broader, more efficient, innovative and competitive solutions in terms of both costs and sustainability.

Other corporate operations

Horowatt

On 11 May, Hera Spa and Orogel Società Cooperativa Agricola established the company Horowatt Srl. Thanks to an investment coming to roughly 7 million euro, an innovative agrivoltaic plant will be built, capable of producing 7.8 thousand MWh per year, equivalent to 20% of the energy needs of Orogel's Cesena plant and paving the way for future initiatives aimed at exploiting all the possibilities of agriculture 4.0. The agrivoltaic plant, which will be constructed on a 13-hectare plot of land owned by the cooperative opposite its headquarters in Cesena, will be built and managed by Horowatt and will be integrated with the existing cogeneration plant built and managed by Hera Servizi Energia Spa.

This project's objectives include experimenting with a virtuous coexistence between agrivoltaic technology and agricultural crops, without consuming soil and creating synergies with the crops, which will be protected from drought and excessive temperatures and will benefit from greater soil moisture. The photovoltaic panels will be mounted on metal structures at a height of approximately three metres, sufficient to allow all agricultural activities to take place underneath. Moreover, thanks to a sophisticated mechanism integrated with sensors on the ground, the panels will be oriented not only to follow the sun's rotation, guaranteeing maximum production efficiency, but also to meet specific agricultural needs, benefiting the crops below.

F.II Franchini On 29 June 2023, Hera Comm Spa acquired 60% of F.II Franchini Srl, a Rimini-based company with consolidated experience in design, installation and maintenance of all types of technological systems for companies, public administrations and hospitality facilities. This company has been active for 17 years in producing high-yield renewable energy sources for public and private industrial customers throughout Italy. This partnership with a long-standing operator, active both locally and nationally, will enable the Hera Group to acquire new technical skills, particularly in the photovoltaic market, expand its portfolio of solutions for business customers, and respond to the growing demand for plant solutions using renewable sources, thus further strengthening its position in the Italian energy market.

Tiepolo On 6 July 2023, the Hera Group completed the acquisition of Tiepolo Srl, owned by Combigas and Greenfield Renewables, which developed a project for constructing a photovoltaic solar farm in Bondeno (Ferrara). This plant, which will have a capacity of 8.9 Megawatts and will produce roughly 13 GWh/year when fully operational, is one of the Hera Group's numerous projects aimed at producing renewable energy and is already included in the business plan, to support citizens, businesses and public administrations in the decarbonisation and electrification of consumption.

Significant events occurred after the reporting period

TRS Ecology On 25 January 2024, a binding agreement was signed for the purchase by Herambiente Servizi Industriali Srl of 70% of TRS Ecology, a multifunctional platform for special waste treatment located in Caorso (PC). When this new plant is fully operational, the Hera Group will treat more than 64 thousand additional tonnes of industrial waste per year. The acquisition of TRS Ecology, which employs over 70 people and has roughly 2,700 customers, will allow the Hera Group to expand its presence in the North-West, creating significant synergies with its industrial hubs already operating in the provinces of Pisa, Ravenna and Vicenza.

STG tender In February 2024, the Hera Group was awarded seven lots in the national tender called by the Single Purchaser related to the end of the protected electricity market. With this result, the Group, through its subsidiary Hera Comm Spa, will be the new operator, as of 1 July 2024, of the Gradual protection electricity service (STG) for non-vulnerable household customers in 37 Italian provinces, amounting to a total of over 1.1 million new electricity customers and thus consolidating its position as the third largest operator in this sector in Italy.

1.03.01 May 2023 flood events

The flood that struck a significant portion of Emilia-Romagna from 1 to 3 May and from 16 to 17 May had a devastating impact on the region and some neighbouring areas.

The flooding affected 44 municipalities in Emilia-Romagna, mainly in the provinces of Ravenna, Forlì-Cesena, Rimini, Bologna, Modena and Reggio Emilia.

Heavy rainfall caused 23 rivers to overflow and flooded an area of 450 square kilometres, while more than 1,100 hydrogeological instabilities and landslides occurred in the area of the Tuscan-Emilian and Tuscan-Romagna Apennines.

These calamitous events also affected the northern provinces of the Marche region (Pesaro and Urbino, Ancona, Macerata and Fermo), as well as some municipalities in Tuscany (Fiorenzuola, Marradi, Palazzuolo sul Senio and Londa).

Faced with this emergency, the Hera Group took immediate action to restore the services provided in the areas affected by the disaster to their normal operations as quickly as possible, including gas distribution, electricity, district heating, public lighting, the integrated water service and waste collection and disposal. In particular, a continuous presence was guaranteed thanks to the immediate establishment of a task force involving more than a thousand operators and 250 vehicles that worked on plants and provided support to the populations affected, collaborating with the Civil Protection and police forces.

Overall, more than 100,000 tonnes of waste were collected in the affected areas. This waste has almost entirely been disposed of, generated as a result of the flooding and equivalent to the amount normally collected in the same areas over a ten-month period. Furthermore, integrated water, gas distribution, district heating and public lighting services have been restored for almost all customers. More specifically, approximately 25 thousand integrated water service users were disconnected, while 4,550 lighting points and 25 thousand gas meters were damaged and 15 power stations were flooded.

At present, an estimate of the costs caused by the disaster, which takes into account both the initial emergency interventions and the damage suffered to plants, amounts to about 96.6 million euro, about half of which is related to network services and the remainder to waste management services.

To deal with the flood, the Group immediately activated association channels, the regulatory authority (ARERA), local regulators (EGATO) and the Emilia-Romagna region, to direct actions supporting families and businesses, as well as identifying the instruments guaranteeing the recognition of the above-mentioned costs and the maintenance of operating-financial balance.

The Government, with Decree Law No. 61 of 1 June 2023 (converted with amendments into Law no. 10031 July 2023), allowed the municipalities affected to suspend the terms of payment of the Tari due in the period from 1 May 2023 to 31 August 2023, and mandated Arera to regulate the procedures for the temporary suspension of the terms of payment of invoices issued, or to be issued, or payment notices due in the aforementioned period, relating to the following services: gas, electricity, water and waste. Subsequently, with resolution 390/2023/R/com of 03/08/2023, the 31 August deadline was extended to 31 October.

Responding to this decree, ARERA set the period for suspension of bill payment terms at four months (starting in May), established the possibility of automatically paying them by instalments, without discrimination and without applying interest, without prejudice to the right of customers to pay in a single instalment, or to pay the amounts due according to an instalment plan to be agreed with the supplier.

In order to ensure the companies' operating-financial balance, ARERA also established a mechanism of free advances, payable by CSEA, with the first report to be prepared as of 10 July 2023. Subsequent statements have been submitted within the 15th of each month, until the end of October. To date, the credit for bills issued and overdue, but not yet paid, amounts to approximately 5.2 million euro for the Group.

With the Presidential Decree of 10 July 2023, Lieutenant General Francesco Paolo Figliuolo was appointed as extraordinary commissioner for the reconstruction. On 25 September 2023, the commissioner issued Ordinance No. 6 defining the emergency interventions qualified for government financing and the relative disbursement methods. In particular, attachment A of this decree lists 374 interventions having a Hera Group company as implementing party, with a total estimated amount of approximately 75.5 million euro. The decree also provides for the possibility of requesting:

- 40% of the amount as an advance;
- the balance if: a) an acceptance or regular performance certificate, or a substitute declaration, can be produced; b) final SALs and receipted warrants/invoices/receipts are available.

At 31 December 2023, note that all costs generated by environmental hygiene interventions have been accounted for and, to a large extent, also reported as a balance to the commissioner structure, amounting to 29 million euro. Full financial coverage has already been recognised for these interventions.

With regard to the other services, expert appraisals are underway to assess the necessary interventions and the resources required to cover them, which will initially have to come from the insurance policies taken out by the Group while, at a later time, the difference will be covered by the commissioner's contribution. In this regard, note that, at 31 December 2023, the Group had collected, in consideration of the estimated damage suffered and/or the recording of costs sustained, 10 and 16.5 million euro respectively from the insurance company and the commissioner's structure (against the issuance of specific guarantees).

Lastly, on 5 February 2024, the Extraordinary Commissioner issued a second Ordinance (17/2024) aimed at financing additional safety measures, including those for the integrated water service (nine

interventions, amounting to approximately 13 million euro) and waste management services (one intervention, coming to approximately 0.3 million euro). As regards the gas distribution service, safety interventions (three interventions, with a total of 3.6 million euro) should be financed by a further ordinance to be issued in the near future.

These ordinances, along with Ordinance No. 6 mentioned above, will make it possible to achieve almost complete coverage of the costs estimated concerning the damage suffered by the Group.

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

Alternative performance measures (APMs)

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

The Hera Group determines its operating indicators for the reporting period by classifying as 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. At the same time, certain accounting items are adjusted using a managerial valuation criterion, if and when the latter facilitates the analysis of certain specific business trends. In light of the fact that the managerial adjustments referred to above have an impact on the balance sheet, their effects are provided as an adjustment of the financial indicators described below.

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

The managerial adjustments indicated in the calculation of the single APMs are described, if present, in a specific table provided in the section below entitled "Special items and operational adjustments / balance sheet reconciliation", as are any operating, financial and fiscal special items.

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.

Adjusted Ebitda (hereinafter referred to as Ebitda*) is calculated based on Ebitda, as described above, adding or subtracting managerial adjustments.

Ebit is calculated by subtracting operating costs from operating revenues. Among operating costs, special operating items are deducted from amortisations and provisions.

Adjusted Ebit is calculated based on Ebit, as described above, adding or subtracting any managerial adjustments.

Adjusted pre-tax results are calculated by subtracting the financial operations shown in the balance sheets from adjusted Ebit, as described above, net of any special financial items.

Adjusted net results are calculated by subtracting from adjusted pre-tax results, as described above, the taxes shown in the balance sheets minus special fiscal items and the fiscal effect of any operational adjustments.

Results from special items (if present in the current report) are aimed at drawing attention to the result of the special item entries.

Adjusted net profit is calculated by adding the result from special items to the adjusted net result, as described above. This indicator therefore includes any managerial adjustments used to bring certain accounting valuation items back into line with managerial criteria.

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

Net investments are the sum of investments in tangible fixed assets, intangible assets and equity investments net of capital grants.

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 (including managerial adjustments).

Adjusted net working capital is made up of the sum of: inventories (adjusted to reflect the different managerial value of gas storage); trade receivables and payables; current tax receivables and payables;

other assets and other current liabilities; and 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”.

Adjusted net invested capital is defined by calculating the sum of “adjusted net fixed assets”, “adjusted net working capital” and “provisions”.

Adjusted net equity is obtained by adding the economic effects of managerial adjustments, net of deferred taxes, to the equity that appears in the balance sheets.

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

Adjusted sources of financing are obtained by adding “net financial debt” and “adjusted net equity”.

Operating- financial APMs

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

Adjusted funds from operations (FFO*) are calculated beginning with Ebitda, subtracting provisions for doubtful accounts, financial charges, uses of severance pay reserves and 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 taxes, net of any special items and the fiscal effect of any operational adjustments.

The **Adjusted FFO/Net debt indicator** (FFO*/Net debt), expressed as a percentage, provides a measurement of the operating management's ability to pay back its net financial debt.

Adjusted ROI, or return on net invested capital, is defined as the ratio between adjusted Ebit, as described above, and adjusted 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.

Adjusted ROE, or return on equity, is defined as the ratio between adjusted net results and adjusted 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 adjusted Ebit, 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;
- divestitures;
- financial charges and financial income (****);
- current taxes.

(*) net of the effects arising from the fair value measurement of commodity derivatives recognised as cash flow hedges and net of any changes in NWC arising from changes in the scope of consolidation.

(**) minus releases from provisions and increases caused by modifications in estimated future expenses following revised appraisals for operating landfills.

(***) net of fiscal effects related to the cash flow hedge accounting of hedging derivatives.

(****) minus the effects of discounting deriving from the application of accounting standards IAS 37 and IAS 19 and the profits coming from associated companies and joint ventures, plus the dividends received from the latter, and gains/losses from transferred shareholding (excluding special items, if present).

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

Operating APMs and investments (mn€)	Dec 23	Dec 22	Abs. change	% change
Revenues	14,897.3	20,082.0	(5,184.7)	(25.8)%
Adjusted Ebitda	1,494.7	1,295.0	199.7	+15.4%
Adjusted Ebitda/revenues	10.0%	6.4%	+3.6 p.p.	+0.0%
Adjusted Ebit	741.0	627.9	113.1	+18.0%
Adjusted Ebit/revenues	5.0%	3.1%	+1.9 p.p.	+0.0%
Adjusted net profit	417.0	372.3	44.7	+12.0%
Adjusted net profit/revenues	2.8%	1.9%	+0.9 p.p.	+0.0%
Net investments	779.2	688.7	90.5	+13.1%
Financial APMs (mn€)	Dec 23	Dec 22	Abs. change	% change
Adjusted net non-current assets	8,119.2	7,522.3	596.9	+7.9%
Adjusted net working capital	166.0	1,096.0	(930.0)	(84.9)%
Provisions	(705.9)	(657.6)	(48.3)	+7.3%
Adjusted net invested capital	7,579.3	7,960.7	(381.4)	(4.8)%
Net financial debt	(3,827.7)	(4,249.8)	422.1	(9.9)%
Operating-financial APMs	Dec 23	Dec 22	Abs. change	
Adjusted net debt / Ebitda	2.56	3.28	(0.72)	
FFO/Adjusted net debt	25.6%	21.4%	+4.2 p.p.	
Adjusted ROI	9.8%	7.9%	+1.9 p.p.	
Adjusted ROE	11.1%	10.0%	+1.1 p.p.	
Adjusted cash flow	485.8	(865.3)	1,351.10	

Special items and managerial adjustments / IFRS balance sheet reconciliation

As described in detail in the Consolidated financial statements at 31 December 2022, which may be consulted for a complete discussion, starting from the previous year, and as a supplement to the statements drafted in accordance with IFRS standards, the Group's management held it appropriate to present the results by valuing the natural gas inventories according to a managerial criterion, in order to provide a representation that is consistent with the market context, which showed significant and sudden changes in prices with respect to previous trends.

At the end of the first quarter of 2023, at the conclusion of the winter and as a result of the sale of the expected flows, the previous valuation differential was fully recovered. Therefore, this had an effect on the change in inventories recorded in the income statement, but not on the value of inventories recorded in the balance sheet. The following period of injection, which began in the second half of March and continued until the end of the year, was also subject to a double valuation process, consistent with the approach used during the previous year. From an accounting point of view, in particular, all gas deliveries made during the injection period were considered according to a calculation of the average carrying cost, regardless of their destination, while from a managerial point of view, only the procurement flows identified as having the purpose of injection into storage were considered. On the basis of this managerial valuation, and as part of the balanced management of its portfolio, the Group introduced the appropriate hedges, corresponding not only to the planned withdrawals that occurred in the first quarter of 2024, but also those that are expected for the last quarter of the same year.

The combined effect of sharply decreasing prices and the timespan required for filling resulted in an accounting valuation that was higher than the managerial valuation, since purchases that from a managerial point of view are intended for sale to end customers also had to be taken into account in the balance sheets. This means that the book value of stored gas at 30 June 2023 was higher than the net sale value, identified in the managerial valuation that represents the basis for the hedges mentioned above. Consequently, in order to bring the book value into line with the sale value, a write-down was introduced and recorded in the income statement (which in any case is irrelevant from a managerial point of view, since the value is already equivalent).

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

mn€	Dec 23			Dec 22		
	Published statement	Managerial adjustments	Managerial statement	Published statement	Managerial adjustments	Managerial statement
Revenues	14,897.3		14,897.3	20,082.0		20,082.0
Other operating revenues	667.8		667.8	548.2		548.2
Raw and other materials	(9,672.2)	(93.0)	(9,765.2)	(16,730.0)	94.1	(16,635.9)
Service costs	(3,655.9)		(3,655.9)	(2,105.8)		(2,105.8)
Personnel costs	(641.1)		(641.1)	(601.1)		(601.1)
Other operating expenses	(90.3)		(90.3)	(74.9)		(74.9)
Capitalised costs	82.1		82.1	82.5		82.5
Ebitda	1,587.7	(93.0)	1,494.7*	1,200.9	94.1	1,295.0*
Amortization, depreciation and provisions	(753.7)		(753.7)	(667.1)		(667.1)
Ebit	834.0	(93.0)	741.0*	533.8	94.1	627.9*
Financial operations	(177.6)		(177.6)	(125.0)		(125.0)
Pre-tax result	656.4	(93.0)	563.4*	408.8	94.1	502.9*
Taxes	(173.2)	26.8	(146.4)*	(103.5)	(27.1)	(130.6)*
Net result	483.2	(66.2)	417.0*	305.3	67.0	372.3*
Result from special items		-	-	-	-	-
Net profit	483.2	(66.2)	417.0*	305.3	67.0	372.3*
Attributable to:						
Adjusted Parent company shareholders	441.4	(66.2)	375.2*	255.2	67.0	322.2*
Non-controlling interests	41.8		41.8	50.1		50.1

* Adjusted results, as described above

As regards 2023, the change in inventories related to gas storage was adjusted by 93 million euro, resulting in a positive tax effect coming to 26.8 million euro. In this way, the valuation differential recorded at the end of the previous year, as illustrated above, was fully recovered. In 2022, instead, the change in inventories related to gas storage was adjusted by 94.1 million euro, resulting in a negative tax effect coming to 27.1 million euro.

The table below shows the impact on the balance sheet of the managerial adjustments made to gas storage:

mn€	Dec 23		Dec 22			
	Published values	Managerial adjustments	Managerial values	Published values	Managerial adjustments	Managerial values
Net non-current assets	8,119.2		8,119.2	7,549.1	(26.8)	7,522.3*
Net working capital	166.0		166.0	1,003.0	93.0	1,096.0*
Provisions	(705.9)		(705.9)	(657.6)		(657.6)
Net invested capital	7,579.3		7,579.3	7,894.5	66.2	7,960.7*
Equity adjusted	(3,751.6)		(3,751.6)	(3,644.7)	(66.2)	(3,710.9)*
Net financial debt	(3,827.7)		(3,827.7)	(4,249.8)		(4,249.8)
Total sources of financing	(7,579.3)		(7,579.3)	(7,894.5)	(66.2)	(7,960.7)*

* Adjusted results, as described above

With reference to 2023, as illustrated above, the accounting and managerial values of storage are equivalent. With reference to 31 December 2022, the value of inventories was adjusted by 93 million euro, with an ensuing negative tax effect coming to 26.8 million euro, which determined a positive impact on equity amounting to 66.2 million euro overall.

1.04.01 **Operating results and investments**

For the Hera Group, 2023 closed with improvement in operating results and investments compared to the previous year. Adjusted Ebitda came to 1,494.7 million euro, up 15.4%; adjusted Ebit increased by 18.0%, and adjusted net profits rose by 12.0%. As regards investments as well, significant growth was seen, coming to 13.1% compared to 2022, reflecting the Group's ongoing focus on the growth, valorisation and reinforced resilience of the assets under management. Lastly, the financial structure showed significant improvement compared to 2022, with Net debt/Ebitda reaching 2.56x.

Growth in operating results and investments

These 2023 results must be considered against an external scenario that showed less volatility in energy commodity prices, allowing the Hera Group to operate once again in a more stable market context, even if not yet similar to the one prior to the crisis. In addition, the Group has shown strong resilience when faced with the extreme weather and climate phenomena that occurred in the areas it serves.

The Group's performance is still driven by its multi-business strategy, balanced between regulated and free market activities, with a focus on sustainability and the circular economy. The Hera Group pursues this model through both internal growth and the opportunities offered by the market thanks to external development, with the aim of providing customers with innovative, competitive and increasingly complete solutions.

In particular, note that in 2023 the Hera Group continued to expand the scope of the business areas in which it operates. In the waste management area, a second biomethane production plant located in Spilamberto (MO), became fully operational, and 60% of A.C.R. di Reggiani Albertino Spa was acquired. The latter is an important company operating nationwide in the remediation, industrial waste treatment, industrial plant decommissioning and oil & gas-related civil works sectors. More detailed information on this topic is provided in paragraph 1.07.04.

In the IT-TLC area, the Group's acquisition with Ascopiaive of 92% of Asco TLC Spa – later followed by the merger by incorporation of this company into subsidiary Acantho – strengthened Hera's connectivity, telephony and data centre services in more than one region.

Finally, in the energy area, the Ferrara-based company Tiepolo Srl was acquired, for the construction of a photovoltaic solar park in Bondeno, and 60% of Rimini-based F.Ili Franchini Srl, involved in installing plumbing and electrical systems and photovoltaic solutions for business customers.

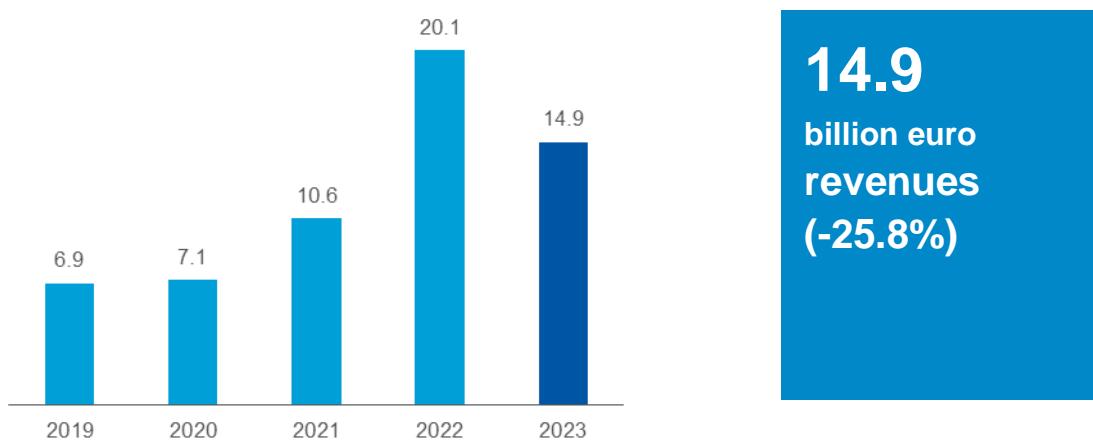
Lastly, note the establishment of Horowatt Srl, the Hera Group and Orogel's NewCo for the construction within 2024 of a sustainable, state-of-the-art agrivoltaic plant inside the Cesena facilities of this agricultural cooperative.

Also note that Hera Comm Spa was awarded two of the nine lots of the safeguarded service for 2023 and 2024, one lot more (two overall) than in the previous two-year period, and was awarded one of the 12 lots of the gradual protected service for supplying electricity to micro-businesses for the period from 1 April 2023 to 31 March 2027. More detailed information on this topic is provided in paragraph 1.07.02.

The following table shows operating results at 31 December 2023 and 2022:

Income statement (mn€)	Dec 23	% Inc.	Dec 22	Inc. change	Abs. change	% change
Revenues	14,897.3	0.0%	20,082.0	0.0%	(5,184.7)	(25.8)%
Other operating revenues	667.8	4.5%	548.2	2.7%	119.6	21.8%
Raw and other materials	(9,765.2)	(65.6)%	(16,635.9)	(82.8)%	(6,870.7)	(41.3)%
Service costs	(3,655.9)	(24.5)%	(2,105.8)	(10.5)%	1,550.1	73.6%
Other operating expenses	(90.3)	(0.6)%	(74.9)	(0.4)%	15.4	20.6%
Personnel costs	(641.1)	(4.3)%	(601.1)	(3.0)%	40.0	6.7%
Capitalised costs	82.1	0.6%	82.5	0.4%	(0.4)	(0.5)%
Ebitda*	1,494.7	10.0%	1,295.0	6.4%	199.7	15.4%
Amortization, depreciation and provisions	(753.7)	(5.1)%	(667.1)	(3.3)%	86.6	13.0%
Ebit*	741.0	5.0%	627.9	3.1%	113.1	18.0%
Financial operations	(177.6)	(1.2)%	(125.0)	(0.6)%	52.6	42.1%
Pre-tax result*	563.4	3.8%	502.9	2.5%	60.5	12.0%
Taxes	(146.4)	(1.0)%	(130.6)	(0.7)%	15.8	12.1%
Net result*	417.0	2.8%	372.3	1.9%	44.7	12.0%
Result from special items	-	0.0%	-	0.0%	-	100.0%
Net profit for the period*	417.0	2.8%	372.3	1.9%	44.7	12.0%
Attributable to:						
Parent company shareholders*	375.2	2.5%	322.2	1.6%	53.0	16.5%
Non-controlling interests	41.8	0.3%	50.1	0.2%	(8.3)	(16.6)%

* Adjusted results, as described in paragraph 1.02

REVENUES (bn€)

Revenues in December 2023 dropped by 5,184.7 million euro compared to 2022. The energy segments showed a 5,570 million euro decrease, mainly due to the drop in energy commodity prices and lower gas volumes due to lower trading activities and the mild weather seen during the year, despite the eight lots awarded out of nine in last resort gas supplier service (for customers with public service activities or without a supplier) for the period from 1 October 2023 to 30 September 2025 (compared to six lots awarded in the previous tender), the confirmation of all nine lots of the default gas distribution service (for customers in arrears) for the period 1 October 2023 - 30 September 2025 and the three lots awarded out of twelve in the Consip GAS15bis tender for supplying natural gas to Public Administrations in 2023-24 (compared to two lots in the previous tender).

This decrease was partially offset by higher volumes of electricity sold, thanks to the commercial development actions, the awarding of four of the seventeen lots of the Consip EE20 tender for supplying electricity to public administrations in 2023 (confirming the results of the previous tender) and the two safeguarded lots.

In addition, growth was seen in turnover for energy services, related to energy efficiency in residential buildings (insulation bonus and 110% super-bonus) and an increase in activities for value-added services for customers. As a whole, these effects contributed with roughly 421 million euro.

Lastly, revenues in the waste management sector contributed to this growth with 85.9 million euro, and increase due in particular to the acquisition carried out in the industry market.

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

Other operating revenues in December 2023 increased by 119.6 million euro compared to 2022, mainly due to higher revenues from contracts on assets under concession and energy efficiency certificates.

Costs for raw and other materials decreased by 6,870.7 million euro compared to December 2022. This decrease is mainly due to the performance of energy revenues, linked to the decrease in energy raw material prices, due to the more stable markets seen over the past year and the lower volumes of gas traded and sold, as mentioned above.

Costs for raw materials linked to the trend in revenues

Other operating expenses increased by 1,565.5 million euro (higher service costs amounting to 1,550.1 million euro and higher operating expenses coming to 15.4 million euro). Roughly 950 million euro overall in higher costs for gas transport and storage and system charges were recorded. The latter, which during the previous year had been set at zero to deal with the energy crisis, were fully reinstated, as indicated in paragraphs 1.07.01 and 1.07.02. Energy services for energy efficiency and value added services saw higher costs for works coming to 395 million euro. These were accompanied by higher costs for waste collection and treatment coming to approximately 140 million euro, mainly due to the previously mentioned corporate acquisitions, higher transport costs and increased activities in developing new

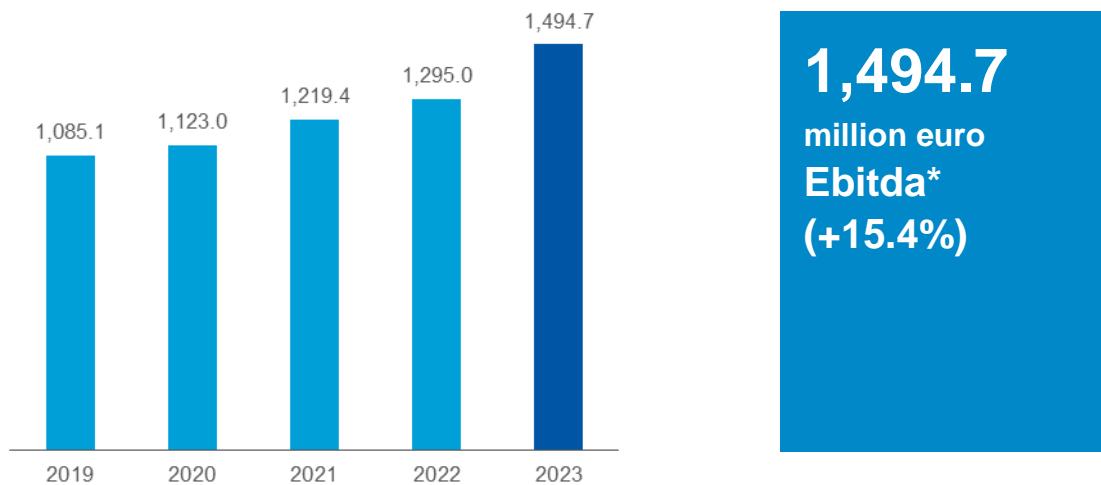
sorted waste collection projects. In addition, higher costs were related to orders on goods under concession coming to roughly 19 million euro, and to an increase in prices for all main services.

Personnel costs increased by 6.7% compared to December 2022, amounting to 40.0 million euro. Approximately 30.0 million euro of this increase was due to the change in the scope of consolidation generated by the corporate acquisitions described above. Net of this event, the increase in personnel costs was limited to 1.7%, caused by the salary increases required by the national collective labour agreement.

+1.7%
personnel
costs, net of
changes in the
scope of
operations

Capitalised costs were essentially in line with the previous year.

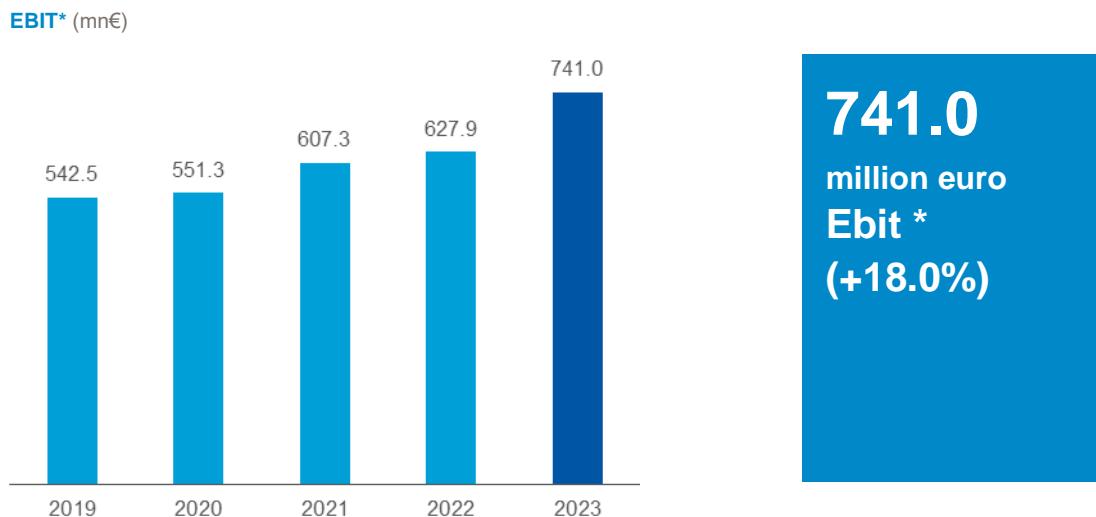
EBITDA* (MN€)



Adjusted Ebitda rose by 199.7 million euro compared to 2022, up by 15.4%. This trend is due to the 169.4 million euro overall contribution coming from the energy areas, the good performances of the waste management area, up 15.4 million euro, and lastly the 9.5 million euro contribution from the water cycle and the 5.4 million euro contribution from other services.

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

Amortisation, depreciation and provisions at 31 December 2023 increased by 86.6 million euro year-on-year, up 13.0%, mainly due to new operating investments, an increase in activities for the acquisition of new customers, and changes in the scope of consolidation arising from the consolidation of companies involved in remediation and waste treatment activities or specialised in the construction of technological plants and renewable energy. Allocations to the provision for bad debts increased, reflecting the increase in the Group's customer base in the various service areas.



Adjusted Ebit amounted to 741.0 million euro, up 18.0% compared to 2022, showing a higher level of growth than Ebitda*, since amortisation, depreciation and provisions, as described above, increased to a lesser degree than the rise in Ebitda*.

Financial operations increase

The result of financial operations increased by 52.6 million euro compared to 2022. This change is due to the increase in average annual indebtedness that became necessary, particularly in the first six months of the year, to deal with the increased investment in working capital created by the significant increase in energy commodity prices and their volatility seen in the previous year. This was accompanied by a gradual increase in the cost of money in financial markets, brought about by the ECB's restrictive monetary policies. The liability management activities carried out by the Group during 2023 allowed it to progressively contain the changes seen in financial charges, optimising the financial structure, while strengthening its flexibility and capacity to respond effectively to any future abnormal volatility.

The adjusted pre-tax result showed a 12% increase compared to December 2022. The growth deriving from Ebit was only partially offset by the trend in financial operations mentioned above.

The taxes for 2023 shown in the managerial statement amounted to 146.4 million euro, up from 130.6 million euro in 2022. The 26% tax rate was essentially in line with the previous year. In this comparison, note that in both years the benefits arising from the redemption of the higher value arising from certain acquisitions were recognised, as well as the tax credits recognised for the purchase of electricity and gas, pursuant to Decree-Law 4/2022 and subsequent measures which are not relevant for tax purposes. Furthermore, the taxes accrued in 2022 included the "non-recurring contribution against high utility bills" provided for by Law No. 51/2022, which converted Article 37 of Decree-Law No. 21/2022, amounting to 2.3 million euro.

Tax rate at 26.0%

As a result of all the events described above, adjusted net profit increased by 44.7 million euro compared to the figure seen in December 2022.

+12.0%
Net profit*

At the end of 2023, the Group's cumulative net investments amounted to 779.2 million euro, up 90.5 million euro year-on-year.

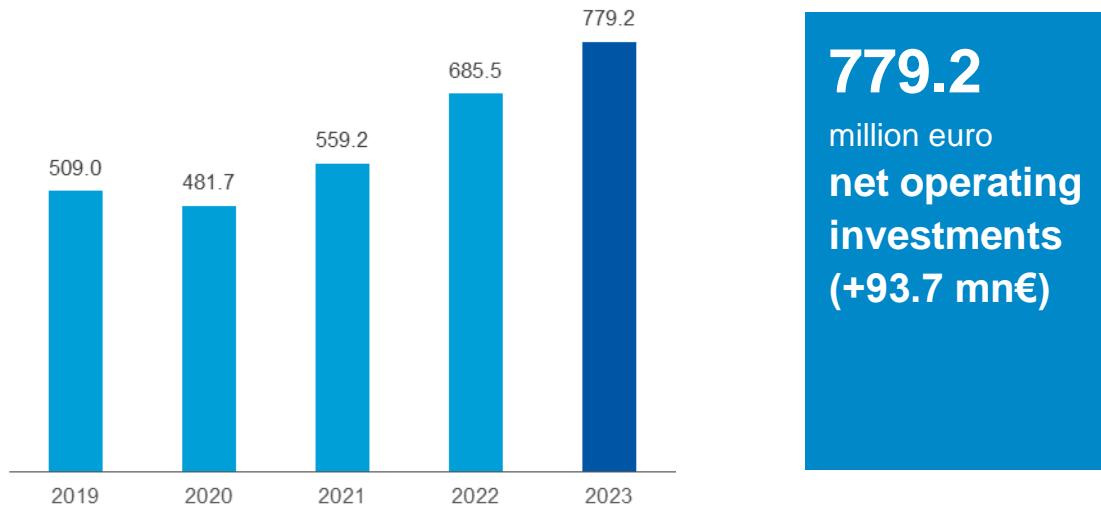
Net investments rise to 779.2 million euro

Capital grants amounted to 36.5 million euro, of which 19.5 million euro related to FoNI investments, as foreseen by the tariff method for the integrated water service, and increased by a total of 12.6 million euro year-on-year.

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

Total investments (mn€)	Dec 23	Dec 22	Abs. change	% change
Gas area	191.8	156.7	35.1	+22.4%
Electricity area	124.5	78.3	46.2	+59.0%
Integrated water cycle area	228.2	208.0	20.2	+9.7%
Waste management area	150.8	149.2	1.6	+1.1%
Other services area	13.8	15.3	(1.5)	(9.8)%
Headquarters	106.7	102.1	4.6	+4.5%
Total gross operating investments	815.8	709.5	106.3	+15.0%
Capital grants	36.5	23.9	12.6	+52.7%
of which FoNi (New Investments Fund)	19.5	17.4	2.1	+12.1%
Total net operating investments	779.2	685.5	93.7	+13.7%
Financial investments	-	3.2	(3.2)	(100.0)%
Total net investments	779.2	688.7	90.5	+13.1%

TOTAL NET OPERATING INVESTMENTS (mn€)



Including capital grants, the Group's operating investments amounted to 815.8 million euro, up 106.3 million euro on the previous year, and mainly related to works on plants, networks and infrastructures. In addition, regulatory upgrading was done, especially in the gas distribution sector for the large-scale metre replacement, and in the purification and sewage sector.

Comments on investments in the individual areas are provided in the analysis by business area.

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures.

Overall, structural investments amounted to 106.7 million euro, up by 4.6 million euro compared to the previous year, mainly due to renewals on company fleets and investments in Group IT systems.

1.04.02 Financial structure and adjusted net debt

What follows is an analysis of trends in the Group's net invested capital and sources of financing at 31 December 2023.

Invested capital and sources of financing (mn€)	Dec 23	% inc.	Dec 22	% inc.	Abs. change	% change
Net non-current assets*	8,119.2	+107.1%	7,522.3	+94.5%	596.9	+7.9%
Net working capital*	166.0	+2.2%	1,096.0	+13.8%	(930.0)	(84.9)%
(Provisions)	(705.9)	(9.3)%	(657.6)	(8.3)%	(48.3)	(7.3)%
Net invested capital*	7,579.3	+100.0%	7,960.7	+100.0%	(381.4)	(4.8)%
Equity*	(3,751.6)	+49.5%	(3,710.9)	+46.6%	(40.7)	(1.1)%
Long-term borrowings	(4,315.4)	+56.9%	(5,598.5)	+70.3%	1,283.1	+22.9%
Net current financial debt	487.7	(6.4)%	1,348.7	(16.9)%	(861.0)	(63.8)%
Net financial debt	(3,827.7)	+50.5%	(4,249.8)	+53.4%	422.1	+9.9%
Total sources of financing*	(7,579.3)	(100.0)%	(7,960.7)	+100.0%	381.4	+4.8%

* adjusted results, as indicated in the section on Alternative performance measures (APMs)

Net working capital* amounted to 166 million euro at the end of 2023, down compared to 1,096 million euro at the end of 2022. This change was affected by the fair value of commodity derivatives, which increased by 233.4 million euro compared to the previous year, with a corresponding impact on equity for hedging contracts recognised as cash flow hedges and, to a lesser extent, on the income statement for the year for trading derivatives. The changes in net working capital that led to a corresponding impact in net financial debt were mainly due to:

- the fall in energy commodity prices compared to 2022, which resulted in a lower cash absorption of net working capital;
- the lower value of gas storage, both in terms of prices and volumes, which at 31 December 2023 amounted to 114.6 million euro, compared to 561.5 million euro at 31 December 2022, showing a 446.9 million euro reduction;
- the increase in trade receivables of the company Hera Servizi Energia Srl, due to the rise, in December, of turnover for works incentivised by tax bonuses, coinciding with the deadline for benefitting from the 110% super-bonus incentives;
- the decrease in VAT position coming to 78.2 million euro (due to a 61.1 million euro payable at 31 December 2023, and a 17.1 million euro receivable at 31 December 2022).

166
million euro
Net working
capital*

As concerns the value of trade receivables, there were no critical issues on the performance of collections, which in some market segments were better than the previous year thanks to the continuous and careful control of credit management processes including during the acquisition of contracts (origination management).

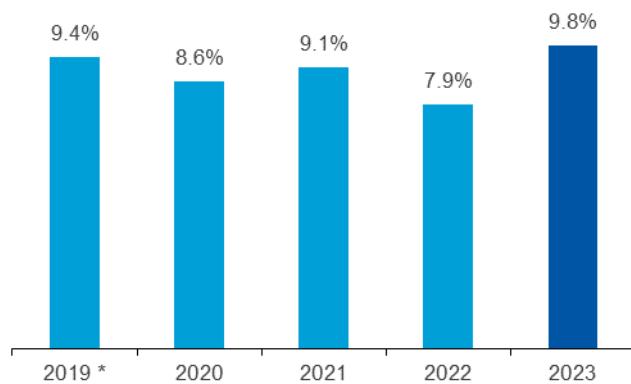
In 2023, provisions amounted to 705.9 million euro, up from 657.6 million euro at the end of the previous year. This result is mainly the consequence of provisions for the period and adjustments to the post-mortem provisions for landfills and restoration of third-party assets, which more than offset releases for utilisation.

705.9
million euro
Provisions

Equity* rose from 3,710.9 million euro in 2022 to 3,751.6 million euro in 2023, increasing the Group's solidity thanks to the positive net result from operations in 2023, amounting to 417.0 million euro, and the change in minority interests, which more than offset the reduction in cash flow hedge reserves, dividend payments and changes in treasury shares.

3.8
billion euro
Equity*

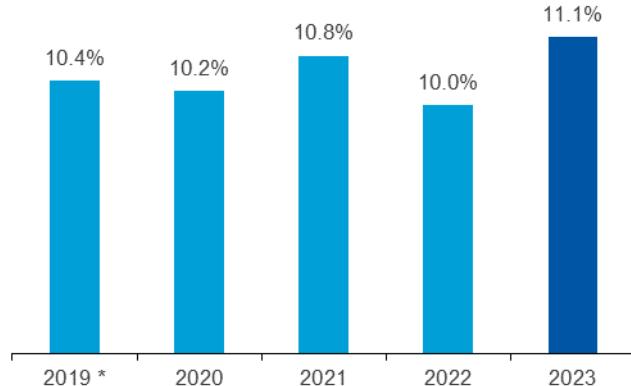
Adjusted return on net invested capital (ROI*) settled at 9.8% in 2023, up compared to 2022 ROI, which came to 7.9%, due to the increased result from operations (Ebit) and a fall in net invested capital (NIC), caused by the positive impact of the changes in net working capital*.

ROI * (%)

9.8%
ROI *

* adjusted for non-recurring entries and the Ascopiaive transaction

The results of management led to a return on equity (ROE) coming to 11.1%, up from the amount seen in 2022. This increase was due to the rise in profits for the period, which was greater than the growth in equity.

ROE* (%)

11.1%
ROE *

* adjusted for non-recurring entries and the Ascopiaive transaction

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

mn€		31 Dec 23	31 Dec 22
A	Cash holdings	1,332.8	1,942.4
B	Cash equivalents	-	-
C	Other current financial assets	90.9	77.7
D	Liquidity (A+B+C)	1,423.7	2,020.1
E	Current financial debt	(411.9)	(563.0)
F	Current portion of non-current financial debt	(524.1)	(108.4)
G	Current financial indebtedness (E+F)	(936.0)	(671.4)
JH	Net current financial indebtedness (G+D)	487.7	1,348.7
I	Non-current financial debt	(703.9)	(1,997.0)
J	Debt instruments	(3,391.2)	(3,197.3)
K	Non-current trade and other payables	-	-
L	Non-current financial indebtedness (I+J+K)	(4,095.1)	(5,194.3)
M	Total financial indebtedness (H+L)	(3,607.4)	(3,845.6)
	Non-current financial receivables	162.8	151.8
	Net financial debt (excluding put option)	(3,444.6)	(3,693.8)
	Nominal amount - fair value put option	(337.2)	(475.9)
	Net financial debt with adjusted put option	(3,781.8)	(4,169.7)
	Portion of future dividends - fair value put option	(45.9)	(80.1)
	Net financial debt (Net debt)	(3,827.7)	(4,249.8)

Total net financial debt amounted to 3,827.7 million euro, down by approximately 422.1 million euro compared to the previous year, thanks to the positive performance of net working capital.

With a view to rebalancing its net working capital, the Group continued, on a routine basis during the year, to reschedule trade payables, by means of letters of credit, totalling 404.6 million euro (506.3 million euro in the previous year). At the end of the financial year, the amount of outstanding transactions amounted to 187.9 million euro (192 million euro at the end of the previous year). By means of these transactions, the Group optimised its payment terms, while keeping the same amount recorded under trade payables, since this is part of its typical working capital management. Note, in fact, that the Group has trade payables, with different payment terms, based on the contractual agreements defined with the individual counterparties of the various businesses in which it operates, ranging from 7 days to 60 days from the date of invoice issuance.

The financial structure showed total current indebtedness coming to 936 million euro, up 264.6 million euro compared to the previous year.

Current financial debt amounted to 411.9 million euro, down by 151.1 million euro, mainly due to the lower impact of payables related to the daily fair value adjustment of commodity derivatives. The amount recorded at December 2023 includes payables to banks coming to 92.6 million euro, referring to utilisations of account lines coming to roughly 20.7 million euro and accruals for interest on loans amounting to 71.9 million euro. In addition, 154.1 million euro in financial payables were recorded, related to the gas settlement for the provisional adjustment session that occurred in 2023. For more details, see Note 19, "Financial liabilities", in Section 2.02.04, "Equity and financial structure", of the consolidated financial statements.

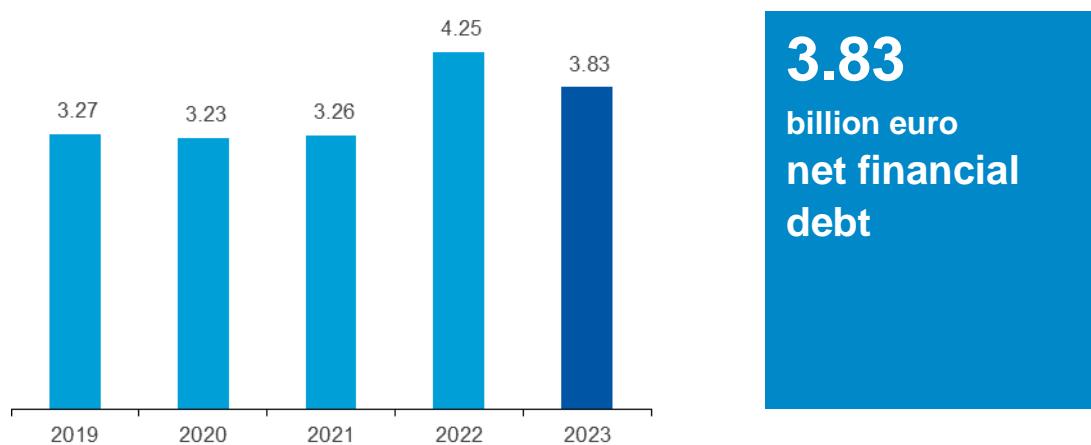
The current portion of non-current financial debt came to 524.1 million euro, up 415.7 million euro, and included 438 million euro in bonds maturing in 2024 (149.8 million euro Aflac Bond and 288.3 million euro residual Green Bond). This also included 24.5 million euro in current payables for leasing contracts.

Non-current financial debt decreased by 1,099.2 million euro compared to the previous year, due to the repayment of 750 million euro in loans and the classification in the non-current portion, with subsequent early repayment, of a 500 million euro bridge loan taken out in 2022. This figure includes a new 600 million euro sustainable bond issue (Sustainability-Linked Bond), which was finalised in April 2023, and also decreased due to the reclassification of 438 million euro of maturing bonds to short-term debt. Note that, in order to guarantee any extraordinary liquidity needs, a 450 million euro sustainable revolving line with a duration of five years was in any case stipulated with a primary pool of banks, as was a 460 million euro credit line with a duration of sixteen years and a three-year availability period, with the EIB. These new lines were not yet used at 31 December 2023.

A decrease occurred in cash holdings, which were down from 1,942.4 million euro in 2022 to 1,332.8 million euro at 31 December 2023, as a result of the cash flow from operations and the liability management transactions carried out on debt.

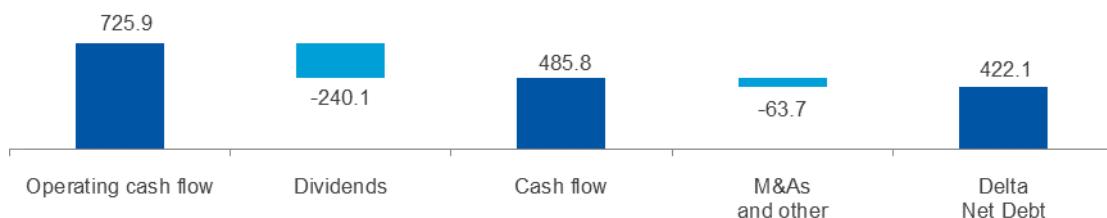
At 31 December 2023, 83% of medium- and long-term debt consisted of bonds with repayment at maturity. Total medium- and long-term debt, 96% of which is fixed-rate, had an average residual maturity coming to approximately five years and two months, with 46.3% of debt maturing after five years.

NET FINANCIAL DEBT (NET DEBT) (bn€)



Core business operations generated positive operating cash flows amounting to 725.9 million euro, which fully financed dividend payments and contributed to financing all shareholding acquisitions, including the acquisition of 60% of A.C.R. Spa, operating in the waste management sector, 60% of the Rimini-based company F.Ili Franchini Srl, operating in the technological plants and renewable energy sector, and 36.8% of Asco TLC Spa, a company providing ICT services, later merged into Acantho Spa.

CASH FLOW (mn€)



The Net debt/Ebitda* ratio for 2023 fell to 2.56x, as against 3.28 in 2022, returning to the level seen prior to the crisis in energy markets.

NET DEBT / EBITDA* (X)



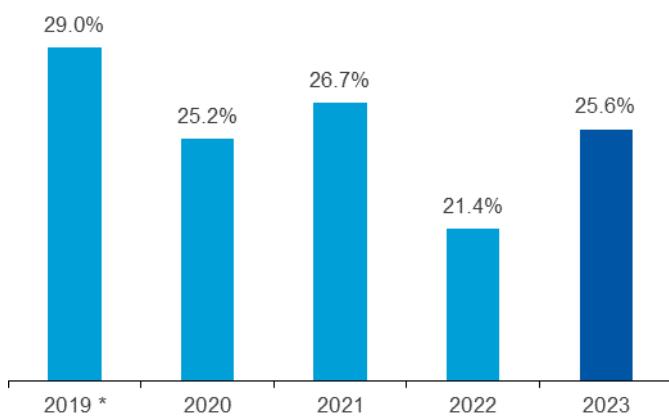
2.56x

**Net debt /
Ebitda***

* adjusted for non-recurring entries and the Ascopiaive transaction

The FFO*/Net debt ratio settled at 25.6%, confirming the Group's financial solidity and its ability to meet its financial obligations.

FFO* / NET DEBT (%)



25.6%

FFO*/ Net debt

* adjusted for non-recurring entries and the Ascopiaive transaction

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€)	2023	2022	% change	% change
Revenues	1,741.4	1,666.3	75.1	4.5%
Ebitda	310.1	288.4	21.7	7.5%
Operating profit	133.9	127.3	6.6	5.2%
Net profit	244.8	271.0	(26.2)	(9.7)%

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

Despite the unfavourable period caused by the socio-economic context, the Parent company's Ebitda showed its ability to take advantage of the opportunities arising from the economic recovery, more specifically the decrease in costs mainly due to the drop in the energy scenario recorded in 2023 compared to the exceptional rise seen in 2022, from which lower costs per unit ensued. For further details, see paragraph 1.07, "Analysis by business area".

A summary of the adjusted financial information at 31 December 2023 compared to the 31 December 2022 data, is provided below:

Analysis of invested capital and sources of financing (mn€)	31 Dec 23	%	31 Dec 22	%	Abs. change	% change
Net fixed assets	3,988.8	108.1%	3,864.7	109.0%	124.1	3.2%
Net working capital	(131.7)	(5.1)%	(154.6)	(6.1)%	22.9	(14.8)%
Gross invested capital	3,857.1	104.5%	3,710.1	104.6%	147.0	4.0%
Other provisions	(166.0)	(4.5)%	(164.4)	(4.6)%	(1.6)	1.0%
Net invested capital	3,691.1	100.0%	3,545.6	100.0%	145.4	4.1%
Total equity	2,584.8	70.0%	2,530.3	71.4%	54.5	2.2%
Net financial debt	1,106.3	30.0%	1,015.3	28.6%	91.0	9.0%
Sources of financing	3,691.1	100.0%	3,545.6	100.0%	145.5	4.1%

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

- Research and development activities:
 - see paragraph 1.06 of the Directors' report, "Sustainability Results".
- Relations with subsidiaries, associates, parent companies and companies controlled by the latter:
 - as required by article 2428, paragraph 3, point 2 of the Italian Civil Code, see the financial statements contained in paragraph 3.03, 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 2023, in addition to changes in these that occurred in 2023, see Note 16 of paragraph 3.02.04 and the statement of changes in equity, paragraph 3.01.05, part of the separate financial statements of Hera Spa.
- Foreseeable changes in management:

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

1.05 SHARE PERFORMANCE AND INVESTOR RELATIONS

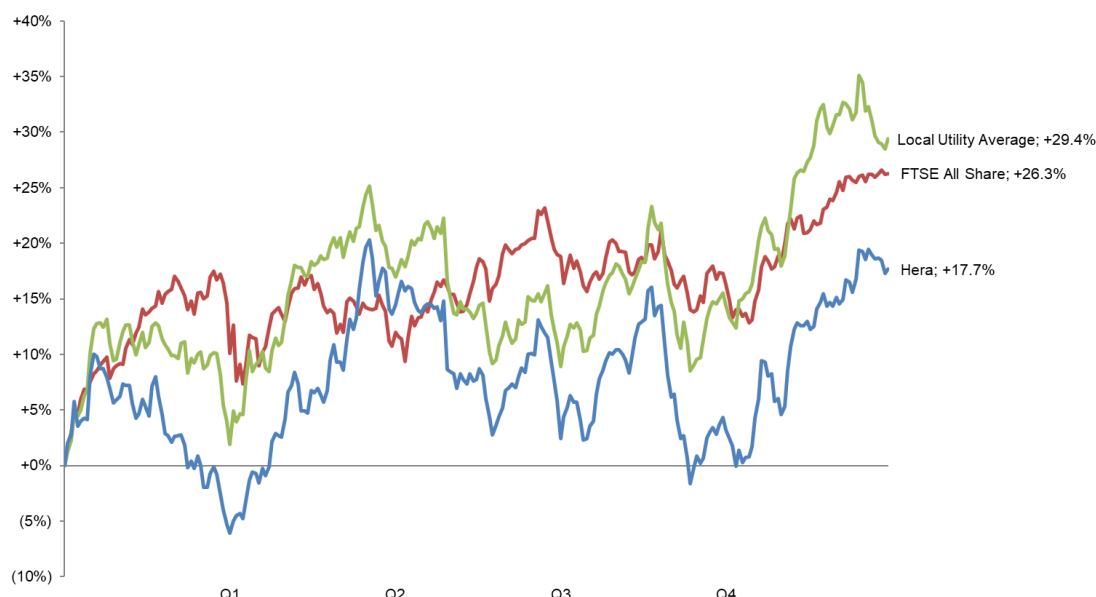
Financial markets recover the losses seen in 2022

In 2023, all main stock markets performed positively, recovering from the heavy losses seen during the previous year, impacted by the energy crisis triggered by the conflict in Ukraine and the end of expansionary monetary policies. Even in a context in which central banks continued the cycle of rate increases to control inflation, investors looked favourably towards both the reduction in energy commodity prices, as the crisis gradually normalised, and the macroeconomic data, which, while pointing towards an economic slowdown, dispelled fears of a deep recession. Indeed, as a reflection of the pandemic period and the more recent Ukrainian conflict, growth continues to be underpinned by expansionary fiscal policies, with investments directed mainly at the energy transition and defence.

Italian market best in Europe

Against this backdrop, the Italian FTSE All Share index rose by 26.3% over the period, showing the best performance among the major European stock exchanges, supported by the brilliant performance of banking stocks, whose results benefited from the European Central Bank's interest rate hike. Hera stock closed the year with an official price of 2.976 euro, up 17.7% year-on-year. This positive performance appeared against a higher average figure for local utilities, which benefited from a positive scenario due to their power generation business, which is not a significant activity within Hera's portfolio.

2023 HERA STOCK, LOCAL UTILITY SECTOR AND ITALIAN MARKET PERFORMANCE COMPARISON



Dividend rises to 12.5 cents per share

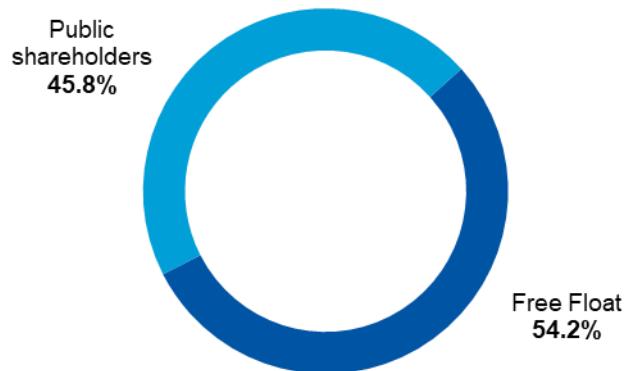
Hera's Board of Directors, which met on 21 March 2023 to approve the year-end results for 2022, decided to propose to the Shareholders Meeting a dividend per share coming to 12.5 cents, up 4.2% and consistent with the indications contained in the business plan. Following the approval of the shareholders, given during the Shareholders Meeting held on 27 April 2023, the ex-dividend date was set at 19 June, with payment on 21 June. Hera thus confirmed its ability to remunerate shareholders thanks to the resilience of its business portfolio, which has enabled it to pay steady and growing dividends since its listing.

+281% in total shareholders return since the IPO

The joint effect of continuously remunerating shareholders through dividends and a rise in the price of the stock over the years allowed the total shareholders return accumulated since the IPO to remain consistently positive and to stand at over +280.7% at the end of the reporting period. The number of financial analysts covering the stock (Banca Akros, Equita Sim, Exane Bnp Paribas, Intermonte, Intesa Sanpaolo, Kepler Cheuvreux and Mediobanca) increased thanks to the coverage by Banca Akros, which gave a positive opinion, and almost unanimously expressed positive opinions, with

Consensus target price: a target price that continued to show significant potential. At the end of the year, the consensus target price came to 3.49 euro, showing a 17.3% upside potential.
3.49 euro

SHAREHOLDER BREAKDOWN AT 31 DECEMBER 2023



At 31 December 2023, the shareholding breakdown showed its usual stability and balance, with 45.8% of shares belonging to 111 public shareholders located across the areas served and brought together by a stockholders agreement, renewed for three further years and effective from 1 July 2021 to 30 June 2024, and a 54.2% free float. The shareholding structure includes high number of public shareholders (111 municipalities, the largest of which holds shares amounting to less than 10% of the total) and a large number of private institutional and retail shareholders.

45.8% share capital pertaining to the public stockholders agreement

Since 2006, Hera has adopted a share buyback program, most recently renewed by the Shareholders Meeting held on 27 April 2023 for a further 18 months, for an overall maximum amount of 240 million euro. The purpose of this program is to finance M&A opportunities involving smaller companies, and smoothing out any abnormal market price fluctuations vis-à-vis those of the main comparable Italian companies. As of 31 December 2023, Hera held 45.8 million treasury shares.

Treasury share plan approved

The Group continued to engage in intense communications with financial market players in 2023. After presenting the 2022-2026 business plan, the Group's top management took part in a road show to meet with investors in the main financial centres and update them on business trends and future prospects. Following the renewal of the Board of Directors, the new management was immediately willing to meet analysts and investors, and participated in important conferences organised by Italian and international brokers. The intensity of the Group's commitment to dialogue with investors contributes to strengthening its reputation on the markets and constitutes an intangible asset to the benefit of Hera's stock and stakeholders.

Ongoing communication with the market in 2023 as well

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 at 31 December 2023, as well as the changes in these shares during 2023, see note 25 of paragraph 3.02.04 and the statement of changes in equity in paragraph 3.01.05 of the Parent Company's separate financial statements.



1.06 SUSTAINABILITY RESULTS

The Group's commitment to reporting to stakeholders as to the results achieved in the areas of creating shared value (CSV) and sustainability was confirmed once again this year by its Sustainability Report, available at bs.gruppohera.it and on the Group's website in the sustainability section.

The Sustainability Report contains the Hera Group's consolidated non-financial statement, prepared pursuant to legislative decree 254/16, and acts as a separate report compared to 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 Sustainability Report for 2023, a year that saw Hera stock included, for the fourth consecutive year, in the Dow Jones Sustainability Index World and Europe, with a score that positions the Group among the best companies in the Multi and Water Utilities sector. Once again concerning green finance, a new 600 million euro sustainability-linked bond with carbon neutrality and circular economy goals was issued in 2023. This new bond follows up on the previous one, issued in 2021, and the three green bonds issued from 2014 (the first Italian green bond) to 2022 (first Italian green bond aligned with the EU Taxonomy). Thanks to this strong focus on green finance, the portion of debt financed with ESG instruments has gradually increased over the years, reaching 57% in 2023.

The 2023 Sustainability Report consolidates its representation of content focused on creating shared value. The achievements made and the targets set for the future are accompanied by a summary of the scenario related to the three drivers for creating shared value: (i) Energy - pursuing carbon neutrality, (ii) the Environment - regenerating resources and closing the circle, (iii) Local areas (and Businesses) - enabling resilience and innovating, to which an equal number of chapters are dedicated, representing the most significant part of the report.

Creating shared value: CSV Ebitda and investments

One of the strengths of the Group's reporting is its quantification of shared value Ebitda (CSV Ebitda), i.e. the portion of Ebitda that derives from business activities capable of meeting the objectives on the Global Agenda, which refers to calls to action for sustainable growth summarised in the three drivers mentioned above.

In 2023, CSV Ebitda amounted to 776 million euro, corresponding to 52% of the Group's total Ebitda and 16% higher than in 2022, placing it on the track set out by the business plan, which was constructed for 2027 CSV Ebitda to reach over 1 billion euro and cover 64% of total Ebitda. A contribution to creating shared value also stems from investments pertaining to the three CSV drivers, which in 2023 amounted to 558.4 million euro, approximately 69% of total gross operating investments.

The quantification of CSV Ebitda and investments for 2023 was reviewed for the fifth consecutive year by an auditing company, with the aim of validating these distinctive aspects of the Group's reporting to all stakeholders.

Hera pursues carbon neutrality in its activities and those of its customers and the communities it serves by promoting energy efficiency and energy transition projects.

Pursuing carbon neutrality

As regards energy efficiency, note that:

- the initiatives included in the ISO 50001 energy improvement plans and already implemented by the end of 2023 have made it possible to reduce energy consumption by more than 21 thousand TOE (corresponding to the annual consumption of more than 17 thousand households), equivalent to 7.6% of 2013 consumption, on course for the target set for 2027;
- at the end of 2023, 35.7% of free-market gas and electricity household customers requested energy efficiency solutions, with further growth compared to the previous year; the initiatives to promote energy efficiency include the Consumption Log, a free report intended to raise awareness in energy savings based on the principles of behavioural economics, that comes alongside the numerous offers with energy efficiency solutions, further enhanced in 2023.

With regard to the energy transition and renewable energies, Hera continued to promote its carbon-neutral commercial offer in 2023 as well, achieving at the end of the year:

- 42.8% of electricity sold on the free market coming from renewable sources, up from 40.5% in 2022 and compared to the 2027 target set at 56%;
- 20.4% of natural gas sold on the free market with carbon offsetting, since only offers with carbon offsetting for the first 12 months after signing are found in the commercial portfolio for households;

- the sale of an additional 1,130 photovoltaic plants having a total capacity of approximately 6.3 MW. This brings the number of plants sold to 2,400 and the total installed capacity to 13.3 MW since the launch of the Hera Photovoltaic turnkey offer in 2021.

Internally, in 2023 the Group confirmed once again the green profile of its electricity consumption, which as of 2022 is covered by 100% renewable energy.

Concerning the projects implemented in 2023 for the development of renewables, note:

- the production of 8.5 million cubic metres of biomethane, up 12% compared to 2022 thanks to the new plant launched in Spilamberto (MO);
- initial work in planning two initiatives in Modena and Trieste that will produce 770 tonnes of green hydrogen, aimed at supporting decarbonisation in the industrial and local public transport sectors, which will be completed within 2026 also thanks to NRRP contributions;
- ongoing initiatives for an increased use of photovoltaics, including the construction of the first of a series of plants located on Group sites (depleted landfills and water cycle plants), bringing installed capacity to 5 MW by the end of 2023. Several initiatives have been planned, including agrivoltaic parks and Energy Parks, an innovative model for urban regeneration that combines municipal reforestation, renewable energy production and biodiversity protection. These initiatives, in addition to the panels sold to customers, will bring installed photovoltaic power to approximately 300 MW by 2027.

Lastly, based on the fourth report drafted according to the Science Based Targets initiative methodology, the Group's greenhouse gas emissions (Scope 1+2+3 from electricity and downstream natural gas sales) showed a 13.8% reduction in 2023, compared to the 2019 base year (excluding the transitional increase in volumes sold in last resort gas services), which falls within the course set for the SBTi validated target of a 37% reduction in greenhouse gas emissions by 2030. More specifically, 2023 will see a 17% reduction in Scope 1+2 (market-based) emissions, a 15% reduction in Scope 3 emissions from natural gas sales and a 24% reduction in the carbon intensity of electricity sales (Scope 3 upstream) respectively.

SUSTAINABLE PRESENT AND FUTURE

WHAT WE SAID WE WOULD DO...

Promoting energy efficiency

44%

RENEWABLE ELECTRICITY SOLD
to free market
in 2026



Energy transition and renewables

BIOMETHANE AND HYDROGEN

12 million m³ of biomethane produced by 2026 and over 30 million by 2030. Continue initiatives to develop hydrogen



Climate change mitigation

-37%

GREENHOUSE GAS
(scopes 1+2+3 from downstream sales of electricity and gas) by 2030 with SBTi method compared to 2019. Launch the project Hera Net Zero



Transition to a circular economy

+102%

PLASTIC RECYCLED
by Aliplast within 2026 and +150% by 2030 (compared to 2017). Build, within 2025, a plant for recycling rigid plastics and one for carbon fibre, partially thanks to NRRP funding



-22%

INTERNAL WATER CONSUMPTION
by 2026 and -25% by 2030 compared to 2017 consumption



WHAT WE DID...

42.8%

RENEWABLE ELECTRICITY SOLD
to free market
in 2023



BIOMETHANE AND HYDROGEN

8.5 million m³ the production of biomethane in 2023. Continued initiatives of green hydrogen and photovoltaic development:

- obtained authorization for the power-to-gas plant in Bologna;
- started the design of the production plants of hydrogen in Modena and Trieste



-14%

GREENHOUSE GAS EMISSIONS

in 2023 compared to 2019 (not including last resort gas services). Hera Net Zero project launched: decarbonisation scenarios and levers fully researched



+42%

PLASTIC RECYCLED
by Aliplast at 2023 (compared to 2017). Authorisation obtained for the Modena rigid plastics recycling plant and construction begun on the Imola carbon fibre recycling plant



-21.5%

INTERNAL WATER CONSUMPTION
in 2023 compared to 2017 consumption thanks to specific water saving initiatives



WHAT WE WILL DO...

56%

RENEWABLE ELECTRICITY SOLD
to free market
in 2027



RENEWABLE GAS

184 GWh of renewable gas produced/year by 2027:

- 17 million m³ of biomethane produced;
- 770 tons of green hydrogen



-37%

GREENHOUSE GAS EMISSIONS

(scopes 1+2+3 from downstream sales of electricity and gas) with 2030 with SBTi method compared to 2019. Define the Hera Group's Net Zero commitment and 1.5 °C Climate transition plan



+122%

PLASTIC RECYCLED
by Aliplast within 2027 and +150% by 2030 (compared to 2017). Build, within 2025, a plant for recycling rigid plastics and one for carbon fibre, partially thanks to NRRP funding



-24%

INTERNAL WATER CONSUMPTION
by 2027 and -25% by 2030 compared to 2017 consumption



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

As regards the transition to a circular economy, 2023 saw sorted waste collection reach 72.2%, up 4.4 percentage points compared to 2022 (Italian 2022 average: 65%) and use of landfills for municipal waste disposal at 2.7% (European 2022 average: 24%). In this respect, Hera is 20 years ahead of the EU target for the circular economy, at the same level as the most virtuous European countries. In October last year, Hera published the fifteenth edition of its Tracking Waste report, verified by DNV, thus providing citizens with a guarantee of the amount of separate waste actually recovered, which came to 89%. This report contains the ranking of the area served by Hera with respect to the recycling targets set by the EU, including the overall recycling rate, where Hera with 61% has already reached the target set for 2030, and the packaging recycling rate, where the Group with 66% has already reached the target set for 2025. Also concerning the circular economy, 2023 saw:

- the material and energy recovery rate in Herambiente Spa's sorting plants reaching 84.9%, up 4 percentage points from the previous year;
- further improvement in the circularity profile of Hasi Srl and its subsidiaries, demonstrated by an increase in the portion of managed waste sent for material and energy recovery, which will rise from 48.6% in 2022 to 51.8% in 2023;
- the completion by Hasi Srl of the acquisition of 60% of A.C.R. Spa, a transaction that broadened the range of circular services offered to companies and strengthened environmental reclamation activities in favour of soil recovery. In 2023, there were 148 sites with ongoing or completed reclamation activities, in which 40% of the soil was recovered;
- quantities of plastics recycled by Aliplast Spa amounting to 84.6 thousand tonnes, up 6.8% compared to 2022 and 42% higher than in 2017, the baseline of the 2025 commitments made as part of the New Plastics Economy Global Commitment promoted by the Ellen MacArthur Foundation.

Regarding the sustainable management of water resources, the initiatives to preserve them were significant, such as the internal water management project, which led to a 21.5% reduction in consumption in 2023 (compared to the 2017 baseline), agreements with local authorities to make water coming out of purification plants reusable, which together with internal and company initiatives brought the portion of purified wastewater available for reuse to 10%, and the aforementioned Consumption Log, which was used by approximately 37.5% of household water service customers.

As far as air protection is concerned, positive results were confirmed in relation to the environmental performance of the Group's WTE plants, which in 2023 as well recorded very low levels of atmospheric emissions, on average 86% lower than legal limits, and the Imola cogeneration plant, whose average PM10 concentrations were 98% lower than limits. Finally, with regard to soil protection, note that from 2018 to 2023, the construction of infrastructures involved soil reuse coming to 76%.

Significant results were achieved by the Group in 2023 in the CSV areas related to economic growth and employment in the areas served, social inclusion, innovation and digitalisation. Equally important were the initiatives aimed at ensuring the resilience of its operations and therefore of the areas served.

Enabling resilience and innovating

The economic value distributed to local areas came to 2.3 billion euro, or 71% of the total economic value. The portion paid to local suppliers came to 72% of the total and reached 1.4 billion (+61% compared to the previous year), while the induced employment is estimated at over 11 thousand people; these figures confirm the Group's primary role in promoting growth in the local area. With regard to induced employment, the employment of 962 disadvantaged people as a result of supplies and partnerships with social cooperatives should also be noted, amounting to 92 million euro in 2023. Once again concerning social inclusion, also note the measures introduced by Hera as improvements over those defined by ARERA to support the customers facing hardship: the number of bills paid by instalments increased by 10% compared to 2022, and the memorandums of understanding in place with 138 municipalities in the areas served made it possible to prevent the suspension of supplies to customers assisted by social services in 80% of cases.

In the area of innovation, investments amounting to 142.8 million euro (or 18% of gross operating investments) were related to initiatives in two spheres: ecological transition and digital transformation.

The installation of electronic gas meters continued, reaching 88% of the total at the end of 2023. Installations of the Nemometer, the electronic gas meter designed by the Group with advanced safety functions, also continued in the Bologna, Modena, Ferrara and Udine areas, reaching 15% of the total number of gas meters. The electricity service, on the other hand, saw a replacement of first-generation electronic meters with more advanced 2G devices, which at the end of 2023 accounted for 42% of total meters (vs 6% in 2022). In the water service, the installation of electronic meters started in 2022 for

water-demanding users; at the end of 2023, almost 6,700 electronic meters were installed, amounting to 0.5% of the total and allowing for remote reading of approximately 8% of the volumes sold. Over the time covered by the Plan, installations will continue, bringing the volume sold covered by remote reading to roughly 25% of total volumes sold.

Efforts to develop digital channels for customer relations continued: in 2023, the number of customers registered for online services rose to 36.2%, while those who requested electronic billing reached 40.2%. The Group's commitment in this area, combined with its focus on local communities, continued in 2023 with the seventh edition of the campaign to promote electronic billing and digital customer behaviour named Digi e Lode, through which the Group from 2017 to 2023 donated 745 thousand euro for the digitisation of 298 schools.

As regards resilience, in 2023 the Group made investments coming to approximately 223 million euro, equivalent to 27% of total gross operating investments. In this regard, note:

- ongoing upgrading of the electricity distribution grid in the Modena Apennines, which increased the amount of network upgraded by the end of 2023 to 55 km, 82% of the work called for by the overall resilience plan;
- a 14% increase in remote-controlled installations (+758), which rose to 9,707;
- the planning and construction, in the aqueduct area, of numerous interventions in the Triveneto and Emilia-Romagna regions to mitigate drought risks, such as aqueduct interconnections, optimization of catchment and intake pipes, and new wells and reservoirs. These interventions came in addition to the development of predictive algorithms and the use of innovative technologies to direct maintenance actions and support leakage detection: the district-based network for effective leakage monitoring increased to 55% of the total (vs 51% in 2022), while that covered by predictive algorithms reaches 78% (vs 40% in 2022).

Once again regarding the resilience of the services and territories served, the Group provided support to communities affected by the floods that in May 2023 struck 44 municipalities in Emilia-Romagna. This activity involved restoring services as quickly as possible, collecting and disposing of over 70 thousand tonnes of waste as a result of the flooding, implementing the financial measures defined by the government and the regulatory authorities (integrated by the Group) in terms of bill suspension and instalment payments, and supporting the workers affected by the event and engaged in restoration activities through various measures, especially economic initiatives, put in place thanks to measures including solidarity initiatives promoted among all Group workers.

The results achieved in terms of creating shared value complement those in the following areas, which complete the Group's sustainability profile and are reported in the "Alongside the protagonists of change" section of the Sustainability Report.

**Alongside the
protagonists of
change**

Thanks to awareness-raising programmes and the adoption of ISO 45001 certification, which covers 88% of the Group's workers, the accident frequency index was further reduced (10.2 in 2023) and stood at 39% lower than the sector average measured by Utilitalia. At the end of 2023, 11 Group companies had obtained UNI/Pdr 125:2002 gender equality certification, which now covers 81% of its workers. In 2023, workers received more than 6 million euro through the Hextra welfare system. The amount of training remains high: in 2023, there were 31.5 average hours of training per capita, a further slight increase over the previous year. The role of sustainability goals in the balanced scorecard system linked to incentives for management remained significant. In 2023, 40% of the variable remuneration of Group executives and middle managers was linked to sustainability target projects, with 24% of targets geared towards creating shared value.

In 2023, a further increase occurred in call centre contacts (+15%, roughly 1.3 million more calls) which, as in 2022, was mainly due to turbulence in the energy markets and the impact on bills in the first part of the year. Other aspects that led to an increase in contacts included the end of the protected gas tariff system and the flooding in Emilia-Romagna. Despite these discontinuities, the average waiting time at the residential call centre improved, going from 93 seconds in 2022 to 59 in 2023. The business segment also saw an increase in calls to call centres in 2023 (+10%), but this did not affect the average waiting time, which improved from 112 seconds in 2022 to 72 in 2023. On the other hand, waiting times at counters worsened slightly in 2023 (from 9 minutes in 2022 to 12 in 2023) as a result of inflows that increased by 23% compared to the previous year, for the reasons described above.

The survey carried out in 2023 on the quality of services provided by the Group (approximately 12,021 interviews conducted with residential customers) recorded a 73/100 customer satisfaction index, which thus returned to the level reached in 2021 after the one-point decrease seen in 2022, mainly due to turbulence in the energy markets.

When selecting suppliers in 2023, the Group used the most economically advantageous bid method for 87% of public tenders and 66% of overall tenders (in terms of value). Considering overall tenders, the average score reserved for social and environmental aspects was 39/100. The circular procurement project also continued in 2023, with the application of the appropriate guidelines and the identification of technical criteria providing an advantage in tenders: eco-efficiency, dematerialisation, renewability and recyclability. As in previous years, in 2023 circularity criteria were included in over 92% of the tenders with the most economically advantageous bid, with an average score of 10.2. Supplier monitoring focused on social responsibility towards workers also continued in 2023, as did accident monitoring, which involved 74% (in terms of commissioned value) of the suppliers of services and works. Lastly, note the introduction in 2023 of a new vendor management and supplier qualification system that also assigns a score on the basis of suppliers' ESG maturity, which can affect the frequency of invitations to tender, and reinforcements in the system for assessing risks along the supply chain in order to more effectively orient control activities.

The Task force on climate-related financial disclosures (TCFD) was established by the G20 Financial stability board following the 2015 Paris Agreement, in which the member states of the United Nations committed to keeping the global average temperature increase below 2°C compared to pre-industrial levels and if possible limit the increase to 1.5°C by the end of the 21st century. The TCFD, established with the aim of facilitating greater transparency on the financial opportunities and risks associated with climate change, published recommendations in 2017 that still serve as an international reference for corporate climate change disclosure. The TCFD's recommendations are applicable to organisations across all sectors and are categorised into four areas: governance, strategy, risk management and metrics & targets.



The Group began its path towards alignment with the TCDs recommendations in 2020, and it has been defined according to three main steps:

- establishing a dedicated cross-departmental working group;
- carrying out an in-depth analysis of the gaps in the reporting system and the way in which the Hera Group deals with climate opportunities and risks with respect to the recommendations;
- defining a work plan to gradually increase the degree of alignment with the TCFD's recommendations, the results of which can be seen in this consolidated report and in the 2023 Sustainability Report, which can be consulted for an exhaustive illustration of the four thematic reporting areas (see the dedicated section "Hera for the climate").



The EU Taxonomy is a unique EU-wide classification system introduced with Regulation 2020/852, which establishes a list of environmentally sustainable economic activities. This is a classification tool provided for in the Action plan on sustainable finance, aimed at supporting the EU in increasing sustainable investments and implementing the Green Deal.

The EU Taxonomy

Following the recommendations of Delegated Regulation 2021/2178, which introduces disclosure requirements for information linked to the taxonomy in NFS, a multi-step process was developed in 2021 to analyse the Taxonomy's applicability to all of the Group's consolidated companies. This process was focused exclusively on climate change mitigation and adaptation targets, for which Delegated Regulation 2021/2139 set out a list of activities that contribute substantially to these objectives, and a list of technical screening criteria that these activities must meet in order to be classified as environmentally sustainable. It thus became possible to go beyond the disclosure requirements established for the 2021 NFS and to quantify and report on the economic KPIs (turnover, opex and capex) of the activities managed by the Hera Group that are eligible for the taxonomy, i.e. activities included in the list envisaged in Regulation 2139, as well as those aligned with the taxonomy, i.e. activities that meet the technical screening criteria, as regards the mitigation target. In addition, the economic KPIs were supplemented with Ebitda coming from activities aligned with the taxonomy (which therefore accompanies and complements CSV Ebitda), and the amount of investments in those activities was included in the Business plan.

In 2022, this process continued by refining and updating the analysis of the technical screening criteria, by preparing the reporting in greater detail required for 2022 and with an in-depth study of the complementary delegated act 2022/1214, which introduced certain nuclear and fossil gas energy production activities in the list of eligible economic activities, by defining the technical screening criteria for their alignment.

Lastly, the process continued in 2023 with the analysis of eligible activities and the technical screening criteria defined by Delegated Regulation 2023/2486 concerning four additional environmental objectives (sustainable use and protection of water and marine resources, transition to a circular economy,

prevention and reduction of pollution, and protection and restoration of biodiversity and ecosystems) in order to draft the mandatory reporting for 2023. Once again, the analysis made it possible to go beyond the disclosure requirements set out for the 2023 NFS and to quantify and report on the economic KPIs for both eligible activities and those aligned with all six environmental objectives of the Taxonomy. The 2023 NFS also continues voluntarily report on Ebitda coming from taxonomy-aligned activities.

The Sustainability Report can be consulted for a complete discussion of these topics.

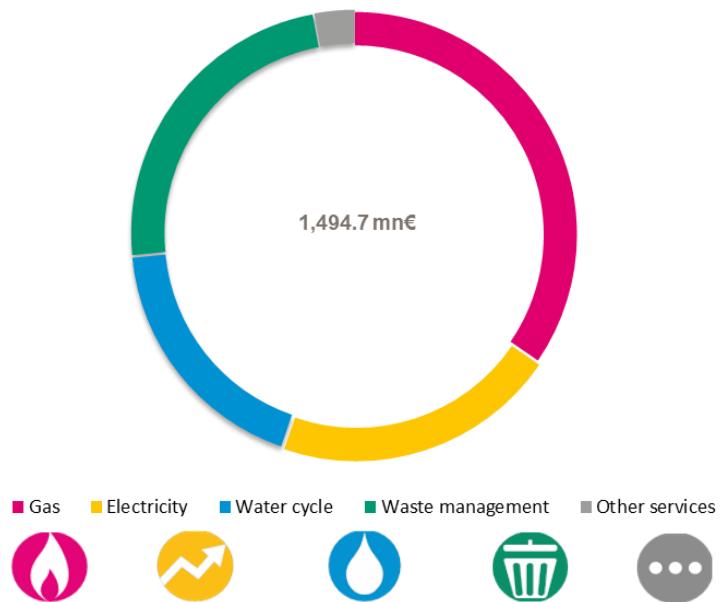


1.07 ANALYSIS BY BUSINESS AREA

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.

A multi-business strategy

EBITDA* DECEMBER 2023



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.

The value of adjusted Ebitda, broken down by strategic business areas, reflects the adjustment to the valuation of gas storage described in the introduction to paragraph 1.04. For a detailed identification of the effects of this adjustment, the values of Adjusted Ebitda and Ebitda are provided below:

(mn€)	Dec 23		Dec 22	
	Ebitda*	Ebitda	Ebitda*	Ebitda
Gas Area	516.9	609.9	585.1	491.1
Electricity Area	309.2	309.2	71.6	71.6
Integrated water cycle Area	271.4	271.4	261.9	261.9
Waste management Area	353.4	353.4	338.0	338.0
Other services Area	43.8	43.8	38.4	38.4
Total	1,494.7	1,587.7	1,295.0	1,200.9

* adjusted results, as described in paragraph 1.04

1.07.01 Gas

A downward trend occurred in 2023 compared to 2022, due to both a reduction in volumes, on account of the mild climate seen in the first part of the year, and lower trading activities, as well as a drop in average prices for energy raw materials. We must recall, in fact, that 2022 was characterised by significant price fluctuations, with a peak recorded in August 2022, followed by a gradual descent starting in December, with an increasingly tendency towards stabilisation during 2023, but with prices still higher than prior to the crisis. Opportunities remained in the energy services segment for energy efficiency incentives, 110% super-bonus and insulation bonuses, and the tenders awarded to Hera Comm Spa in the following lots in Italy:

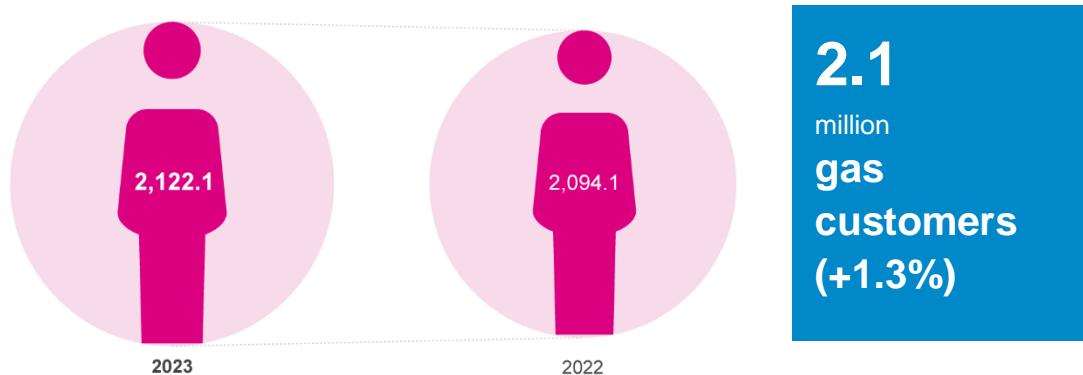
- eight of the nine lots of the last resort gas service (for customers involved in public services or without a supplier) for the period from 1 October 2023 - 30 September 2025 in: Valle d'Aosta, Piedmont, Liguria, Trentino A.A., Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Tuscany, Umbria, Marche, Abruzzo, Molise, Basilicata, Puglia, Lazio and Campania. In the previous tender, Hera Comm was awarded six out of nine lots.
- all nine lots of the default gas distribution service (for customers in arrears), for the period from 1 October 2023 - 30 September 2025 in: Valle d'Aosta, Piedmont, Liguria, Lombardy, Trentino A.A., Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Tuscany, Umbria, Marche, Abruzzo, Molise, Basilicata, Puglia, Lazio, Campania, Sicily and Calabria. In the previous tender, Hera Comm was awarded nine out of nine lots.
- three of the 12 lots of the Consip GAS15bis tender for supplying natural gas to public administrations in 2023-24: the 2 lots in Lombardy were confirmed and a new lot, including Emilia Romagna and Friuli Venezia Giulia, was awarded.



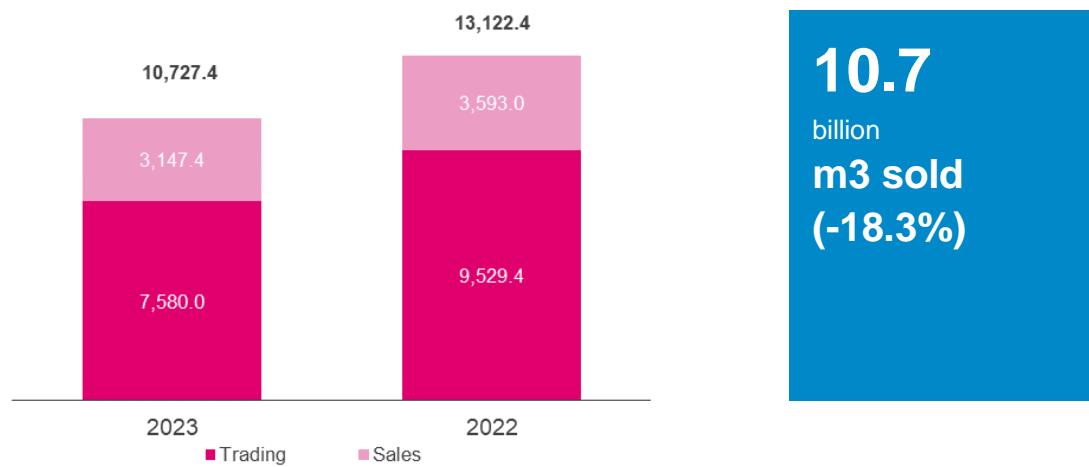
The following table shows the changes occurred in terms of adjusted Ebitda:

(mn€)	Dec 23	Dec 22	Abs. change	% change
Area Ebitda*	516.9	585.1	(68.2)	(11.7)%
Group Ebitda*	1,494.7	1,295.0	199.7	+15.4%
Percentage weight	34.6%	45.2%	(10.6) pp	

* adjusted results, as described in paragraph 1.04

CUSTOMERS (K)

The number of gas customers increased by 28 thousand, up 1.3% compared to the previous year. This trend was seen mainly in traditional markets, which rose by 23.9 thousand customers, and to a lesser degree in last resort markets, which showed growth coming to 4.1 thousand customers.

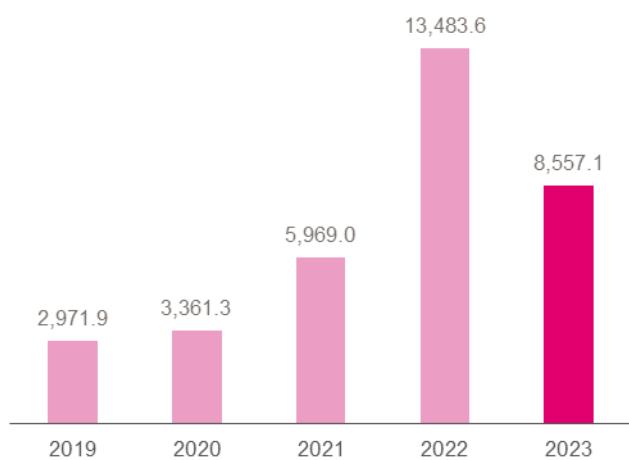
VOLUMES SOLD (mn/m³)

Total volumes of gas sold decreased by 2,395.0 million m³ (-18.3%), mainly due to reduced intermediation, amounting to 1,949.4 million m³. Volumes sold to end customers also fell by 445.6 million m³ (-12.4%), a decrease which mainly occurred on traditional markets, coming to 444.8 million m³ (-14.3%) and, to a much lesser extent, on last resort markets, amounting to 0.9 million m³ (-0.2%). This trend was affected by both the climatic factors mentioned above, with higher average temperatures compared to the previous year, and lower consumption, linked to the changed habits of the customer base.

The following table summarises operating results for the gas area:

Income statement (mn€)	Dec 23	% Inc.	Dec 22	% Inc.	Abs. change	% change
Revenues	8,557.1		13,483.6		(4,926.5)	(36.5)%
Operating costs	(7,936.7)	(92.8)%	(12,780.4)	(94.8)%	(4,843.7)	(37.9)%
Personnel costs	(119.9)	(1.4)%	(134.4)	(1.0)%	(14.5)	(10.8)%
Capitalised costs	16.5	0.2%	16.4	0.1%	0.1	+0.6%
Ebitda*	516.9	6.0%	585.1	4.3%	(68.2)	(11.7)%

* adjusted results, as described in paragraph 1.04

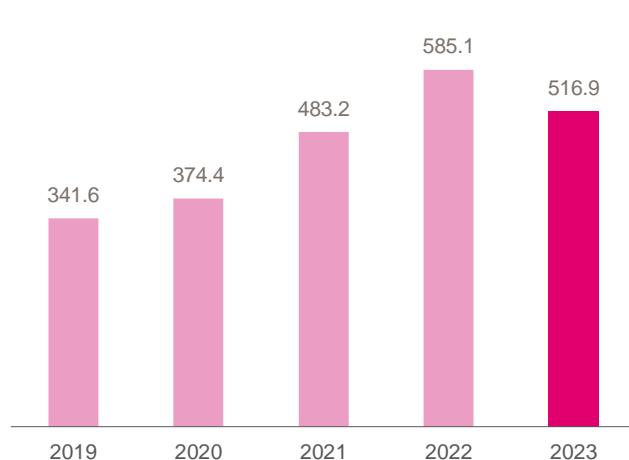
REVENUES (mn€)

8.6
billion euro
revenues
(-36.5%)

Revenues decreased by 4,926.5 million euro compared to the previous year. The reasons for this mainly lie in lower sales and brokerage activities totalling 5,304 million euro due to the aforementioned unfavourable weather conditions, lower consumption by the customer base and lower prices for raw materials. Revenues also decreased due to lower activities in Bulgaria and lower district heating volumes totalling 79 million euro. These trends were partially offset by higher revenues related to energy efficiency activities amounting to 413 million euro overall, and higher revenues from IFRIC 12 concession assets and energy efficiency certificates, which on the whole increased by approximately 32 million euro.

Regulated revenues were up by 5 million euro, partially thanks to initial activities in the Udine2 ATEM by AcegasApsAmga Spa. From a regulatory point of view, the regulation of gas distribution and metering (RTDG) was updated for the 2023-2025 three-year period by the Authority's resolution 737/2022/R/gas.

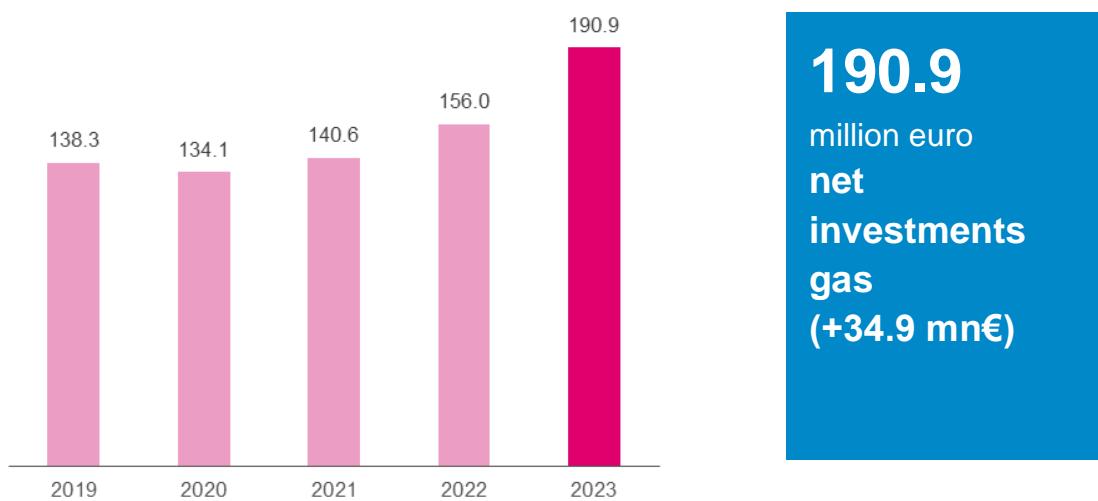
The drop in revenues was proportionally reflected by operating costs, which showed an overall decrease coming to 4,843.7 million euro. This trend was mainly due to lower sales and trading activities, on account of the lower volumes and the fall in prices for raw materials.

EBITDA* (mn€)

516.9
million euro
Ebitda *
(-11.7%)

* adjusted results, as described in paragraph 1.04

Adjusted Ebitda showed a 68.2 million euro decrease, down 11.7% due to both lower volumes, caused by both the weather and the change in customers' habits, as mentioned above, and lesser intermediation activities. These were contrasted by the ongoing opportunities grasped in energy services, related to incentivised energy efficiency activities.

NET INVESTMENTS GAS (mn€)

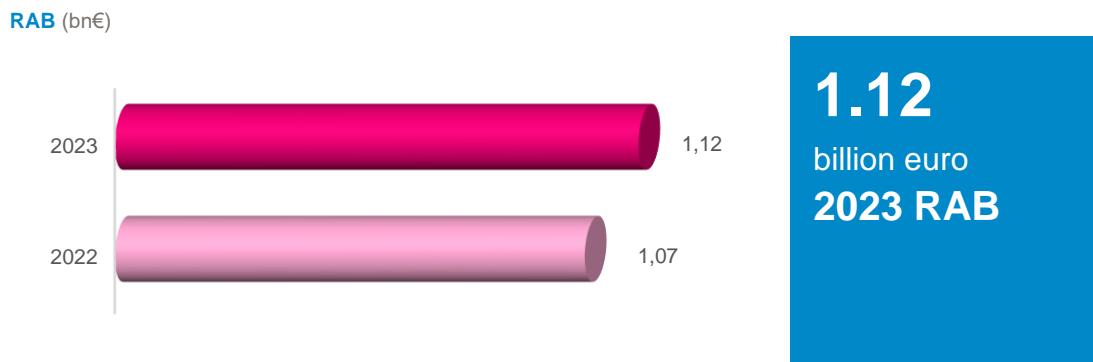
In 2023, net investments in the gas area increased by 34.9 million euro compared to the previous year, totalling 190.9 million euro. In gas distribution, an overall increase coming to 20.6 million euro was recorded, 12.1 million euro of which was linked to the investment involving the reimbursement value for plants and networks in complementary municipalities, awarded through the ATEM Udine2 tender, in addition to the increased non-recurring maintenance work on networks and plants and the replacement of metering units for remote management, pursuant to resolution 631/2013/R/GAS.

In gas sales, investments increased by 14.5 million euro due to activities related to the acquisition of new customers. Investments were essentially in line with the previous year in district heating and energy services, and mainly involved the activities of the company Hera Servizi Energia Spa and the work done on district heating networks and plants. Requests for new connections were also up compared to the previous year.

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

Gas (mn€)	Dec 23	Dec 22	Abs. change	% change
Networks and plants	136.8	116.2	20.6	+17.7%
Acquisition gas customers	27.8	13.3	14.5	+109.0%
DH/Energy services	27.3	27.2	0.1	+0.4%
Total gas gross	191.8	156.7	35.1	+22.4%
Capital grants	1.0	0.7	0.3	+42.9%
Total gas net	190.9	156.0	34.9	+22.4%

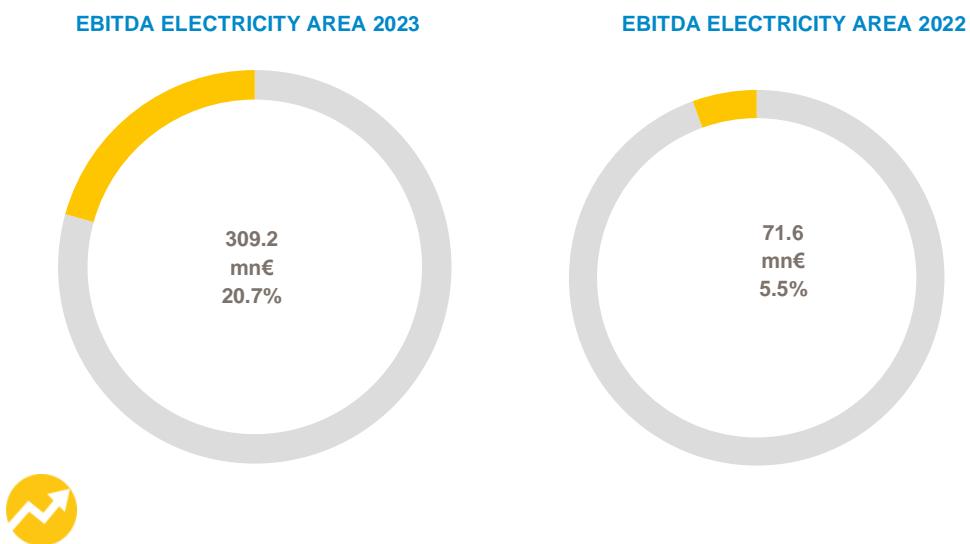
The Regulatory asset base (RAB) for assets owned in the gas area, which defines the value of the assets recognised by the Authority as regards return on invested capital, increased compared to 2022.



1.07.02 Electricity

At the end of 2023, significant growth was recorded compared to the previous year, in terms of both volumes sold to end customers thanks to commercial development, mainly on the free market, and margins due to the lower cost of modulation activities, value-added services and innovative offers (relating to electric mobility, photovoltaics, heating and air conditioning). In this regard, note the entry, as of 2023, of the company F.Ili Franchini Srl, specialised in the development and installation of high-efficiency photovoltaic systems. In addition, Hera Comm SpA was awarded the following lots nationwide:

- four of the 17 lots in the Consip EE20 tender for supplying electricity to public administrations in 2023 in: the Province of Rome, Campania, Calabria and the Italy lot, confirming the number of lots awarded in the previous tender;
- three of the nine lots of the gradual protection service for supplying electricity to public administrations for the period from 1 July 2021 to 30 June 2024, in Campania, Marche, Umbria, Abruzzo, Molise, Basilicata, Calabria, Sicily and Sardinia.
- two of the nine lots for the safeguarded service for 2023 and 2024 in: Campania, Abruzzo, Umbria and Calabria, with one additional lot awarded compared to the previous two-year period;
- one of the 12 lots in the gradual protection service for supplying electricity to micro-businesses for the period from 1 April 2023 to 31 March 2027 in: Friuli-Venezia Giulia, Trentino-Alto Adige and in the Provinces of Belluno, Venezia and Verona.

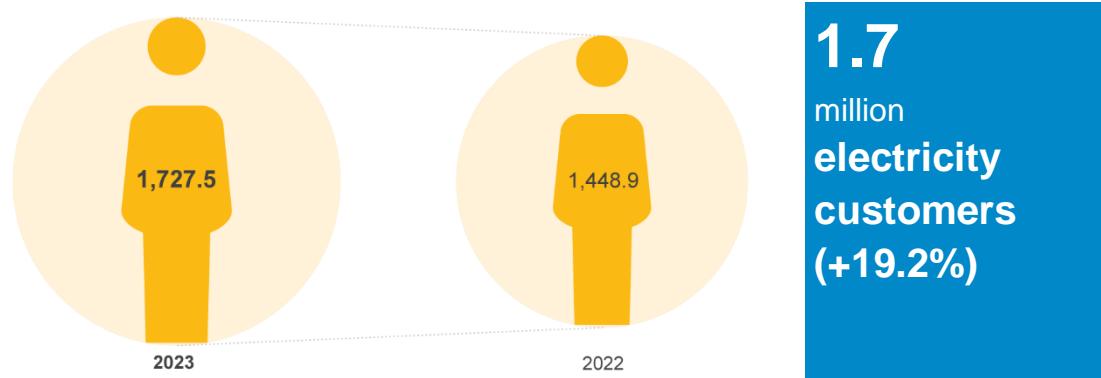


The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 23	Dec 22	Abs. change	Change %
Area Ebitda	309.2	71.6	237.6	331.8%
Group Ebitda*	1,494.7	1,295.0	199.7	15.4%
Percentage weight	20.7%	5.5%	+15.2 p.p.	

* adjusted results, as described in paragraph 1.04

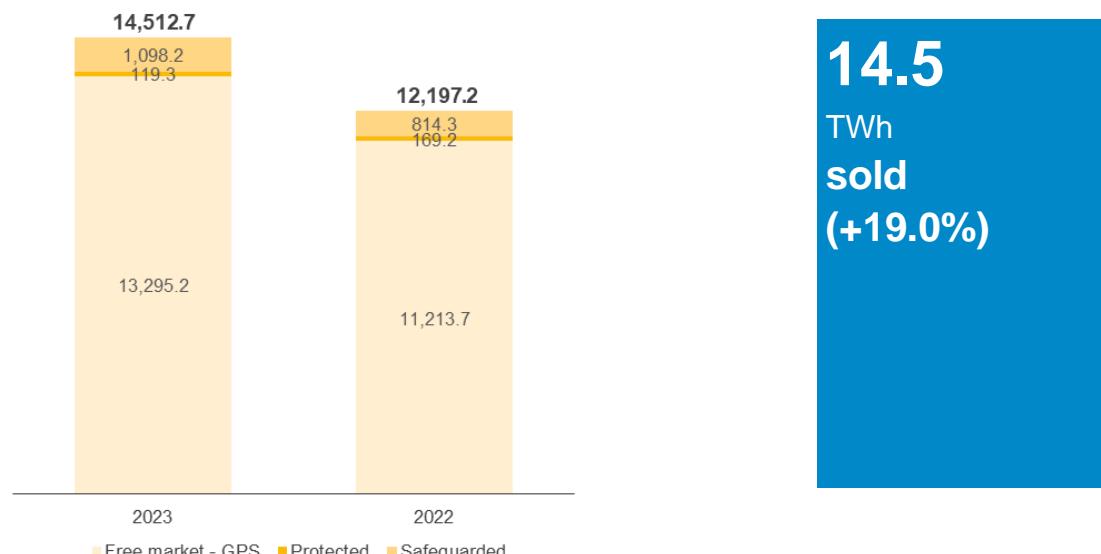
CUSTOMERS (K)



The number of electricity customers at the end of 2023 increased by 278.6 thousand, corresponding to a 19.2% increase compared to 2022. This growth occurred mainly in the free market, with roughly 299.5 thousand customers (+22.5%, equivalent to +20.7% of total customers), due to both the reinforced commercial actions implemented and the positive contribution coming from the CONSIP tenders and the gradual protection service, partially thanks to the new lot awarded, as mentioned above, which will supply electricity for micro-businesses. The safeguarded market also grew by 6.2 thousand customers (+29.7%, equivalent to +0.4% of the total) thanks to the additional lot awarded in the tender for 2023-2024. These effects easily offset the drop of about 27.1 thousand customers (-28.6%, equivalent to -1.9% of the total) seen in the protected market.

Customer appreciation and loyalty was confirmed, including the value-added services offered by the Group, which were requested by roughly 88,000 customers during the 12 months of 2023.

VOLUMES SOLD (GWh)

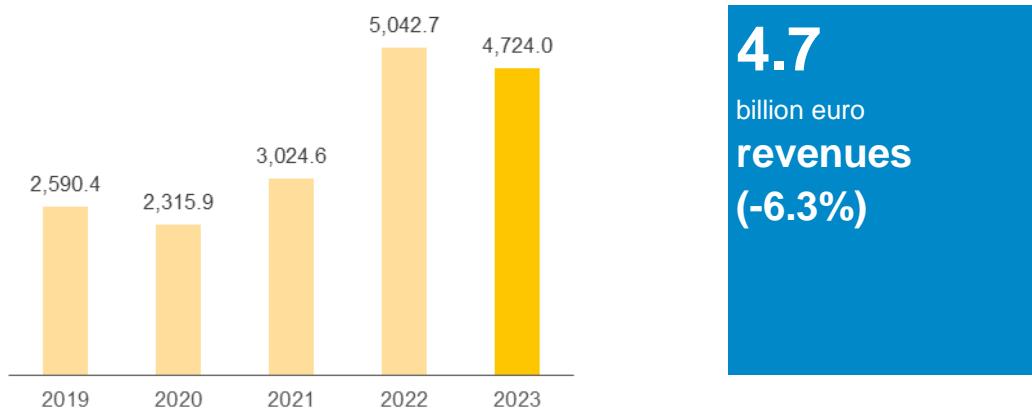


Volumes of electricity sold increased by 2,315.5 GWh, or 19%, compared to the same period of the previous year. This trend was caused by the increase in volumes sold in the traditional markets in the amount of 2,031.5 GWh (16.7% of the total), from 11,383.0 GWh in 2022 to 13,414.5 GWh in 2023, mainly driven by CONSIP tenders for the free market, which was partially offset by a slight decrease in the safeguarded market. A 284 GWh increase occurred in the safeguarded market, equivalent to 2.3% of the total, due to changes in the scope of operations.

The following table summarises operating results for the gas area:

Income statement (mn€)	Dec 23	% Inc.	Dec 22	% Inc.	Change Abs. change	% change
Revenues	4,724.0		5,042.7		(318.7)	(6.3)%
Operating costs	(4,385.9)	(92.8)%	(4,950.9)	(98.2)%	(565.0)	(11.4)%
Personnel costs	(59.7)	(1.3)%	(44.0)	(0.9)%	15.7	35.7%
Capitalised costs	30.8	0.7%	23.7	0.5%	7.1	29.9%
Ebitda	309.2	6.5%	71.6	1.4%	237.6	331.8%

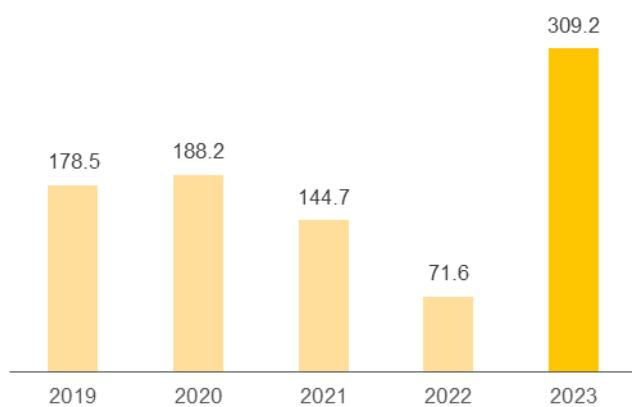
REVENUES (mn€)



Revenues dropped by 318.7 million euro compared to the previous year. This performance was due to lower revenues from sales, brokerage and production coming to 346 million, mainly caused by energy prices, which recorded a 58% drop in the average PUN compared to the previous year. The effect mentioned above was partially offset by higher revenues related to the increase in volumes sold and system charges. The latter, which had been set at zero during the previous year to deal with the energy crisis, were fully restored.

Lastly, higher revenues amounting to 19 million euro were seen for value-added services for customers, and higher revenues for IFRIC 12 concession goods and energy efficiency certificates, up by roughly 8 million euro overall.

The decrease in revenues was more than proportionally reflected in operating expenses, which fell by 565 million euro. This trend was mainly due to the drop in prices for raw materials, thanks to more stability in markets over 2023, which impacted sales and production activities.

EBITDA (mn€)**309.2**

million euro

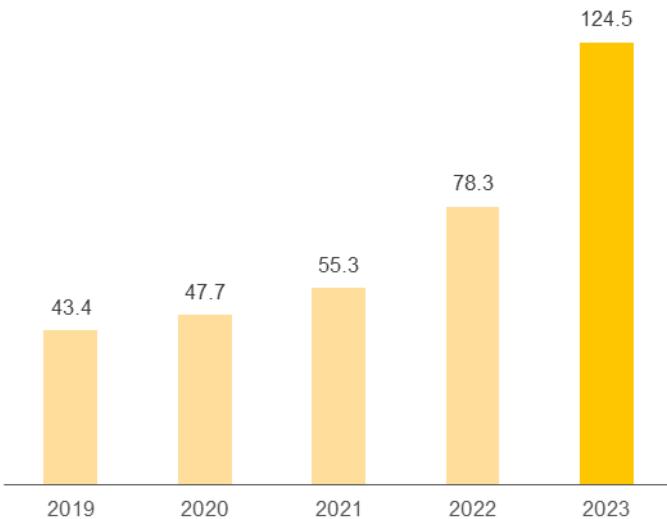
**Ebitda
(+331.8%)**

Ebitda increased by 237.6 million euro compared to 2022, mainly due to sales activities, which benefited from the lower impact of modulation and higher volumes sold resulting from the increased customer base both in traditional markets, driven by the free market, and in the safeguarded market, due to the new lot awarded. Activities in value-added services grew, recording an increase in Ebitda coming to about 3 million euro, for reasons including the entry of the company F.Ili Franchini, mentioned above, within the Group's scope of operations.

In the electricity area, investments amounted to 124.5 million euro in 2023, up by 46.2 million euro compared to the previous year.

In electricity distribution, the interventions carried out mainly concerned non-recurring maintenance and upgrading of plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas, as well as the ongoing mass meter replacement, substituting older generation devices with modern 2G meters, and interventions to improve network resilience. These investments were up by 17.6 million euro compared to the previous year.

In energy sales, investments coming to 28.5 million euro were recorded for activities related to the acquisition of new customers. Requests for new connections increased compared to the previous year.

NET INVESTMENTS ELECTRICITY (mn€)**124.5**

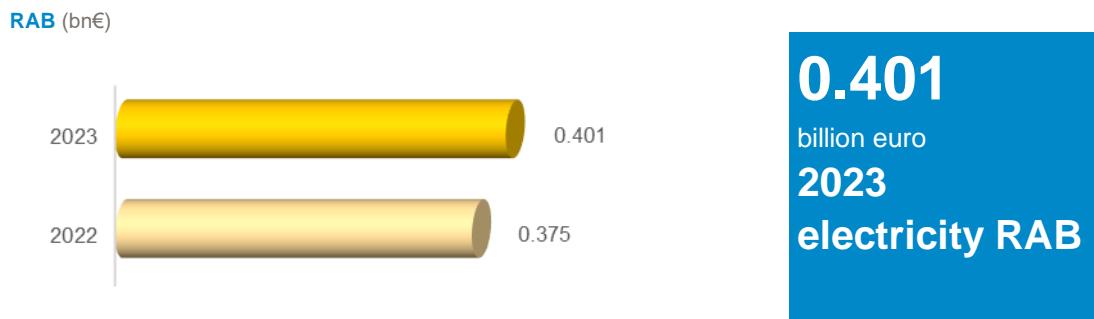
million euro

**net investments
electricity
(+46.2 mn€)**

Operating investments in the electricity area were as follows:

Electricity (mn€)	Dec 23	Dec 22	Abs. change	% change
Networks and plants	71.7	54.1	17.6	+32.5%
Acquisition electricity customers	52.7	24.2	28.5	+117.8%
Total electricity gross	124.5	78.3	46.2	+59.0%
Capital grants	-	-	-	+0.0%
Total electricity net	124.5	78.3	46.2	+59.0%

RAB, which defines the value of the assets recognised by the Authority as regards return on invested capital, increased compared to 2022.



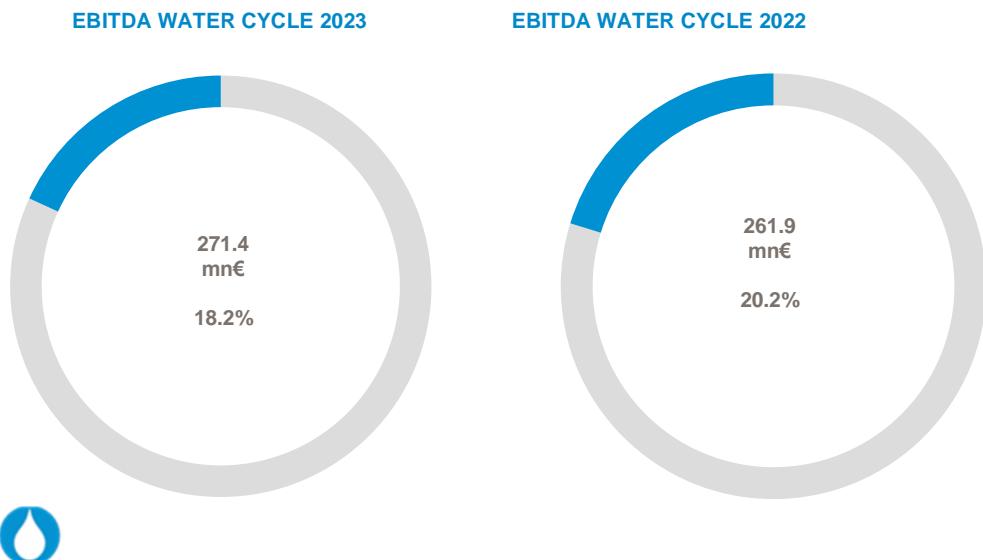
1.04.03 Integrated water cycle

Growth in results for 2023

In 2023, the integrated water cycle area showed increased results compared to the previous year, with Ebitda coming to 271.4 million euro.

As regards regulations, note that 2023 was the fourth year in which the tariff method defined by the Authority for the third regulatory period (Mti-3), 2020-2023 (resolution 580/2019), was applied. A revenue (VRG) is assigned to each operator, defined on the basis of operating costs and capital costs, according to the investments made, with a view to increasing efficiency in costs, in addition to measures intended to promote and valorise interventions for sustainability and resilience.

In the second half of October 2023, with resolutions 476/2023/R/idr and 477/2023/R/idr, the Authority communicated the results of its analysis of the achievement of contractual quality and technical quality improvement goals by Italian water operators during the 2020-2021 two-year period. In particular, as regards the level of excellence reached in technical quality, which identifies and rewards the top three positions nationwide considering all the macro-indicators defined by the Authority, the Hera Group was awarded first and third place in the general ranking of Italian utilities, confirming the very high quality standards adopted by the Group in managing this service.

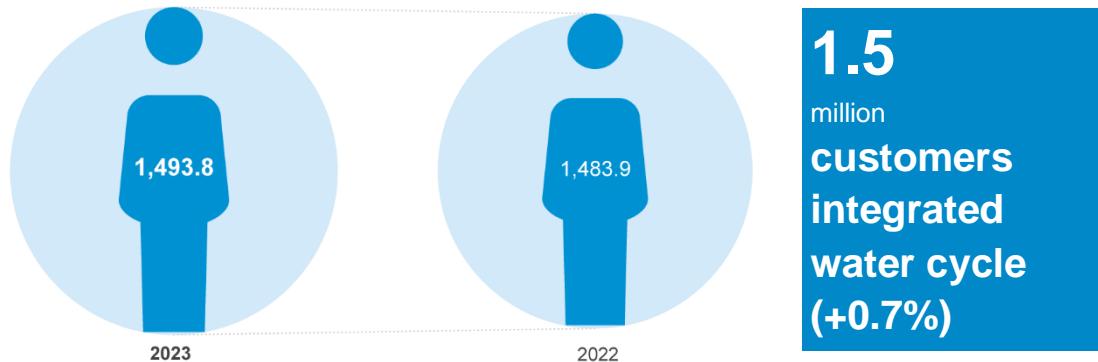


The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 23	Dec 22	Abs. change	% change
Area Ebitda	271.4	261.9	9.5	+3.6%
Group Ebitda*	1,494.7	1,295.0	199.7	+15.4%
Percentage weight	18.2%	20.2%	(2.0) pp	

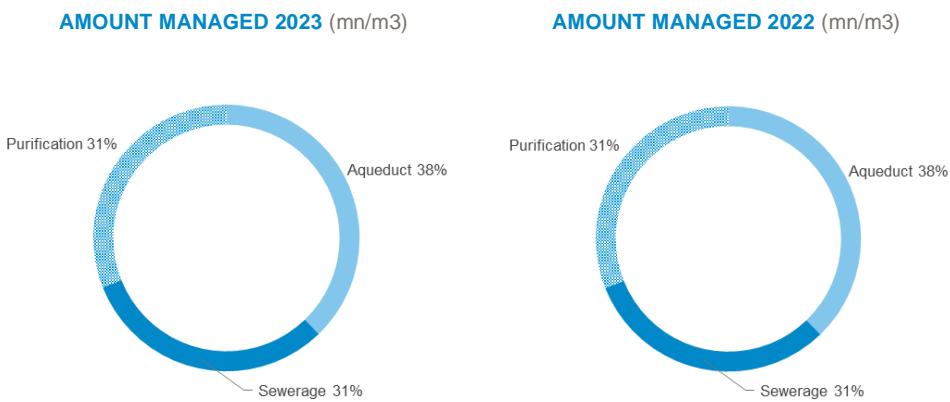
* adjusted results, as described in paragraph 1.04

CUSTOMERS (K)



The number of water customers increased by 9.9 thousand over 2022, up 0.7%, confirming the moderate trend of internal growth in the Group's reference areas. The Emilia-Romagna area managed by Hera Spa accounted for 86% of this growth, while the area served by AcegasApsAmga Spa accounted for 9% and the remainder involved the area served by Marche Multiservizi Spa.

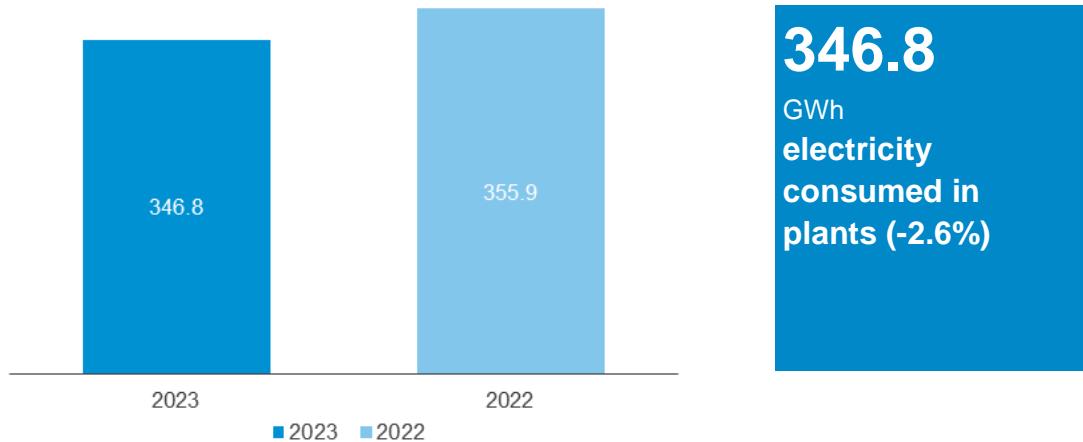
The main indicators for the area are as follows:



The volumes supplied through the aqueduct, which amounted to 283.4 million m³, decreased by 2% compared to December 2022, down by 5.9 million m³. This trend is partially due to a more aware and efficient use of water resources, with a view to water savings and limiting consumption for the good of the environment. At December 2023, the quantity managed in sewerage came to 232.7 million m³, down by 2.3% compared to the previous year, while the amount involved in purification settled at 232.2 million m³, down by 2.3% compared to December 2022. The volumes supplied, following the Authority's resolution 580/2019, are an indicator of the activity of the areas in which the Group operates and are subject to equalisation, owing to legislation that provides for a regulated revenue, recognised independently from volumes distributed.

283.4 million m³: amount managed in the aqueduct

ELECTRICITY CONSUMED (GWh)

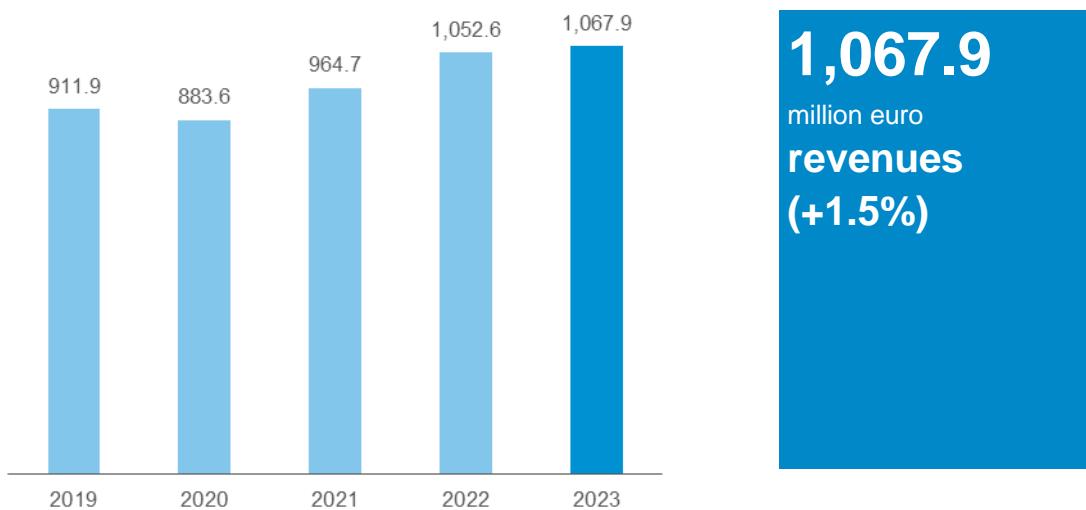


Electricity consumed in plants decreased by 9.1 GWh. This drop is related mainly to the Group's commitment to increasingly efficient and prudent management of energy resources, carried out by implementing innovative measures in plants.

The following table summarises operating results for the gas area:

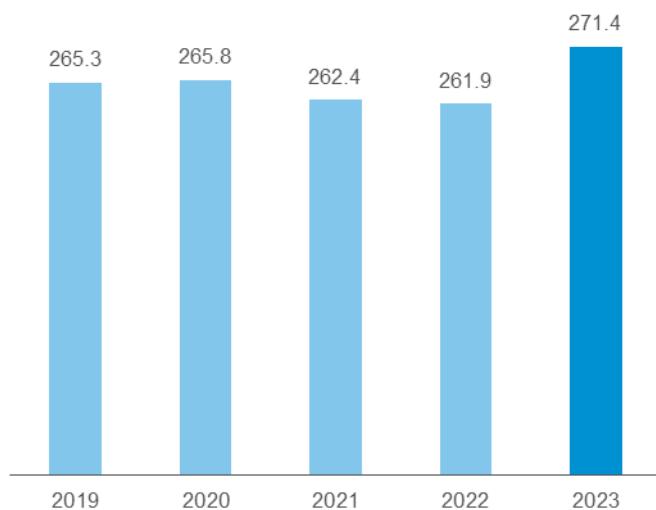
Income statement (mn€)	Dec 23	% Inc.	Dec 22	% Inc.	Abs. change	% change
Revenues	1,067.9		1,052.6		15.3	+1.5%
Operating costs	(607.7)	(56.9)%	(611.9)	(58.1)%	(4.2)	(0.7)%
Personnel costs	(193.9)	(18.2)%	(185.6)	(17.6)%	8.3	+4.5%
Capitalised costs	5.1	0.5%	6.7	0.6%	(1.6)	(23.9)%
Ebitda	271.4	25.4%	261.9	24.9%	9.5	+3.6%

REVENUES (mn€)



Water cycle revenues increased by 1.5% year-on-year, going from 1,052.6 million euro in December 2022 to 1,067.9 million euro in 2023. Note the lower revenues for equalisations of energy components, as described in further detail under operating expenses, and higher accrued tariff revenues related to the increase in RAB. Bonuses were essentially in line with the previous year, reflecting the excellent performances achieved by the Group in terms of quality in managing the integrated water service. Overall, the aforementioned effects account for roughly 5.7 million euro of lower revenues. Lastly, the higher works for contracts carried out in 2023 amounted to approximately 20.0 million euro.

The decrease in operating costs in December 2023 mainly involved lower procurement costs for energy components as a result of an energy scenario with lower prices for raw materials than the previous year. This effect was only partially offset by growth in costs due to the increased works for contracts carried out in 2023. Lastly, note the higher operating costs for the management of networks and plants and the higher costs related to the increase in the list prices of all major supplies of materials and, in particular, chemical products and services.

EBITDA (mn€)**271.4**

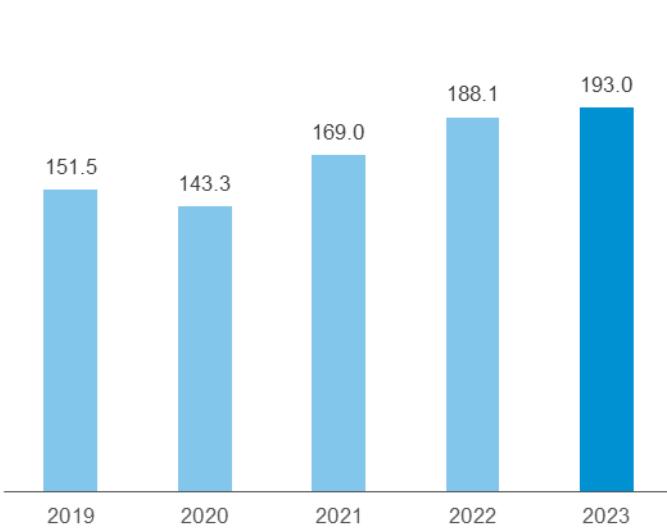
million euro

**Ebitda
(+3.6%)**

Ebitda increased by 9.5 million euro, up 3.6%, going from 261.9 million euro in December 2022 to 271.4 million euro in 2023. Revenues related to the increased RAB were partially offset by higher operating costs, due to factors including higher prices for all main supplies.

In 2023, net investments in the integrated water cycle area amounted to 193.0 million euro, as against 188.1 million euro during the previous year. The overall 4.9 million euro increase was influenced by a rise in capital grants, which reduced net investments more than the previous year. Including the capital grants received, capital expenditures amounted in fact to 228.2 million euro, up 20.2 million euro over the previous year.

These investments mainly referred to extensions, reclamation and upgrades on networks and plants, as well as regulatory adjustments mainly in the purification and sewerage sectors, and amounted to 131.7 million euro in the aqueduct, 58.9 million euro in sewerage and 37.5 million euro in purification.

NET INVESTMENTS WATER CYCLE (mn€)**193.0**

million euro

**net
investments
water cycle**

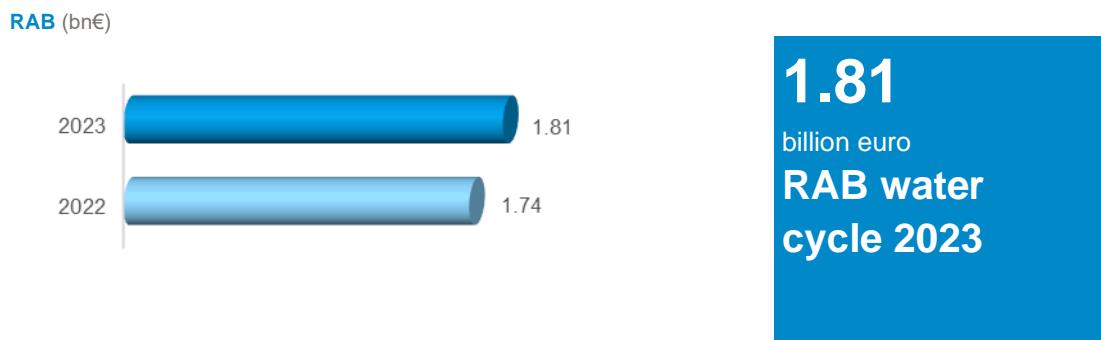
The main interventions include: in the aqueduct, ongoing reclamation activities on networks and connections related to Arera Resolution 917/2017 on the regulation of the technical quality of the integrated water service, as well as major non-recurring maintenance and restoration activities following the May 2023 flood emergency. Important maintenance work continued on the intake works on the Setta stream serving the Sasso Marconi (BO) drinking water treatment plant, the expansion of water networks

in other areas served, and the large-scale meter replacement. In addition, development has begun for the project involving the new Castel Bolognese (RA) supply system, and for an important reclamation work on a water adduction pipeline from Pontelagoscuro to Ferrara. In sewerage, in addition to continuing to implement the Rimini seawater safety plan (PSB), maintenance work was carried out to upgrade the sewerage network in other areas served along with work to update drains to comply with Regional Decree no. 201/2016. In purification, note the upgrading on the plant in the municipality of San Giovanni in Persiceto (BO) and the ongoing revamping of the Gramicia purification plant in Ferrara, with the replacement of the sludge centrifuges, as well as the construction of a new "Power to gas" plant at the IDAR purification plant in Bologna. Requests for new water and sewerage connections decreased slightly compared to the previous year. Capital grants, amounting to 35.2 million euro, were down by 15.4 million euro and included 19.5 million euro deriving from the tariff component of the tariff method for the New Investments Fund (FoNI).

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

Integrated water cycle (mn€)	Dec 23	Dec 22	Abs. change	% change
Aqueduct	131.7	126.8	4.9	+3.9%
Purification	37.5	35.6	1.9	+5.3%
Sewerage	58.9	45.5	13.4	+29.5%
Total integrated water cycle gross	228.2	208.0	20.2	+9.7%
Capital grants	35.2	19.8	15.4	+77.8%
of which FoNi (New Investments Fund)	19.5	17.4	2.1	+12.1%
Total integrated water cycle net	193.0	188.1	4.9	+2.6%

RAB, which defines the value of the assets recognised by the Authority as regards return on invested capital, increased compared to 2022.



1.07.04 **Waste management**

Ebitda rises

In 2023, the waste management area accounted for 23.6% of the Hera Group's overall Ebitda, with this area's Ebitda up by 15.4 million euro compared to the previous year. The Group therefore continued to guarantee a significant amount of growth, within a context marked by a slowdown in national GDP and a slightly decelerating inflation rate, with a consequent drop in industrial production and an ensuing impact on waste production, in particular having an industrial origin, where an increase was seen in competitive pressure, including from international companies, in the markets covered.

For 2023 as well, the lines of development that best represent the Group's activities were confirmed: transforming incoming waste into products with a view to the circular economy, while guaranteeing, at the same time, a correct and rapid management of all types of wastes that, by their very nature, must be disposed of.

One example of this is the new plant in Spilamberto (MO), which became fully operational in 2023. Born out of a partnership between Herambiente and Inalca, it converted an old biodigester into a state-of-the-art plant able to transform organic and agrifood waste into 100% renewable methane and compost. At

the Responsible Innovators Awards organised by the Emilia-Romagna Region, this plant received a special mention in the “Ecological Transition” category for its concrete contribution to decarbonisation. With a potential annual production coming to approximately 3.7 million m³ of biomethane, about 3 thousand TOE (tonnes of oil equivalent) of fossil fuel can be saved and roughly 7 thousand tonnes of CO₂ emissions into the atmosphere avoided.

Protecting environmental resources was confirmed as a priority objective in 2023, as was maximizing their reuse. This is also proven by the special attention the Group dedicated to increasing sorted waste collection. Thanks to the Group's substantial commitment to this area in all geographical areas served, sorted waste collection increased by more than four percentage points compared to the 2022 figures.

EBITDA WASTE MANAGEMENT AREA 2023 EBITDA WASTE MANAGEMENT AREA 2022



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

(mn€)	Dec 23	Dec 22	Abs. change	% change
Area Ebitda	353.4	338.0	15.4	+4.6%
Group Ebitda*	1,494.7	1,295.0	199.7	+15.4%
Percentage weight	23.6%	26.1%	(2.5) pp	

* adjusted results, as described in paragraph 1.04

Volumes marketed and treated by the Group in 2023 are as follows:

Quantity (k tons)	Dec 23	Dec 22	Abs. change	Change %
Municipal waste	2,310.2	2,207.1	103.1	+4.7%
Market waste	2,766.9	2,554.2	212.7	+8.3%
Waste commercialised	5,077.1	4,761.2	315.9	+6.6%
Plant by-products	2,661.0	2,161.7	499.3	+23.1%
Waste treated by type	7,738.1	6,922.9	815.2	+11.8%

An analysis of this data shows a rise in waste commercialised, due to increases in both municipal and market. As regards municipal waste, in 2023 a 4.7% rise was seen compared to the previous year, mainly due to the waste produced by the flood. For further details, see paragraph 1.03.01, entirely dedicated to the flood.

Market volumes increased by 8.3% compared to 2022, due to the consolidation of previously existing commercial relations, growth in the customer portfolio and recent corporate acquisitions.

Lastly, plant by-products show amounts rising by 23.1% compared to the previous year, mainly due to an increasing in liquid waste caused by the higher rainfall compared to 2022, one of the driest years since these phenomena have been recorded.

SORTED WASTE (%)

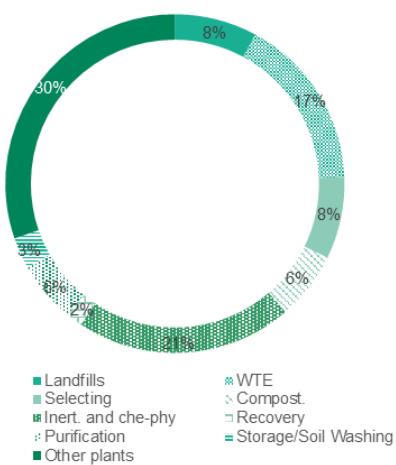


As previously mentioned, sorted municipal waste collection stood at 72.2%, up 4.4 percentage points over the previous year, thanks to the development of projects in the areas managed by the Group.

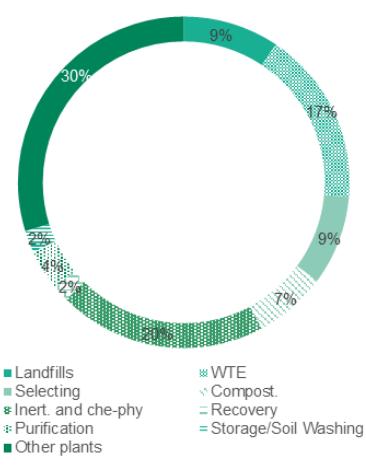
The Hera Group operates in the entire waste cycle, with 101 plants for treating municipal and special waste and regenerating plastic materials. The main plants include: 9 waste-to-energy plants, 13 composting/digestion plants and 17 selecting plants.

The close attention paid to the set of plants has always been a distinctive element of the Group's propensity for excellence: operations are indeed ongoing to provide plants with the best available technologies.

WASTE TREATED BY TYPE OF PLANT 2023



WASTE TREATED BY TYPE OF PLANT 2022



Quantity (k tons)	Dec 23	Dec 22	Abs. change	Change %
Landfills	608.9	648.5	(39.6)	(6.1)%
WTE	1,277.7	1,180.2	97.5	+8.3%
Selecting plants	605.6	603.8	1.8	+0.3%
Composting and stabilisation plants	502.6	490.4	12.2	+2.5%
Inertisation and chemical-physical plants	1,597.5	1,405.1	192.4	+13.7%
Recovery plants	120.6	113.1	7.5	+6.6%
Purification plants	453.7	276.1	177.6	+64.3%
Storage/Soil Washing	230.7	145.7	85.0	+58.3%
Other plants	2,340.6	2,060.1	280.5	+13.6%
Waste treated by plant	7,738.1	6,922.9	815.2	+11.8%
 Plastic recycled by Aliplast	 84.6	 79.2	 5.4	 +6.8%

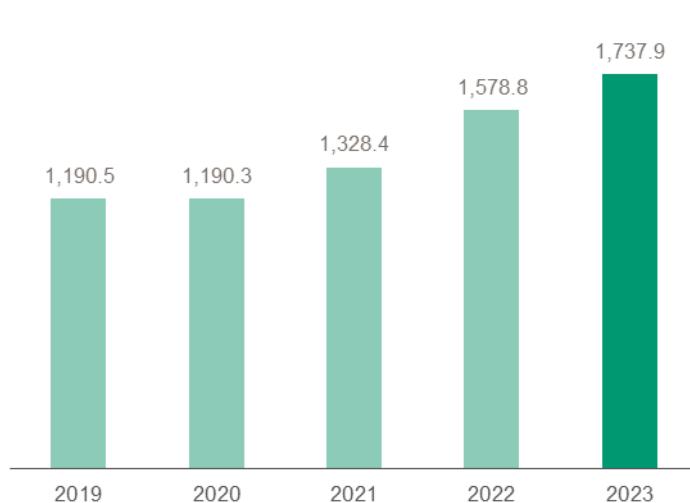
Waste treatment showed overall growth coming to 11.8% compared to 2022. An analysis of the individual sectors shows quantities decreasing in landfills while, as regards waste-to-energy plants, the upward trend was mainly due to greater volumes in the Trieste plant, which was revamped in 2022. The increased quantity in sorting plants was due to the greater quantities treated, thanks to the rise in sorted waste collection. In composting and stabilisation plants, volumes increased mainly due to greater quantities treated in the Spilamberto (MO) and Nonantola (MO) plants, fully operational in 2023, while in inertisation and chemical-physical plants, the increased quantities were mainly due to greater volumes of liquid waste treated.

In recovery plants, volumes increased due to a growing demand for high-quality recycled plastic products.

Lastly, an increase in waste treated at purification plants occurred due to greater liquid by-products. In the storage/soil washing sector the increase was mainly caused by changes in the perimeter, while the increase in Other plants was due to greater quantities intermediated at third-party plants, partially on account of flood waste management.

The following table summarises operating results for the area:

Income statement (mn€)	Dec 23	% Inc.	Dec 22	% Inc.	Abs. change	% change
Revenues	1,737.9		1,578.8		159.1	+10.1%
Operating costs	(1,166.5)	(67.1)%	(1,058.0)	(67.0)%	108.5	+10.3%
Personnel costs	(244.6)	(14.1)%	(215.8)	(13.7)%	28.8	+13.3%
Capitalised costs	26.6	1.5%	33.0	2.1%	(6.4)	+(19.4)%
Ebitda	353.4	20.3%	338.0	21.4%	15.4	+4.6%

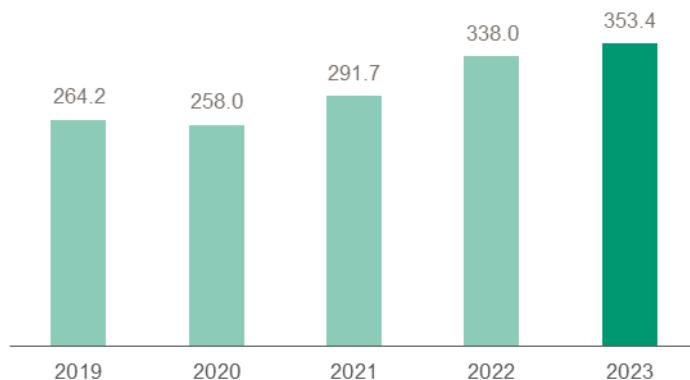
REVENUES (mn€)

1,737.9
million euro
revenues
(+10.1%)

In 2023, revenues increased by 10.1% compared to the previous year. Note the 132.1 million euro increase in revenues due to changes in the scope of consolidation caused by recent acquisitions in the Industry market, and the higher revenues from disposal coming from increased commercial activities in the utilities market, in terms of both volumes and prices, amounting to approximately 42.2 million euro, partially offset by the drop in prices in the recovery market. Note, furthermore, the approximately 30 million euro in contributions received linked to the flood emergency to cover costs having the same amount.

Operating costs for 2023 grew by 10.3%. Note the higher costs due to both the change in the scope of consolidation compared to the previous year, on account of recent acquisitions, and for transport and treatment services involving by-product management, due to higher volumes and an increase in supplier prices. Decreased costs were also seen for purchasing raw materials due to the drop in commodity prices, while in the treatment market an increase occurred in maintenance costs and consumables, particularly chemicals.

As far as municipal waste collection is concerned, the increased activities were related to developing new sorted waste collection projects.

EBITDA (mn€)

353.4
million euro
Ebitda
(+4.6%)

The increase in Ebitda was mainly due to the good performance of the treatment area. The contribution coming from changes in the scope of operations due to recent acquisitions amounted to roughly 20.9 million euro, and the excellent performance in energy management came to 15.2 million euro. The positive change resulting from higher volumes treated offset the increases in costs due to inflation, the closure of the Ca' Lucio landfill in the Marche region and the downward trend in the recovery market.

Net investments in the waste management area were related to maintenance and upgrading on waste treatment plants and amounted to 150.4 million euro, up 2 million euro compared to the previous year.

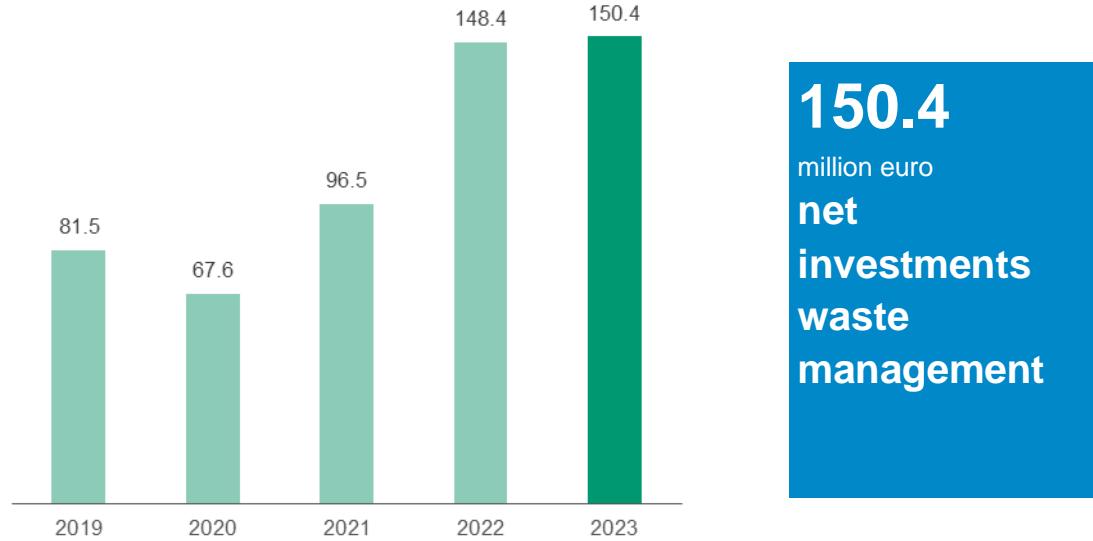
The composting/digester sector showed a decrease in investments coming to 9.4 million compared to the previous year, linked to the construction in the first part of 2022 of the biomethane production plant in Spilamberto (MO), which created a non-permanent increase in capitalisations for 2022.

Investments in landfills increased by 6.4 million euro, mainly due to the work done by Marche Multiservizi Spa on the fourth lot of the Cà Asprete plant, in addition to the interventions carried out on the Feronia and Galliera plants by Herambiente Spa.

The WTE sector saw an 8.1 million euro decrease in investments, caused by the significant work carried out during the first period of the previous year for revamping line two of the Trieste plant and the planned non-recurring maintenance on the Rimini, Modena and Bologna plants. In the industrial waste plants sector, the 11.7 million euro drop was mainly due to revamping on the Ravenna F3 plant, also carried out in the first part of 2022.

The collection area and equipment sector showed a 1 million euro decrease in investments compared to the previous year, while the sorting and recovery plants sector saw an overall increase coming to 25.4 million euro, due to the perimeter delta caused by the acquisition of A.C.R. Spa and other interventions, including the construction of the rigid plastics processing plant owned by Aliplast Spa.

NET INVESTMENTS WASTE MANAGEMENT (mn€)



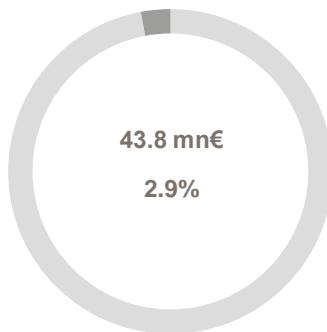
Details of operating investments in the waste management area are as follows:

Waste management (mn€)	Dec 23	Dec 22	Change	Abs. change	% change
Composters/digesters	10.4	19.8		(9.4)	(47.5)%
Landfills	23.7	17.3		6.4	+37.0%
WTE	21.9	30.0		(8.1)	(27.0)%
SW plants	16.7	28.4		(11.7)	(41.2)%
Collection areas and equipment	18.1	19.1		(1.0)	(5.2)%
Transshipment, selecting and other plants	59.9	34.5		25.4	+73.6%
Total waste management gross	150.8	149.2		1.6	+1.1%
Capital grants	0.4	0.8		(0.4)	(50.0)%
Total waste management net	150.4	148.4		2.0	+1.3%

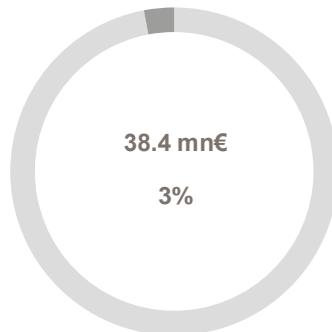
1.04.05 Other services

Ebitda rises The other services area covers all minor businesses managed by the Group. Including: public lighting, in which the Hera Group's efforts go towards planning, constructing and maintaining lighting structures, contributing to safety across the areas served through avant-garde technologies and constant attention towards the circular economy and sustainability; telecommunications, in which the Group offers connectivity for private customers and companies, telephone and Data Centre services through its own digital company; and, lastly, cemetery services. At December 2023, results in this area stood at 43.8 million euro, up 5.4 million euro over the previous year.

OTHER SERVICES EBITDA 2023



OTHER SERVICES EBITDA 2022



The changes occurred in terms of Ebitda are as follows:

(mn€)	Dec 23	Dec 22	Abs. change	% change
Area Ebitda	43.8	38.4	5.4	+14.1%
Group Ebitda*	1,494.7	1,295.0	199.7	+15.4%
Percentage weight	2.9%	3.0%	(0.1) pp	

* adjusted results, as described in paragraph 1.04

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

Quantity	Dec 23	Dec 22	Abs. change	% change
Public lighting				
Lighting points (k)	644.7	614.3	+30.4	+4.9%
of which LED	45.1%	40.7%	+4.4	
Municipalities served	210.0	197.0	+13.0	+6.6%

In 2023, the Hera Group acquired approximately 56.3 thousand lighting points in 24 new municipalities. From a geographical point of view, the most significant acquisition included 27.7 thousand lighting points in Tuscany, 7.8 thousand lighting points in Emilia-Romagna, 8.5 thousand lighting points in Umbria, 5.1 thousand lighting points in the Triveneto area and 2.2 thousand lighting points in Lombardy. Also note the acquisitions made in other regions, mainly in central Italy, coming to 5.0 thousand lighting points. The increases seen during the period fully offset the loss of 25.9 thousand lighting points and 11 municipalities served, mainly in the Triveneto area.

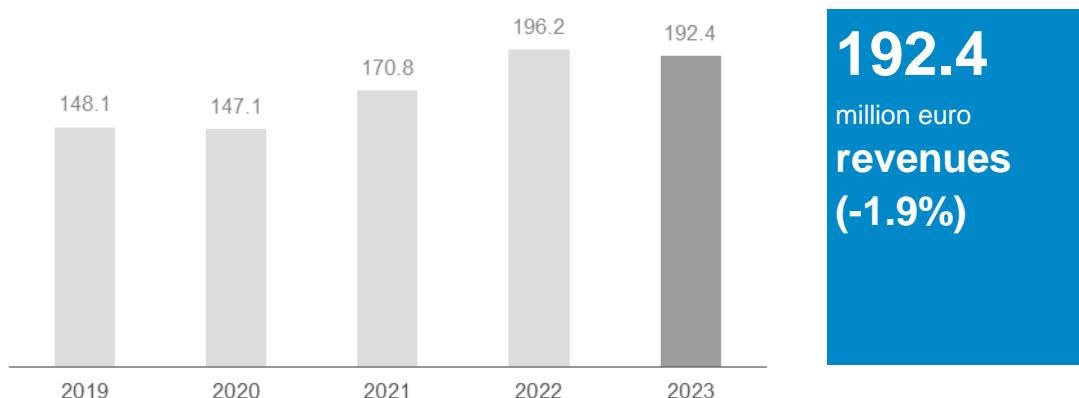
The percentage of lighting points using LED lamps also rose, standing at 45.1%, up 4.4 percentage points. This trend highlights the Group's continued focus on an increasingly efficient and sustainable management of public lighting.

Quantitative indicators in the other services area also include the 6,748 km of proprietary ultra-wideband fibre optic network that the Hera Group owns through its digital company, Acantho Spa. This network serves the main cities in Emilia-Romagna, Padua and Trieste, and provides companies and individuals with high-performance connectivity, high reliability and maximum security for systems, data and service continuity. The network infrastructure became even more extensive in 2023 thanks to the acquisition of Asco TLC Spa, later merged into Acantho. This merger represents a strategic step in the evolution of the Group's business portfolio and its offer of efficient, innovative and competitive solutions, both in terms of cost and sustainability.

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

Income statement (mn€)	Dec 23	% Inc.	Dec 22	% Inc.	Abs. change	% change
Revenues	192.4		196.2		(3.8)	(1.9)%
Operating costs	(128.8)	(66.9)%	(139.2)	(71.0)%	(10.4)	(7.5)%
Personnel costs	(22.9)	(11.9)%	(21.3)	(10.9)%	1.6	+7.5%
Capitalised costs	3.1	1.6%	2.7	1.4%	0.4	+14.8%
Ebitda	43.8	22.7%	38.4	19.6%	5.4	+14.1%

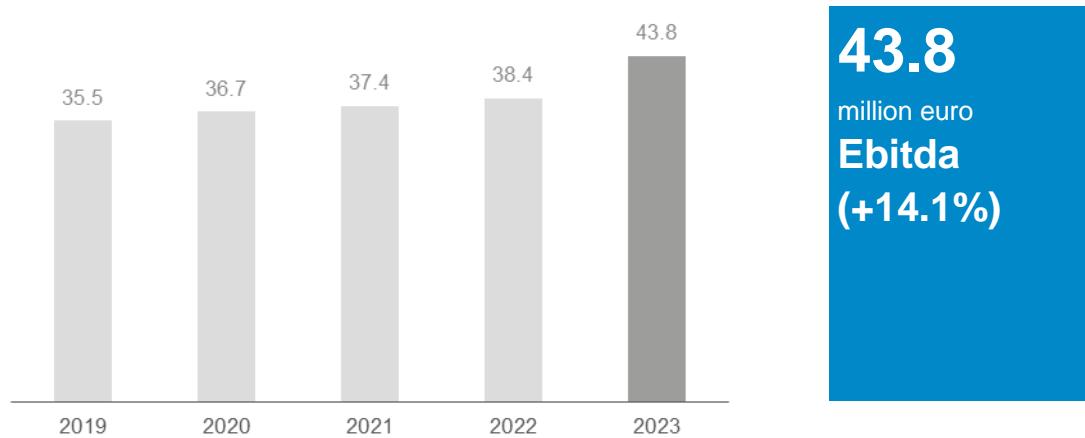
REVENUES (mn€)



The decrease in revenues mainly concerned the public lighting business, due to lower energy adjustments on service management fees, as described in further detail under costs, which were only partly reduced by the progress made in energy upgrading works compared to 2022. Telecommunications contributed with a total of 7.3 million euro to higher revenues, due to both increased activities in telephony and connectivity services and the acquisition of Asco TLC Spa.

The decreased costs in the public lighting business were due to lower costs for the energy component of raw materials, affected during the previous year by the significant rise in prices of energy vectors, despite the increased upgrading activities mentioned above among revenues. Consistently with the trend in revenues, an increase was seen in operating costs related to telecommunications.

EBITDA (mn€)

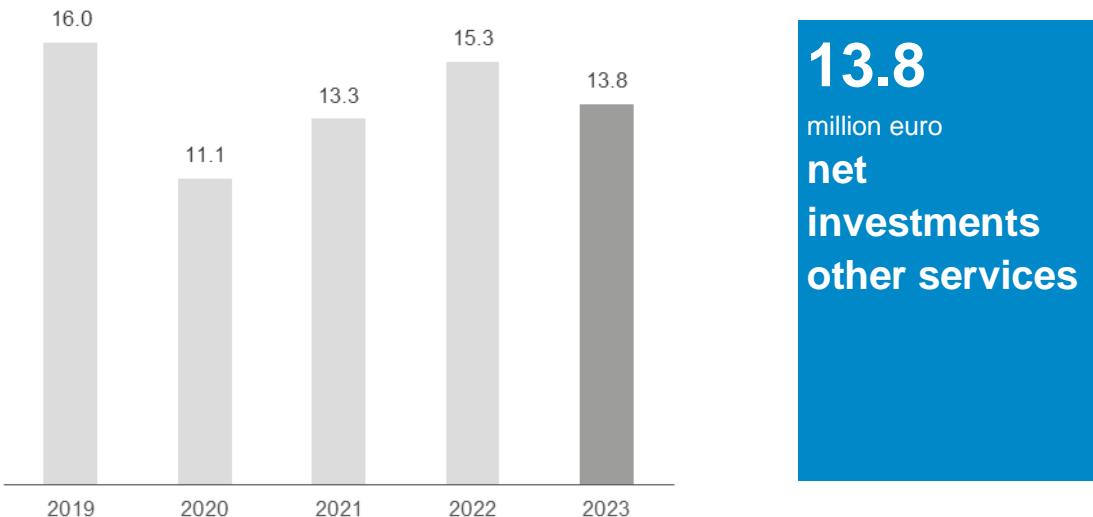


Ebitda for the other services area as a whole increased by 14.1%, up 5.4 million euro due to the contribution coming from public lighting and telecommunications.

Net investments in 2023 for the other services area amounted to 13.8 million euro, down 1.5 million euro compared to the previous year.

In telecommunications, 9.8 million euro in investments were made in network and TLC services, up 0.7 million euro. In public lighting, investments were related to maintenance, upgrading and modernisation for lighting systems in the areas managed and came to 4.0 million euro, down 2.2 million euro compared to the previous year.

NET INVESTMENTS OTHER SERVICES (mn€)



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

Other services (mn€)	Dec 23	Dec 22	Abs. change	% change
TLC	9.8	9.1	0.7	+7.7%
Public lighting and traffic lights	4.0	6.2	(2.2)	(35.5)%
Total other services gross	13.8	15.3	(1.5)	(9.8)%
Capital grants	-	-	-	+0.0%
Total other services net	13.8	15.3	(1.5)	(9.8)%

1.08 SHAREHOLDERS MEETING RESOLUTIONS

The Hera Spa Shareholders Meeting:

- having acknowledged the Board of Directors' report on management;
- having acknowledged the Board of Statutory Auditors' report;
- having acknowledged the Independent Auditors' report;
- having examined the financial statements at 31 December 2023, which close with profits totalling di 244,842,670.65 euro;

resolves:

- to approve Hera Spa's financial statements at 31 December 2023 and the report on management prepared by the Board of Directors;
- to allocate profits for the 1 January 2023 – 31 December 2023 financial year, amounting to a total of 244,842,670.65 euro, as follows:
 - 12,242,133.53 euro to the legal reserve; and
 - a dividend amounting to 0.140 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
 - 24,065,112.82 euro to the extraordinary reserve.

The total dividend paid out therefore amounts to 208,535,424.30 euro, corresponding to 0.140 euro for each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio);

- to establish 26 June 2024 as the initial date for dividend payment, and 24 June 2024 as the ex-dividend date for coupon no. 22, dividends being paid to shares recorded at 25 June 2022;
- to grant a mandate to the Board of Directors, and its Chairman, to ascertain in due time, in accordance with the definitive number of shares outstanding, the exact amount of profits to be distributed, and therefore the exact amount of the extraordinary reserve.

1.09 NOTICE CONVENING THE SHAREHOLDERS MEETING



HERA S.p.A.

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

Shareholders are asked to attend the Extraordinary and Ordinary Shareholders' Meeting at the head office of Hera S.p.A. - Viale C. Berti Pichat no. 2/4, Bologna – at “Spazio Hera” - **on 30 April 2024 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 23 of the Articles of Association: related and consequent resolutions.

Ordinary Part of the Shareholders' Meeting

1. Financial statements as at 31 December 2023 of Hera S.p.A.: related and consequent resolutions. Presentation of the consolidated financial statements as at 31 December 2023 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. Appointment of a member of the Board of Directors.
6. Appointment of a member of the Board of Directors who will assume the role of Vice Chairman.
7. Renewal of the authorisation to purchase treasury shares and the disposal procedure thereof: related and consequent resolutions.

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.

Right to attend and participate by proxy

Anyone who holds voting rights at the end of the accounting day of 19 April 2024 (*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 by 25 April 2024, shall be entitled to attend the Shareholders' Meeting. 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

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

shareholder after 19 April 2024 will not have the right to attend and vote at the Shareholders' Meeting.

Any person entitled to intervene may be represented at the Shareholders' Meeting pursuant to the law with the right to use the proxy form available on the Company's website (www.gruppohera.it), where the methods that interested parties may use to notify the Company of proxies also electronically can also be found.

The Company has appointed Computershare S.p.A. as a representative to whom the holders of voting rights may confer, by 26 April 2024, a proxy with voting instructions on all or some of the proposals on the agenda. The proxy to the aforementioned representative must be conferred according to the procedures and using the specific proxy form available through the Company's website (www.gruppohera.it).

The proxy to the designated representative shall not have effect with respect to proposals for which voting instructions have not been given.

Other rights of Shareholders

Shareholders may raise questions on the items on the agenda before the Shareholders' Meeting, provided they do so no later than 19 April 2024, following the procedure indicated on the Company's website (www.gruppohera.it).

Questions received within the above deadline will be answered no later than 28 April 2024, following verification of their relevance and the legitimacy of the applicant, via publication in the section of the aforementioned website dedicated to the Shareholders' Meeting.

Shareholders who, even jointly, represent one fortieth of the share capital may request, within 10 days of the publication of this 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. Requests must be submitted in writing in the manner indicated on the Company's website (www.gruppohera.it).

Bologna, 27 march 2024

The Executive Chairman of the Board of Directors
(Cristian Fabbri)

Pursuant to Article 2364 paragraph 2, second sentence, of the Italian Civil Code, the Shareholders Meeting was called, due to organisational reasons, for 30 April 2024

CONSOLIDATED FINANCIAL STATEMENTS



2.01 FINANCIAL STATEMENT FORMATS

2.01.01 Income statement

mn€	notes	2023	2022
Revenues	1	14,897.3	20,082.0
Other operating revenues	2	667.8	548.2
Raw and other materials	3	(9,672.2)	(16,730.0)
Service costs	4	(3,655.9)	(2,105.8)
Personnel costs	5	(641.1)	(601.1)
Other operating expenses	6	(90.3)	(74.9)
Capitalised costs	7	82.1	82.5
Amortisation, provisions and depreciation	8	(753.7)	(667.1)
Operating profit		834.0	533.8
Share of profits (losses) pertaining to joint ventures and associated companies	9	10.3	10.0
Financial income	10	157.1	82.2
Financial expenses	11	(345.0)	(217.2)
Financial operations		(177.6)	(125.0)
Earnings before taxes		656.4	408.8
Taxes	12	(173.2)	(103.5)
Net profit for the period		483.2	305.3
Attributable to:			
parent company shareholders		441.4	255.2
non-controlling interests		41.8	50.1
Earnings per share			
basic	17	0.305	0.175
diluted	17	0.305	0.175

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 2.03.01 of this consolidated financial statement.

2.01.02 Statement of comprehensive income

mn€	notes	2023	2022
Net profit (loss) for the period		483.2	305.3
Items reclassifiable to the income statement			
Fair value of derivatives, change for the period	29	(289.1)	229.1
Tax effect related to reclassifiable items		83.2	(65.9)
Items not reclassifiable to the income statement			
Actuarial income (losses) employee and post-employment benefits	30	(2.0)	3.1
Shareholdings valued at fair value	26	10.9	(12.1)
Tax effect related to not reclassifiable items		0.4	(0.7)
Total comprehensive profit (loss) for the period		286.6	458.8
Attributable to:			
Parent company shareholders		238.8	406.7
non-controlling interests		47.8	52.1

2.01.03 Statement of financial position

mn€	notes	31 Dec 23	31 Dec 22
ASSETS			
Non-current assets			
Tangible assets	21,25	2,059.3	1,984.4
Rights of use	22,25	90.6	84.2
Intangible assets	23,25	4,719.6	4,417.4
Goodwill	24,25	908.7	848.1
Shareholdings	26,27	195.6	190.3
Non-current financial assets	18	162.8	151.8
Deferred tax assets	14	302.3	240.4
Derivative instruments	29	0.3	1.0
Total non-current assets		8,439.2	7,917.6
Current assets			
Inventories	32	631.6	995.1
Trade receivables	33	3,586.8	3,875.0
Current financial assets	18	90.9	77.7
Current tax assets	13	11.4	46.0
Other current assets	35	509.3	642.5
Derivative instruments	29	478.0	1,622.2
Cash and cash equivalents	18	1,332.8	1,942.4
Total current assets		6,640.8	9,200.9
TOTAL ASSETS		15,080.0	17,118.5

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 2.03.02 of this consolidated financial statement.

mn€	notes	31 Dec 23	31 Dec 22
NET EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	15	1,443.0	1,450.3
Reserves	15	1,553.8	1,692.9
Profit (loss) for the period	15	441.4	255.2
Group net equity		3,438.2	3,398.4
Non-controlling interests	16	313.4	246.3
Total net equity		3,751.6	3,644.7
Non-current liabilities			
Non-current financial liabilities	19	4,421.7	5,689.9
Non-current lease liabilities	22	56.8	55.1
Post-employment and other benefits	30	88.1	92.0
Provisions for risks and charges	31	617.8	565.6
Deferred tax liabilities	14	156.9	215.7
Derivative instruments	29	-	6.3
Total non-current liabilities		5,341.3	6,624.6
Current liabilities			
Current financial liabilities	19	890.8	650.1
Current lease liabilities	22	24.5	21.3
Trade payables	34	2,637.2	3,093.1
Current tax liabilities	13	110.2	17.1
Other current liabilities	36	1,866.8	1,720.0
Derivative instruments	29	457.6	1,347.6
Total current liabilities		5,987.1	6,849.2
TOTAL LIABILITIES		11,328.4	13,473.8
TOTAL NET EQUITY AND LIABILITIES		15,080.0	17,118.5

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 2.03.02 of this consolidated financial statement.

2.01.04 Cash flow statement

mn€	notes	31 Dec 23	31 Dec 22
Earnings before taxes		656.4	408.8
Adjustments to reconcile net profit to cash flow from operating activities			
Amortisation and impairment of assets	8	526.2	478.6
Allocation to provisions	8	227.5	188.5
Effects from valuation using the net equity method	9	(10.3)	(10.0)
Financial (income) expenses	10,11	187.9	135.0
(Capital gains) losses and other non-monetary elements		(8.4)	41.6
Change in provision for risks and charges	31	(27.7)	(27.8)
Change in provision for employee and post-employment benefits	30	(11.0)	(12.7)
Total cash flow before changes in net working capital		1,540.6	1,202.0
(Increase) decrease in inventories	37	395.1	(627.4)
(Increase) decrease in trade receivables	37	(81.9)	(1,280.7)
Increase (decrease) in trade payables	37	(513.7)	727.8
Increase/decrease in other current assets/liabilities	37	429.7	252.7
Changes in working capital		229.2	(927.6)
Dividends collected	37	15.1	13.4
Interest income and other financial income collected	37	77.8	41.8
Interest expenses, net charges on derivatives and other financial charges paid	37	(193.4)	(128.0)
Taxes paid	37	(96.6)	(165.9)
Cash flow from operating activities (a)		1,572.7	35.7
Investments in tangible assets	21	(242.7)	(225.6)
Investments in intangible assets	23	(573.1)	(483.9)
Investments in subsidiary companies and business units net of cash holdings	28	(76.2)	(50.1)
Other equity investments	28	-	(3.2)
Sale price of tangible and intangible assets		2.6	3.3
(Increase) decrease in other investment activities	28	30.1	1.1
Cash flow from (for) investing activities (b)		(859.3)	(758.4)
New issue of long-term bonds	20	614.9	2,127.0
Repayments of non-current financial liabilities	20	(750.0)	-
Repayments and other net changes in financial liabilities	20	(908.5)	(47.3)
Repayments of leasing liabilities	20	(22.4)	(43.4)
Acquisition of interests in consolidated companies	20	(0.1)	(10.6)
Increase in minority share capital	20	1.9	-
Dividends paid out to Hera shareholders and non-controlling interests	20	(239.1)	(219.5)
Changes in treasury shares	15	(19.7)	(26.7)
Cash flow from (for) financing activities (c)		(1,323.0)	1,779.5
Increase (decrease) in cash holdings (a+b+c)		(609.6)	1,056.8
Cash and cash equivalents at the beginning of the period	18	1,942.4	885.6
Cash and cash equivalents at the end of the period	18	1,332.8	1,942.4

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 2.03.03 of this consolidated financial statement.

2.01.05 Statement of changes in net equity

mn€	Share capital	Reserves	Reserves derivatives valued at fair value	Reserves actuarial income (losses) employee benefits	Reserves shareholdings valued at fair value	Profit for the period	Net equity	Non-controlling interests	Total
Balance at 1 Jan 22	1,459.6	1,352.8	93.6	(33.7)	(5.6)	333.5	3,200.2	216.6	3,416.8
Profit for the period						255.2	255.2	50.1	305.3
Other components of comprehensive income:									
fair value of derivatives, change for the period			161.7				161.7	1.5	163.2
actuarial income (losses) employee and post-employment benefits				1.9			1.9	0.5	2.4
fair value of shareholdings, change for the period					(12.1)		(12.1)	-	(12.1)
Overall profit for the period	-	-	161.7	1.9	(12.1)	255.2	406.7	52.1	458.8
change in treasury shares	(9.3)	(17.4)					(26.7)	-	(26.7)
change in equity investments		(8.6)	1.2				(7.4)	(3.2)	(10.6)
other movements		0.2	0.1				0.3	(0.1)	0.2
Allocation of revenues:									
dividends paid out					(174.7)		(174.7)	(19.1)	(193.8)
allocation to reserves		158.8			(158.8)		-	-	-
Balance at 31 Dec 22	1,450.3	1,485.8	256.6	(31.8)	(17.7)	255.2	3,398.4	246.3	3,644.7
Balance at 1 Jan 23	1,450.3	1,485.8	256.6	(31.8)	(17.7)	255.2	3,398.4	246.3	3,644.7
Profit for the period						441.4	441.4	41.8	483.2
Other components of comprehensive income:									
fair value of derivatives, change for the period			(212.1)				(212.1)	6.2	(205.9)
actuarial income (losses) employee benefit reserves				(1.3)			(1.3)	(0.2)	(1.5)
fair value of shareholdings, change for the period					10.8		10.8	-	10.8
Overall profit for the period	-	-	(212.1)	(1.3)	10.8	441.4	238.8	47.8	286.6
change in treasury shares	(7.3)	(12.4)					(19.7)		(19.7)
minority share payments							-	1.9	1.9
change in equity investments		2.9					2.9	(3.0)	(0.1)
changes in scope of consolidation							-	56.8	56.8
other movements		(1.3)					(1.3)	(0.6)	(1.9)
Allocation of revenues:									
dividends paid out					(180.9)		(180.9)	(35.8)	(216.7)
allocation to reserves		74.3			(74.3)		-	-	-
Balance at 31 Dec 23	1,443.0	1,549.3	44.5	(33.1)	(6.9)	441.4	3,438.2	313.4	3,751.6

2.02 EXPLANATORY NOTES

2.02.01 Introduction

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

The consolidated financial statement at 31 December 2023 was prepared in compliance with Regulation (EC) No. 1606/2002 of 19 July 2002, observing the International Accounting Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, as well as the provisions enacted in implementing Article 9 of Italian Legislative Decree no. 38/2005. IFRSs also include the International Accounting Standards (IAS) currently in force, the interpretative documents issued by the International Financial Reporting Standards Interpretation Committee (IFRSIC) and the previous Standing Interpretation Committee (SIC).

The directors considered the applicability of the assumed going concern in drafting the consolidated financial statement, and decided that such assumption is appropriate in that there are no doubts about the going concern. This assessment took into account the current context created by the conflicts between Russia and Ukraine and between Israel and Palestine.

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 paragraph 1.03 "Main significant events".

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 accounted for here are provided in the paragraph "Significant estimates and valuations" at the end of this section.

These consolidated financial statements at 31 December 2023 were drawn up by the Board of Directors and approved by the same at the meeting held on 26 March 2024. These financial statements were audited by Deloitte & Touche Spa.

Financial statement content and format

These consolidated financial statements comprise:

- primary reporting formats; they are the same as those used for the consolidated financial statements for the year ended 31 December 2022 and have the following features:
 - the income statement includes individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results;
 - the statement of comprehensive income is presented in a separate document and distinguishing items that may and may not be reclassified subsequently to profit and loss.
 - the statement of changes in net equity reports separately the other items of the comprehensive income statement;
 - the statement of financial position makes the distinction between current and non-current assets and liabilities.
 - the cash-flow statement has been prepared using the indirect method;
- explanatory notes.

In the financial statements, any non-recurring costs and revenues are indicated separately. Moreover, with reference to Consob resolution 15519 of 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement

have been included, highlighting the most significant balances with related parties, in order to avoid altering the overall clarity of the financial statements.

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

Scope of consolidation

The consolidated financial statements at 31 December 2023 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. Joint operations, in the form of corporate vehicles, are recognised in proportion to the Group's interest. Equity investments in joint ventures in which the Hera Group exercises joint control with other companies as well as the companies over which the Group exercises significant control are consolidated with the equity method. Small-scale subsidiaries and associated companies are excluded from overall consolidation and valued at fair value. These companies are reported in note 26, item "Other shareholdings".

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2023 financial year as compared to the consolidated financial statements at 31 December 2022:

Acquisition of control	Company/business unit	Valuation
	A.C.R. di Reggiani Albertino Spa (A.C.R. Spa)	Entire
	Asco TLC Spa*	Entire
	F.Ili Franchini Srl	Entire
	"Paganini" business unit	Entire
Entry within the scope of consolidation		
	Hea Spa	Joint operation
	Horowatt Srl	Entire
	Tiepolo Srl	Entire

* Company merged by incorporation into Acantho Spa.

For an overview of the control acquisition transactions carried out during the period, see Section 1.03 "Main Events Occurred" of the Directors' Report and the "Business Combinations (supplementary information)" section of Section 2.2.10 "Other Information" for accounting considerations and the valuation details of assets and liabilities acquired.

As of 1 January 2023, due to the launch of the design phase carried out prior to constructing the plants, the Group's consolidated financial statements include the portion of jointly owned assets and liabilities, revenues from jointly controlled activities and jointly incurred costs relating to the joint operation Hea Spa, previously valued at cost.

On 11 May 2023, Hera Spa and Orogel Società cooperativa agricola established the company Horowatt Srl, with an equal interest in the share capital. This NewCo, which will produce renewable energy following the construction of an agrivoltaic plant, was consolidated as of the date of its establishment due to the shareholders' agreements granting control to the Hera Group.

On 6 July 2023, Hera Spa acquired the entire shareholding of Tiepolo Srl. At the time of its acquisition, this company, which is entirely consolidated, had a single relevant asset, i.e. a project for the construction

of a photovoltaic solar park in Bondeno (FE), which it will build and manage in the upcoming years. This transaction was recorded as an investment in tangible assets, not a business combination.

Change in equity investments

On 21 December 2023, Hera Servizi Energia Spa acquired a 15% holding in the share capital of Tri-Generazione Scarl from a minority shareholder. The shareholding in this company increased from 70% to 85%, while the Group's overall interest rose from 59.15% to 71.83%.

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

Other corporate operations

With effect from 1 January 2023, Vallortigara Angelo Srl and Hydro Mud Srl merged into the holding company Vallortigara Servizi Ambientali Spa.

With effect from 1 January 2023, Hera Servizi Energia Srl, 67.61% owned, was merged by incorporation into the holding company AcegasApsAmga Servizi Energetici Spa (ASE Spa). As a consequence of this merger, the incorporating company changed its name to Hera Servizi Energia Spa. In addition, as a result of the exchange ratio, AcegasApsAmga Spa's equity investment in Hera Servizi Energia Spa went from 100% to 84.5%.

With effect from March 2023, and with accounting effects backdated to 1 January 2023, Alibardi Fiorenzo Srl was merged by incorporation into the holding company Aliplast Spa.

On 23 May 2023, Hera Comm Spa, following the exercise of the put option it held, correlated to a corresponding put option held by minority shareholders, acquired the residual stake in Eco Gas Srl, equivalent to 10% of the share capital, thus becoming the sole shareholder.

With effect from October 2023 and accounting effects backdated to 1 January 2023, Eco Gas Srl and Con Energia Spa were merged by incorporation into the holding company Hera Comm Spa.

With effect from 1 October 2023 and accounting effects backdated to 1 January 2023, Asco TLC Spa was merged by incorporation into Acantho Spa. For the purposes of these consolidated financial statements, the effects of the acquisition of control of Asco TLC Spa by the Group, which came about at the same time as the merger transaction, take effect as of 1 October 2023. For further details, see paragraph 1.03 "Main events occurred" the Directors' report and the section "Business Combinations (supplementary information)" in paragraph 2.02.10 "Other information".

On 24 October 2023, Hera Servizi Industriali Srl, following the exercise of the put option it possessed, correlated to a corresponding put option held by the minority shareholders, acquired the residual stake in Recycla Spa, equivalent to 30% of the share capital, thus becoming the sole shareholder.

On 10 November 2023, Ascopiaeve Spa transferred to Hera Comm Spa, following the partial exercise of the put option it possessed, a stake in EstEnergy Spa equivalent to 15% of the share capital. Following this transaction, Hera Comm Spa increased its shareholding in EstEnergy Spa from 60% to 75%.

The aforementioned transactions involving the exercise of put options by the Group as well as put options by minority shareholders had no impact on minority interests, since the Group's policy is not to represent minority interests when there is a put option, given that the financial debt related to their acquisition is already recognised in the financial statements.

Accounting policies and consolidation principles

The financial statements used for the preparation of the consolidated statement of financial position and income statement 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 referring to companies valued at net equity, adjustments to their respective financial statements were considered in order to adapt them to IFRS standards, in case these companies do not adopt them.

When drawing up the consolidated statement of financial position and income statement, 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 cancelled by the corresponding portion of investees' 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 item "Non-controlling interests". The portion of the consolidated result relating to non-controlling interests is recorded in the account "Minority shareholders".

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

In preparing these consolidated financial statements, the accounting policies and principles were the same as those adopted in the previous year, considering the new accounting standards reported in the section "Changes to accounting standards" of section 2.02.10 "Other information". 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 Group net equity.

The functional and presentation currency adopted by the Group is the euro. The assets and liabilities of foreign companies denominated in currencies other than the euro which are included in the scope of consolidation are converted using the exchange rates prevailing on the balance sheet date. Income and expenses are converted at the average exchange rate for the year. Exchange rate differences are included in a reserve until the respective foreign operation is sold.

The main exchange rates used to convert the value of the investees outside the Eurozone are as follows:

	2023	31 Dec 23	2022	31 Dec 22
	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.5420	4.3395	4.6861	4.6808

The criteria and principles adopted are outlined here below.

Tangible assets – Tangible assets are recorded at cost or production cost, including accessory costs, or at the value based on expert appraisals, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of direct and indirect costs reasonably attributable to the asset (e.g. personnel costs, transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). The cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. The cost includes any costs for dismantling, restoration and reclamation of the site on which the tangible asset is located. Ordinary maintenance costs are charged in full to the income statement. Improvement, upgrading and transformation costs that increase the value of the assets are recorded as assets.

Depreciation starts to be applied when the assets enter the production cycle. Tangible assets are classified as in progress when the process of economic use has not yet begun. Property, plants 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 tangible assets are outlined here below:

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

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.

Investment property – Investment property has been recognized at cost. As such, these assets are reported at purchasing 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. Service components that may be included in the contract are excluded from projections of future lease payments and accounted for separately under operating expenses on a straight-line basis. After the initial recognition, the value of the right of use is reduced by accrued depreciation and impairment and is adjusted for any restatements of the lease liability.

Intangible assets and goodwill – Intangible assets are stated at cost and, if they have a definite useful life, they are amortised systematically over the period of the estimated useful life. The depreciation begins when the asset is available for use or in any case begins to generate economic benefit for the Group. Work in progress includes costs relating to intangible assets for which the process of economic use has not yet commenced. If the Intangible assets have an indefinite useful life, they are not amortised but rather subjected to an annual impairment test, even in the absence of indicators signalling losses in value.

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.

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

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

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

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

The depreciation rates of intangible assets are outlined here below:

Category	rates
IT applications	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%

Cost of acquiring new contracts – Incremental costs, represented by commissions paid to agents for the acquisition of new contracts, are recognized as intangible assets and are amortised according to the average useful life of the acquired customers (churn rate). For this purpose, only the types of commissions related to new customers not present in the Group's customer base are recognized.

Business combinations – 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. If the process of allocating the purchase price shows a negative difference, such difference is immediately charged to the income statement among non-operating revenues at the date of acquisition. For the purpose of determining the goodwill or the negative differential, the fair value assessment of put options granted to minority shareholders on their own shares is also considered within the cost of the transaction.

Any consideration subject to conditions, including those related to future results (earn-out), as set forth in the business combination contract is measured at fair value on the acquisition date and considered in

the value of the consideration paid for the business combination, for the purposes of calculating the goodwill.

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

Losses in value (impairment) – In order to assess any losses in value, the Group takes into consideration the book value of property, plant and equipment, rights of use and intangible assets, comparing it with the recoverable amount of these assets to define the value of any write-downs. The recoverable value is calculated as a right of use. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the cash flows to which said assets belong. Future cash flows are discounted to present value at a rate (net of taxation) that reflects the current market value and takes into account the risks associated with the specific business activities.

Investments valued at shareholders' equity method – Investments entered in this item refer to long-term investments in associated companies and joint ventures. The excess price over the Group's share of the fair value of an associated company's identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill.

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

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

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

Management determines their classification when they are first recorded.

Receivables and loans – This category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. Since the business model generally adopted by the Group provides for the holding of these financial instruments solely for the purpose of collecting the contractual cash flows, these assets are valued at depreciated cost on the basis of the effective interest rate method. The value of the assets is reduced on the basis of the expected losses, using information that is available without unreasonable charges or efforts, including historical, current and prospective data. Losses determined by an impairment test are recognized in the income statement, as are any subsequent reversals of impairment losses. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.

This category includes, as provided by the interpretation IFRIC 12, the financial assets associated to those public service under concession for which the Group has the unconditional contractual right to receive liquidity from the issuer for the construction services rendered. The Group uses the financial asset model for the contracts of public lighting service provision, in view of their characteristics, in which increasingly frequently the issuer guarantees the area provider a specific amount, or at any rate an amount which can be reliably determined, not depending on the use of the infrastructure by the final customer. Under that model, the financial asset reported in the balance sheet in relation to the issuer for an amount equal to the fair value of the construction services rendered.

Financial assets at fair value recorded in the comprehensive income statement 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. 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.

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.

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

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

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

Environmental certificates – The Group complies with the various regulations issued in relation to the environment that require compliance with restrictions established through the use of certificates or bonds. Therefore, the Group is obliged to meet a need in terms of grey certificates (emission trading) and white certificates (energy efficiency instruments). The development of markets in which these bonds/certificates are traded has also made it possible to initiate a trading activity. These bonds are valued according to the intended use.

The bonds held to meet the company's requirement are recorded as assets at cost. If the bonds in the portfolio prove to be insufficient to meet the need, a liability is recorded to guarantee adequate coverage when the certificates are delivered to the operator. Bonds held for trading are recognised as assets and are measured at fair value through profit or loss.

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, so as to apportion revenues and costs to the relevant financial years in proportion to the stage of completion of the work in question. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives to the extent it is probable that they represent effective revenues which can be determined reliably.

When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred. When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

Inventories – Inventories are recorded at cost, including directly attributable costs, or net estimated realizable value, whichever is the lower. The cost configurations used for the valuation of stocks are the average cost measured on a continuous basis (used for raw materials and consumables) and the specific cost of other inventories.

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.

Share capital – Share capital is recorded at par value, reduced, if necessary, by costs directly attributable to transactions involving the issuing or repurchase of equity instruments.

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.

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

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

Lease liabilities – As at the effective date of the contract, lease liabilities are calculated as the present value of payments due, discounted using the marginal lending rate.

This rate refers to the average rate at which the Group borrows, broken down by contractual maturity. It is determined annually in the budget on the basis of the final figures for previous financial year and is applied to contracts signed from 1 January of each subsequent financial year. It is updated during the period in the event of significant changes to the Group's average borrowing rate. For contracts with a life of more than four years, the Group uses the medium/long-term borrowing rate, while for contracts with a life of four years or less, the equivalent short-term rate is adopted.

Post-employment and other benefits – Liabilities related to defined-benefit plans (such as the employee severance accrued before 1 January 2007) are reported net of any plan assets on the basis of actuarial assumptions and on an accrual basis, in keeping with the service necessary to obtain benefits. The liability is valued by independent actuaries. Independent actuaries assess financial liabilities. 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 – 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, 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.

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

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

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

are aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

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

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

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

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 recognized through profit or loss.

For instruments classified as cash flow hedges and that qualify as such, the fair value changes are recorded, only as far as the effective amount is concerned, in a reserve called "Cash flow hedge reserve" through the statement of comprehensive income. This reserve is recorded to income as soon as the underlying hedged instrument is realised. The change in fair value referring to the ineffective portion is immediately recorded in the income statement of the period. If the underlying transaction should no longer be considered highly probable, or the hedging relationship can no longer be demonstrated, the corresponding portion of the "Reserve of derivatives valued at fair value" is immediately reversed to income.

If, on the other hand, the derivative instrument is sold and therefore the hedging of the risk for which the transaction was created no longer qualifies as effective, the amount of "Reserve of derivatives valued at fair value" relating to it is kept until the economic effects of the underlying contract arise.

Whenever applicable, the Group adopts the fair value option.

Assets and liabilities held for sale – 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.

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

Specifically:

- revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- revenues from the distribution are recognized on the basis of the tariffs paid by 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. Revenue is recorded only if the consideration for the goods or services transferred to the customer is likely to be received;
- costs are accounted for in accordance with the accruals principle.

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.

Lease payments – 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 thousand euro for deeming the individual underlying asset to be of modest value.

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

Taxes – Taxes are the sum of current, deferred and possible substitute taxes. Current taxes are calculated on the taxable income for the financial period. “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. 83 of the TUIR. This regulation calls for entities that use IFRSs to apply, including in a departure from the provisions of the TUIR, the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards.

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

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

In the event that the substitute tax is paid pursuant to a tax regulation that allows the balance sheet value of a utility to be aligned, in whole or in part, with the corresponding tax value of the utility, the Group proceeds to recognize the total value of future tax benefits (tax assets) and, at the same time, the entire

substitute tax in the financial year in which management makes the decision to take advantage of this opportunity.

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

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

Risk management

Credit risk

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

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

Liquidity risk

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

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

Interest rate risk and currency risk on financing operations

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

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

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

Market risk and currency risk on commercial operations

Concerning the wholesale business carried on by Hera Trading Srl, the Group manages risks related to the misalignment between indexation formulas related to the purchase of gas and electric energy and the indexation formulas related to the sales of the same commodities (including contracts entered into at

fixed prices) as well as exchange rate risks in case the trading contracts for the commodities are denominated in currencies other than the euro (U.S. dollar).

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

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 could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.

Recognition of revenues

Revenues for the sale of electricity, gas and water are recognised and accounted for at supply only if the consideration is expected to be collected. They include the allocation for services rendered between the date of the last reading and the end of the financial year, but 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.

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.

Depreciation

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

Impairment test

The Group carries out an analysis of the recoverable value of assets (including 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 25 and 27 of the comments to the financial statement formats.

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.

Fair value assessment and evaluation process

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices. In the absence of prices quoted in active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. The fair value of contracts on commodities are determined using directly observable market inputs, where available. The methodology for calculating the fair value of these instruments includes the assessment of the non-performance risk, where relevant. All derivative contracts entered into by the Group are with leading institutional counterparties.

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.

2.02.02 Operational and financial performance

Note that paragraphs 1.04 and 1.07 of the Directors' report provide an analysis of the business management performance for the financial period, also by business area; please refer to these for a specific analysis of the changes in the main categories of operating expenses and revenues, as well as the Group's overall financial management.

The financial results for the year by comparison with the previous year are outlined below.

	notes	2023	2022
Revenues	1	14,897.3	20,082.0
Other operating revenues	2	667.8	548.2
Raw and other materials	3	(9,672.2)	(16,730.0)
Service costs	4	(3,655.9)	(2,105.8)
Personnel costs	5	(641.1)	(601.1)
Other operating expenses	6	(90.3)	(74.9)
Capitalised costs	7	82.1	82.5
Ebitda		1,587.7	1,200.9
Amortisation, provisions and depreciation	8	(753.7)	(667.1)
Operating profit		834.0	533.8
Share of profits (losses) pertaining to joint ventures and associated companies	9	10.3	10.0
Financial income	10	157.1	82.2
Financial expenses	11	(345.0)	(217.2)
Financial operations		(177.6)	(125.0)
Earnings before taxes		656.4	408.8

A breakdown of the most significant operating items by business sector is provided in the section "Reporting by operational sector" under 2.02.10 "Other Information."

Operating revenues and costs decreased significantly during the year, mainly due to the fall in energy commodity prices compared to the amounts reached during the previous year and the lower volumes of gas sold to end customers. The Group's Ebitda is an alternative performance measure whose definition

can be found in Section 1.04 “Overview of operating and financial trends and definition of alternative performance measures”. The gross operating result, positive and amounting to 1,587.7 million euro, with a strong increase over the previous year, benefited from improvement in all main businesses managed by the Group. Note in particular the performance of the electricity sales business, mainly due to the lower impact of modulation and higher volumes sold, related to increases in the customer base both in traditional markets and in safeguarded markets due to the new scope of operations managed. A positive impact also came from intermediation on wholesale gas markets, which benefited from less volatility, while margins on gas sales decreased due to lower volumes sold, as well as the downward trend in reference prices. In addition, although to a lesser extent compared to the previously mentioned factors, there was a continually upward trend, in line with the previous year, in the Ebitda obtained by the energy services and the waste treatment business, partially due to the acquisitions made during the year.

“Amortization, provisions and depreciation” increased both as a result of investments entering into depreciation and amortization during the year, and as a result of higher allocations to the provision for bad debts and the provisions for risks and charges.

The significant change in financial operations was related to the performance of the energy and financial markets last year. In fact, in the second half of the previous year, the Group underwrote short-medium term loans and short-term credit lines to meet cash requirements, particularly for the storage of methane gas needed to supply its customers for the 2022-2023 thermal year, which took place in a scenario of high prices, coinciding with the rise in the level of reference interest rates. During the 2023 financial year, the Group, once the macroeconomic tensions on the commodity market had subsided, was able to effectively manage the trend of net working capital, thus being able to repay a considerable portion of these loans, although it suffered the effects of the higher financial exposure in a high interest rate scenario on the economic result.

1 Revenues

	2023	2022	Change
Revenues from sales and services	14,976.8	19,871.3	(4,894.5)
Changes in work in progress and semi-finished products	(79.5)	210.7	(290.2)
Total	14,897.3	20,082.0	(5,184.7)

The decrease in “Revenues from sales and services” was mainly due to the drop in energy commodity prices and the decrease in gas volumes sold, partially offset by the higher volumes sold in the electricity sales, energy services and waste treatment businesses. Energy prices, after the sudden rise in the previous year, steadily decreased in 2023, returning to values that were still high but more in line with the years prior to 2022. The change in gas volumes was influenced by the trend of milder weather and, to a lesser degree, by the fact that customers opted for lower consumption, partially as a result of widespread energy saving measures.

Due to the particular types of activities that the Group oversees, “Revenues from sales and services” include substantial allocations for services provided to end customers and not yet invoiced as of the financial statement date. Below are the values of invoices to be issued pertaining to the reference period in relation to the three commodities most significantly impacted by the estimated year-end accruals.

	2023	2022	Change
Gas sales	405.2	730.2	(325.0)
Electricity sales	305.5	371.3	(65.8)
Water	174.7	159.8	14.9
Total	885.4	1,261.3	(375.9)

A breakdown of revenues from sales and services by geographical area is shown below.

	2023	2022	Change
Italy	11,500.2	14,102.2	(2,602.0)
European Union	1,923.8	2,874.3	(950.5)
Outside European Union	1,552.8	2,894.8	(1,342.0)
Total	14,976.8	19,871.3	(4,894.5)

The revenues generated outside Italy mainly refer to natural gas trading and electric energy activities, whose value amounted to 3,383.3 million euro at 31 December 2023 (5,617.8 million at 31 December 2022). Also note that, of the total value of revenues, 2,079.5 million refer to counterparties operating in the Dutch TTF market (4,064.6 million at 31 December 2022).

“Changes in work in progress and semi-finished products”, includes the economic effect for the year of changes in contract work, determined on the basis of the percentage of work in progress. It is mainly attributable to energy efficiency works carried out for end customers, typically condominiums. The change compared to the previous year reflects the conclusion in 2023 of the activities related to the 110% super-bonus and insulation subsidies, in progress at 31 December 2022, an effect partially offset by the orders still in progress at the end of the period that will be completed in the first months of 2024.

Revenues from related parties are presented in Note 2.03.01, “Income statement as per Consob resolution 15519/ 2006”.

2 Other operating revenues

	2023	2022	Change
Long-term contracts	433.8	397.6	36.2
Operating grants	86.2	52.9	33.3
White certificates	47.1	14.5	32.6
Grants related to plants	13.3	12.8	0.5
Gains from asset disposals	1.8	0.9	0.9
Other revenues	85.6	69.5	16.1
Total	667.8	548.2	119.6

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

“Operating grants” mainly involve:

- grants related to gas and electricity costs amounting to 43.3 million euro (38 million euro at 31 December 2022), recognised, in the form of tax credits, by the government's aid decrees introduced since the 2022 financial year to address the energy price emergency. These grants were fully offset already in 2023 with taxes and contributions to be paid by the Group;
- grants amounting to 35.7 million euro recompensing the costs incurred for the management of the flood emergency that hit Emilia-Romagna and some neighbouring regions in May 2023, affecting part of the areas in which the Group manages public utilities.

“White certificates” represent the revenues calculated on the basis of energy efficiency objectives as established by the GSE and regulated in relation to the Cassa per i Servizi Energetici e Ambientali, amounting to 47.1 million euro (14.5 million euro at 31 December 2022). The change compared to the previous year was mainly due to the higher number of certificates defined for the 2023 obligation, with essentially the same tariff contribution recognised for distribution companies, as well as the different



modality for fulfilment of 2022 obligations compared to what was included in the financial statements at 31 December 2022.

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

“Other revenues” mainly consist of insurance reimbursements and recovery of fees. In particular, note that in the year in question the Group has received insurance reimbursements for the flood emergency described above, amounting to 10 million euro for the costs incurred linked to the reconstruction of plant and network equipment.

3 Raw and other materials

	2023	2022	Change
Raw materials earmarked for sale	9,330.9	16,725.0	(7,394.1)
Environmental certificates	117.7	35.1	82.6
Materials for industrial use	57.7	41.4	16.3
Plastic materials	57.1	93.6	(36.5)
Charges and revenues from derivatives	(188.7)	(371.4)	182.7
Maintenance and other materials	297.5	206.3	91.2
Total	9,672.2	16,730.0	7,057.8

“Raw materials earmarked for sale”, net of changes in stocks and the write-downs introduced, include supplies of natural gas, electricity and water. The natural gas brokerage business on the Dutch TTF market generated costs of 1,927 million euro (4,364.9 million euro at 31 December 2022). The decrease seen during the period, similarly to what was described in Note 1, “Revenues”, was due to the reduction in energy commodity procurement prices and lower volumes of gas sold, which were partially offset by the increase in volumes sold to electricity end customers.

“Environmental certificates” include the purchase cost of white certificates, which are supplied in accordance with the obligations assigned to the distribution companies. This item also includes the environmental certificates in stock, mainly made up of grey certificates as well as the valorisation of commitments for purchasing electricity from renewable sources in relation to contracts signed with end customers and greenhouse gas emission allowance trading contracts. The increase seen during the period involved the higher number of trading portfolio grey certificate transactions, higher obligations for white certificates pertaining to 2023, and higher charges for purchase commitments for certificates of origin of electricity from renewable sources, the latter matched by increased unit prices.



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

“Plastic materials”, net of changes in stocks, include the cost of purchasing plastic raw materials destined for subsequent processing and transformation as part of Aliplast’s activities. The change in costs was consistent with the decrease in sales revenue as a result of the trend seen in the plastics market which, after a considerable price increase during the previous year, showed a downward trend, settling back to the prices of previous years.

“Maintenance and other materials”, net of changes in stocks, mainly include consumables used in the management of the Group’s operating activities and, marginally, products purchased to be resold to end customers. The significant increase seen during the period was mainly due to increased activities for network services, energy services related to energy efficiency, in particular in apartment buildings, and the effect of the acquisition of control transactions that took place in 2023.

As regards “Charges and revenues from derivatives”, see Note 29, “Derivative instruments”, for an analysis of the nature and performance of these items.

4 Service costs

	2023	2022	Change
Work and maintenance expenses	1,252.0	872,2	379.8
Transport and storage	1,221.2	269.3	951.9
Waste transportation, disposal and collection	560.4	467.6	92.8
Technical services	161.9	119.6	42.3
IT and data processing services	83.3	65.5	17.8
Fees paid to local authorities	64.3	61.7	2.6
Professional services	56.6	43.5	13.1
Other service costs	256.2	206.4	49.8
Total	3,655.9	2,105.8	1,550.1

“Work and maintenance expenses” refer to the costs for the construction or improvement of infrastructures under concession pursuant to the application of the accounting model for intangible assets for public services held under concession, the costs of implementing energy efficiency measures, and the costs for maintaining the plants managed by the Group. The change with respect to the previous year is mainly due to activities related to increasing the energy efficiency of apartment buildings. Also note that this item was influenced at 31 December 2023 by costs related to the emergency that struck Emilia-Romagna and neighbouring regions in May 2023, affecting part of the areas in which the Group manages public utilities.

“Transport and storage” include the costs of transporting and storing gas as well as the costs of distributing gas and electricity distribution, including system charges. The latter, in particular, represent cost components charged to end customers and therefore not substantially affecting the Group’s results. The change compared to the previous year is mainly attributable to:

- higher system charges related to the electricity business, following the conclusion of the effects of the regulatory measures that, starting from the last quarter of 2021 and until the first quarter of 2023, called first for a reduction and later the annulment of general system charges in the electricity sector for a very wide range of users, in order to lower the high bills caused by sharp rises in energy commodity prices;
- higher natural gas storage and transportation costs due to the greater volumes managed directly by the Group on Remi substations, without turning to procurement contracts;
- higher electricity commodity distribution costs mainly due to the increase in volumes sold.

“Waste transportation, disposal and collection” mainly include the operating costs of urban hygiene and waste disposal activities. The change from the previous year was due to:

- the effect of the acquisition transactions carried out in 2023, relating in particular to the company A.C.R. Spa, which operates in the waste treatment business;
- the atmospheric emergency that struck Emilia-Romagna and neighbouring regions in May 2023, affecting part of the areas in which the Group manages public utilities;
- higher waste transport and treatment costs due to an increase in trading, which led to a rise in the volumes treated on the utility market and for the management of by-products.

“Technical services” mainly include costs incurred in carrying out the administrative activities related to increasing the energy efficiency of apartment buildings and installing photovoltaic systems for the Group’s end customers.

“IT and data processing services” include costs for maintaining and managing the Group’s IT and telecommunications infrastructure, as well as corporate applications and cybersecurity systems.

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

“Professional services” include charges for commercial, legal, notary, administrative and tax services. This item includes fees paid for auditing financial statements and issuing certifications. The change compared to the previous year was due to the increase in costs for both managing documents for receivables, arising from the application of the discount included in invoices for improving the energy efficiency of apartment buildings, and managing receivables in litigation and credit recovery.

“Other service costs” include all other costs for services not specified in the above categories. This item also includes commissions and other costs to agents totalling 39.2 million euro (21.4 million euro at 31 December 2022) and bank commissions in the amount of 22.3 million euro (15.2 million euro at 31 December 2022). Note that the item “Other service costs” also includes instalments relating to short-term leases and low-value leases, the amount of which is not significant for 2023.

5 Personnel costs

	2023	2022	Change
Salaries and wages	455.0	423.0	32.0
Social security costs	147.7	136.7	11.0
Other costs	38.4	41.4	(3.0)
Total	641.1	601.1	40.0

The increase as compared to the previous year is mainly linked to:

- an increase in the number of employees in force, especially as a result of the acquisitions made in 2023;
- changes in salaries provided for by the national collective labour agreements.

These effects were partially offset by lower charges incurred for termination of employment compared to the previous year.

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

	Average			Specific		
	2023	2022	Change	2023	2022	Change
Managers	159	154	5	158	153	5
Middle managers	591	580	11	593	593	-
Clerks	5,616	5,276	340	5,604	5,251	353
Blue-collar workers	3,644	3,441	203	3,610	3,418	192
Total	10,009	9,451	558	9,965	9,415	550

The average cost of labour per capita for 2023, in line with 2022, is as follows:

thousand euro	2023	2022	Change
Average cost of labour per capita	64.0	64.0	-

6 Other operating costs

	2023	2022	Change
Taxation other than income taxes	25.0	23.3	1.7
Losses on the sale and disposal of assets	16.6	9.2	7.4
Fees paid to Institutional Authorities	15.5	13.3	2.2
Minor charges	33.2	29.1	4.1
Total	90.3	74.9	15.4

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

“Losses on the sale and disposal of assets” were mainly due to the disposals carried out during the year of plants and equipment related to network-managed businesses, district heating and waste management. This amount includes the effects of the May 2023 flooding that affected some areas managed by the Group.

“Fees paid to Institutional authorities” paid to the regions, land reclamation consortia, sector agencies and mountain-area communities, mainly regarding the withdrawal and use of water, as well as maintenance and management costs for hydraulic works. The item also includes fees for the safeguarding of hydrogeological protection areas in mountain municipalities (as provided for by Regional government decree. 933/2012) and fees paid for the operation of Atersir.

“Minor charges” comprise other residual items including membership fees, indemnities, sanctions and fines.

7 Capitalised costs

	2023	2022	Change
Increase of self-constructed assets	82.1	82.5	(0.4)

This item, in line with the previous year, mainly includes labour costs and other charges (such as storage materials and costs for use of equipment) directly attributable to the Group’s self-constructed assets.

8 Amortisation, provisions and depreciation

	2023	2022	Change
Amortisation, depreciation and write-down	526.2	478.6	47.6
Net provisions	227.5	188.5	39.0
Total	753.7	667.1	86.6

Details of the item Amortisation, depreciation and write-down are as follows:

	notes	2023	2022	Change
Amortisation and depreciation	21, 22, 23	519.3	477.1	42.2
Write-down	21, 22, 23	6.9	1.5	5.4
Total		526.2	478.6	47.6

Amortisation and depreciation refer to tangible assets, rights of use and intangible assets.

Write-down mainly refers to waste treatment assets, amounting to 3.7 million euro.

Details of the item Net provisions are as follows:

	notes	2023	2022	Change
Provisions to the bad debts fund	33	158.0	133.9	24.1
Provisions to risks and charge funds	31	85.7	66.6	19.1
De-provisioning	31,33	(16.2)	(12.0)	(4.2)
Total		227.5	188.5	39.0

Provisions include value adjustments to the bad debts fund and provisions for risks and charges.

De-provisioning includes the re-verification of funds in view of the fact that the underlying risks no longer exist.

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

	2023	2022	Change
Joint venture share of net profits	2.2	3.1	(0.9)
Associated companies share of net profits	8.1	6.9	1.2
Total	10.3	10.0	0.3

The share of profits and losses of joint ventures and associated companies includes the effects generated by the valuation of the companies included in the scope of consolidation carried out using the equity method. For further details see Note 26, "Shareholdings".

10 Financial income

	2023	2022	Change
Customers	47.8	24.2	23.6
Income from valuation at fair value of financial assets and liabilities	46.9	11.2	35.7
Bank interest	27.4	1.1	26.3
Income from derivatives	5.1	18.3	(13.2)
Income from the disposal of tax credits	0.1	16.0	(15.9)
Other financial income	29.8	11.4	18.4
Total	157.1	82.2	74.9

“Customers” mainly include interest on arrears in the gas and electricity sales business and interest applied to customers for energy efficiency enhancement measures linked to the 110% super-bonus.

The item “Income from valuation at fair value of financial assets and liabilities” includes the following:

	notes	2023	2022	Change
Put options and contingent consideration	19	31.3	12.6	18.7
Bonds	29	15.6	-	15.6
Other reserves		-	(1.4)	1.4
Total		46.9	11.2	35.7

- Put options and contingent consideration represent the positive effects of updating the estimates of liabilities recognized in previous years in connection with one-time acquisition transactions. The amount at 31 December 2023 mainly includes the effects of:
 - the updated valuation, amounting to 26.9 million euro, of the liability for the put option held by Ascopiaeve Spa on the minority interest in EstEnergy Spa, taking into account the partial exercise of a 15% share that occurred;
 - the excess, amounting to 4.1 million euro, of the value of the put option on the minority interest in Recycla Spa, following the exercise thereof, which resulted in the Group obtaining all of the shares.
- Bonds represent valuation adjustments, in application of the fair value hedge, of a bond loan in currency.

“Bank interest” includes income from the short-term use of available liquidity. The significant change compared to the previous year is due to an increase in average balances bearing interest rates that rose during the year.

“Income from derivatives” includes the effects of both valuation and realization of interest and foreign exchange derivatives, as detailed in Note 29 “Derivative Instruments”.

“Income from the disposal of tax credits” represents the financial income realized following the transfers to banking institutions of tax credits resulting from the application of the discount on invoices for energy efficiency work carried out on behalf of customers who have taken advantage of the 110% super-bonus rebate. The near-annulment of this item is due to both the increasingly restrictive measures issued by the government beginning in late 2022 deadline concerning the reference legislation, and the increase in the cost of money, which led to an increase in the discount rate requested by financial institutions to the point of creating transfer prices lower than the nominal value of the original receivable. The effect of this was the recording, in relation to these transactions, of transfer charges, as explained in Note 11, “Financial expenses”.

The item "Other financial income" includes the following:

notes	2023	2022	Change
Discounting of energy efficiency receivables	7.8	-	7.8
Dividends	6.4	4.1	2.3
Discounting of non-current financial receivables	18	6.3	4.7
Write-backs of value	25, 27	3.5	-
Loans	18	2.1	2.0
Other		3.7	0.6
Total	29.8	11.4	18.4

- Discounting of energy efficiency receivables represents the valuation at amortised cost of tax credits deriving from the application of the discount included in invoices for apartment building redevelopment, intended compensation within the Group thanks to the use of its tax capacity;
- Dividends represent the portions of profit paid by companies classified as "Other equity investments", specifically referring to the equity investment in Ascopiaeve Spa and Veneta Sanitaria Spa, which increased due to the payment of a non-recurring dividend by the latter during 2023;
- Discounting of non-current financial receivables mainly includes the effect of valuation at the amortised cost the receivables for construction and improvements of assets recorded as part of applying the financial activity model for public services under concession;
- Write-backs of value mainly refer to the portion of financial receivables previously written down concerning the associated companies Tamarete Energia Srl and H.E.P.T. Co. Ltd., which were collected during the year;
- The item Loans, in line with the previous year, represents interest income on loans granted to companies valued at net equity and minor investees.

11 Financial expenses

	2023	2022	Change
Expenses from bonds and loans	133.9	82.2	51.7
Factoring charges and disposals of tax credits	58.8	47.3	11.5
Expenses from valuation at fair value of financial assets and liabilities	56.5	(6.3)	62.8
Valuation at amortized cost of financial liabilities	33.5	30.0	3.5
Expenses from derivatives	23.8	21.4	2.4
Discounting of options and consideration on equity investments	17.6	20.7	(3.1)
Discounting of provisions	7.9	12.5	(4.6)
Other financial expenses	13.0	9.4	3.6
Total	345.0	217.2	127.8

"Expenses from bonds and loans" include interest for the period relating to bond instruments issued by the parent company Hera Spa and interest relating to loans provided by the banking system and other financing institutions. The financial collection operations carried out during the second half of 2022 in order to meet the cash requirements caused by the macroeconomic context, strongly influenced by the rise in commodity prices and the significant amount of gas storage in a context of rising interest rates, led to a significant increase in the Group's short-medium term debt expenses for 2023.

“Factoring charges and disposals of tax credits” includes the following:

	notes	2023	2022	Change
Disposals of trade receivables and other operating receivables		44.8	14.0	30.8
Disposals of tax credits	35	14.0	33.3	(19.3)
Total		58.8	47.3	11.5

- Disposals of trade receivables and other operating receivables increased as a result of the higher discount rates applied in the year in question by financial institutions, despite a reduction in the volume of receivables transferred, and a change in the mix of receivables concerned by transfers, since assets characterised by longer and, therefore, more costly collection times became prevalent.
- Disposals of tax credits includes expenses caused by the transfer of receivables recognised as a result of the application of the discount included in invoices to customers for energy efficiency measures. The decrease in these charges compared to the previous year, despite an increase in the nominal value of the transfers carried out and the respective discount rates, is essentially due to the different mix of receivables transferred. In 2023, in fact, only credits for the 110% super-bonus were transferred, while in the previous year the transfers also referred to other types of tax credits, which were more costly since they were to be paid over a longer period of time. Furthermore, as explained in Note 10 “Financial income” with reference to the 110% super-bonus credits, the increase in interest rates and the regulatory tightening resulted in financial expenses being recognised in 2023 against financial income recognised in the previous year.

The item “Expenses from valuation at fair value of financial assets and liabilities” includes the following:

	notes	2023	2022	Change
Energy efficiency credits	35	56.4	(12.6)	69.0
Minority shareholders' put option	19	0.1	5.7	(5.6)
Bonds	29	-	0.6	(0.6)
Total		56.5	(6.3)	62.8

- Energy efficiency credits involved the valuation at market value of receivables related to the application of the discount included in invoices to end customers for energy efficiency measures. The accounting policy adopted by the Group foresees that in the event of a subsequent transfer, the final charge correlated to the transaction is recognised under the item “Factoring and tax credit transfer charges”, while at the same time closing the valuation position opened in the previous year, generating a substantially offsetting effect, while in the event of compensation within the Group, the valuation is made at amortised cost, recording a corresponding financial income by way of the cash savings generated. The significant increase in valuation expenses compared to the previous year is attributable to both the greater volume of receivables in the portfolio at 31 December 2023, as a result of the energy efficiency works falling under the 110% super-bonus regulations and the lower market value used for the valuation compared to 2022;
- Put options and contingent consideration represent the negative effects of updating the estimates of liabilities recognized in previous years in connection with one-time commercial acquisition transactions.

“Valuation at amortized cost of financial liabilities” include imputed charges necessary to bring the face cost of debt in line with that calculated using the effective interest rate method. The item also includes figurative charges of 3.2 million euro, in line with the previous year, relating to the put option held by Ascopiae Spa on the minority shareholding in Hera Comm, accounted for as a loan (with a nominal value of 54 million euro), as reported in Note 19, “Financial liabilities.” The increase seen during the year was mainly due to the green bond issued in May 2022 and the sustainability-linked bond issued in April 2023.

“Expenses from derivatives” includes the effects of both valuation and realization of interest and foreign exchange derivatives, as detailed in Note 29 “Derivative Instruments.”

“Discounting of options and consideration on equity investments” mainly includes notional discounting charges related to the fair value valuation of put options granted to minority shareholders, as reported in Note 19 “Financial liabilities”.

“Discounting of provisions” is broken down as follows:

	notes	2023	2022	Change
Restoration of third-party assets	31	4.4	4.1	0.3
Post-employment and other employee benefits	30	3.0	0.3	2.7
Post-closure landfills	31	0.3	8.0	(7.7)
Plant dismantling	31	0.2	0.1	0.1
Total		7.9	12.5	(4.6)

See the notes to the respective balance sheet items for an analysis of the change in charges for funds updating from the comparison year, where significant.

The item “Other financial expenses”, residual in nature, includes the following:

	notes	2023	2022	Change
Write-downs	27	5.9	-	5.9
Leases	22	2.8	2.6	0.2
Other expenses		4.3	6.8	(2.5)
Total		13.0	9.4	3.6

Write-downs include the valuations made during impairment tests on shareholdings and refer entirely to the investment in the associated company Set Spa, a vehicle through which the Group holds production quotas for a power generation plant. For further details, see Note 27 “Impairment tests on equity investments”.

Other expenses mainly include interest for financial intermediation and interest related to payment deferrals.

2.02.03 Taxation

	2023	2022	Change
Earnings before taxes	656.4	408.8	247.6
Taxes	(173.2)	(103.5)	(69.7)
Net profit for the period	483.2	305.3	177.9
Tax rate	26.4%	25.3%	

The increase in the tax rate was mainly due to the dilution of the positive effects on the tax burden of incentives such as maxi and hyper amortisation, as well as ACE (which also decreased in absolute terms), on account of the higher pre-tax profit for the year in question, in addition to the lesser benefits recorded in 2023 relating to exemption transactions and the impact of taxes dating to previous years.

The tax rate, lower than the nominal IRES and IRAP rates, was positively impacted by:

- the non-recurring incentives, in the form of tax credits, introduced for the purchase of electricity and gas, which represented untaxed income components coming to 43.3 million euro (as against 38 million euro at 31 December 2022);
- the positive effects on the result of the fair value valuation of put options to minority shareholders that are not relevant for tax purposes, amounting to roughly 31 million euro (12.6 million euro as of 31 December 2022);

- the benefits arising from the exemption of the higher values originating from the acquisition of controlling interests, coming to 2.8 million euro (4.2 million euro at 31 December 2022).

12 Taxes

This item is made up as follows:

	2023				2022				Change
	Current	Pre-paid	Deferred	Total	Current	Pre-paid	Deferred	Total	
IRES	178.9	(63.9)	10.6	125.6	81.0	(13.0)	0.7	68.7	56.9
IRAP	47.2	(4.1)	0.7	43.8	26.7	(0.7)	1.1	27.1	16.7
Substitute tax	3.8	-	-	3.8	5.4	-	-	5.4	(1.6)
Nonrecurring subsidies	-	-	-	-	2.3	-	-	2.3	(2.3)
Total	229.9	(68.0)	11.3	173.2	115.4	(13.7)	1.8	103.5	69.7

A higher current tax burden was seen in 2023 compared to the previous year, mainly due to the sharp increase in the pre-tax result.

Pre-paid taxes include the effect of temporary changes in income components not deductible from tax income for the year, mainly relating to the fair value adjustment of trade receivables arising from the application of the discount included in invoices and provisions for risks and charges. It also includes the benefit on IRES and IRAP taxes deriving from the exemption carried out pursuant to Decree Law No. 185/2008 (converted into Law No. 2/2009) involving the higher values arising following the acquisition of Con Energia Spa, amounting to 6.5 million euro, against the payment of a substitute tax of set at 3.7 million euro. Note that during the previous year this item included tax benefits resulting from exemptions totalling 9.5 million euro against the payment of substitute taxes coming to 5.3 million euro.

Note that during the previous year, non-recurring grants consisted of the nonrecurring solidarity-oriented levy contribution established for 2022 by Decree-Law No. 21/2022, in order to contain the effects of the increase in prices and tariffs in the energy sector for businesses and consumers.

As regards this nonrecurring contribution and its possible application to an additional company with respect to the amount recognised as a tax expense in the previous year, the Group, while believing that there was no objective probability of having to pay said contribution (supported in this conclusion by the opinion of its tax advisors), even in a context of uncertainty related to the interpretation of this legislation, in order to avoid the application of penalties, believed it was appropriate to proceed with the payment of an additional 9.6 million euro, subsequently proceeding to file a refund application. Lastly, the subsequent Law 197/2022, the so-called Budget Law 2023, changed the scope of this nonrecurring contribution, and the amount of 13 million euro already paid by Hera Spa was no longer due. The same Budget Law 2023 also established a nonrecurring solidarity contribution, in the form of a temporary levy, to be paid during 2023. The levy, unlike ordinary taxes, did not apply to the profit produced in 2022, but on the surplus profits arising from a comparison with previous periods. In consideration of the criteria for determining the tax base under the aforementioned law, the levy was not payable by any Group company.

The Group has adopted the temporary exception provided for by IAS 12 to the recording of deferred tax assets and liabilities related to the application of the Pillar 2 provisions, which were introduced into Italian law with effect from 1 January 2024 by Legislative Decree No. 209 of 28 December 2023. Based on this decree, Hera Spa qualifies as an Ultimate Parent Entity (UPE) since it fully consolidates the assets, liabilities, revenues, costs and cash flows of the Group companies in which it holds an interest (directly and indirectly).

Based on the results of the preliminary calculation of the Transitional CbCR Safe harbour (TSH) test relating to the 2022 tax period carried out by UPE, the Group (understood as all the companies consolidated for accounting purposes by the UPE) benefits from the TSH in all jurisdictions except Bulgaria. The impact of profits generated in Bulgaria with respect to the overall profits of the Hera Group is not significant, and therefore, if this preliminary assessment were to be confirmed for the 2024 financial

year as well, the possible exposure of the Group to the supplementary taxes deriving from Pillar 2 would not be significant.

For further analysis of trends in the tax rate, see paragraph 1.04.01 "Operating results and investments" in the Directors' Report, where both the pre-tax result and the tax burden have been adjusted on a managerial basis, in order to define a fully comparable adjusted tax rate.

Tax rate / Ires reconciliation

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

	2023		2022	
	Nominal effective	Percentage effect	Nominal effective	Percentage effect
Earnings before taxes	656.4		408.8	
IRES				
Standard rate	(157.5)	(24.0)%	(98.1)	(24.0)%
IRAP deduction	1.1	0.2%	0.9	0.2%
Ace	4.3	0.7%	4.9	1.2%
Maxi and hyper depreciation	7.1	1.1%	8.0	1.9%
IRES previous years	(1.5)	(0.2)%	0.8	0.2%
Other changes	15.3	2.4%	4.6	1.1%
IRAP and other current taxes				
IRAP	(43.8)	(6.7)%	(27.1)	(6.6)%
Exemption	1.8	0.3%	2.6	0.6%
Taxes	(173.2)	(26.4)%	(103.5)	(25.3)%

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

The item "Maxi and hyper depreciation" decreased in absolute terms due to the end of the period of tax benefits for the portion of investments in new instrumental goods made by the Group in past years. Note that starting from 2020, this benefit was replaced by a tax credit recognition mechanism.

The item "Other changes" increased compared to the previous year, mainly due to the effect of components of the pre-tax result not relevant for tax purposes relating to the fair value valuation of put options for minority shareholders and to the higher non-recurring incentives recognised in the form of tax credits to some Group companies for the purchase of electricity and natural gas. In addition, this item was negatively affected by the solidarity contribution mentioned above, which was not present in the year in question.

The item "Exemption" includes the net benefit only on IRES taxes resulting from the exemption for the higher values mentioned above, recognised with the acquisition of Con Energia Spa and amounting to 1.8 million euro (the 1 million euro IRAP benefit is classified under "IRAP" in the same table).

13 Current tax assets and liabilities

	31 Dec 23	31 Dec 22	Change
Income tax receivables	10.3	44.8	(34.5)
IRES refund receivables.	1.1	1.2	(0.1)
Total current tax assets	11.4	46.0	(34.6)
Income tax payables	110.2	17.1	93.1
Total current tax liabilities	110.2	17.1	93.1

“Income tax receivables” refer to the excess of advances paid for direct IRES and IRAP taxes with respect to the current tax burden for the year.

“Income tax payables”, mainly include provisions for IRES and IRAP taxes on income produced during the year, net of advances paid and any prior balances not yet compensated.

The sharp decrease in “Income tax receivables” and the considerable increase in “Income tax payables” compared to the previous year reflect, for certain significant companies, a positive change in pre-tax profit with respect to 2022, which, due to the mechanism under which direct taxes are paid through deposits on a historical basis, resulted in a debit for net exposure at 31 December 2023.

14 Deferred tax assets and liabilities

	31 Dec 23	31 Dec 22	Change
Pre-paid tax assets	448.2	429.8	18.4
Offsetting of deferred tax liabilities	(146.1)	(189.6)	43.5
Substitute tax credit	0.2	0.2	-
Total net deferred tax assets	302.3	240.4	61.9
Deferred tax liabilities	303.0	405.3	(102.3)
Offsetting of deferred tax liabilities	(146.1)	(189.6)	43.5
Total net deferred tax liabilities	156.9	215.7	(58.8)

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.

The prepaid and deferred taxes relating to 2023 refer to the following temporary difference between the value attributed to assets and liabilities according to statutory criteria and the corresponding values for tax purposes.

Deferred tax assets	2023			2022		
	Temporary changes	Tax effect (IRES+IRAP)	Changes in equity	Temporary changes	Tax effect (IRES+IRAP)	Changes in equity
Pre-paid taxes with effect on the income statement and the statement of comprehensive income						
Depreciation	698.2	181.1		686.0	178.5	
Provisions for bad debts	321.6	76.2		241.9	57.6	
Provisions for risks and charges	244.5	67.8		209.4	56.6	
Shareholdings	148.4	41.9		182.3	51.5	
Cash flow hedge	60.6	17.4		202.3	58.3	
Other	258.6	63.8		117.6	27.4	
Total tax effect	1,731.9	448.2	(9.3)	1,639.5	429.8	0.7
Credited (or debited) amount to the statement of comprehensive income		(40.3)				(42.9)
Credited (or debited) amount to the income statement		68.0				13.7
Deferred tax liabilities	2023			2022		
	Temporary changes	Tax effect (IRES+IRAP)	Changes in equity	Temporary changes	Tax effect (IRES+IRAP)	Changes in equity
Deferred taxes with effect on the income statement and statement of comprehensive income						
Depreciation	739.7	150.3		696.6	147.0	
Cash flow hedge	133.4	38.1		563.6	161.9	
Discounted financial liabilities	60.1	14.4		105.4	18.8	
Provisions for risks and charges	32.5	8.8		34.3	9.9	
Other	355.1	91.4		263.1	67.6	
Total tax effect	1,320.8	303.0	10.3	1,663.0	405.3	13.3
Credited (or debited) amount to the statement of comprehensive income		123.9				(28.9)
Credited (or debited) amount to the income statement		(11.3)				(1.8)

“Changes in equity” do not affect the income statement and statement of comprehensive income for the year, as they include the balances of deferred tax assets and liabilities arising from business combinations carried out in 2023 (for which, see paragraph 2.02.10 “Other Information”) and reclassifications arising between deferred tax assets and liabilities.

“Deferred tax assets” arise from temporary differences between the value attributed to assets and liabilities according to statutory criteria and the corresponding values for tax purposes. The increase for the period is due to the following effects:

- the change in the fair value of commodity derivatives classified as cash flow hedge, resulting in an asset decrease with a balancing entry in the statement of comprehensive income in the amount of 40.9 million euro.
- non-deductible components for the year in question, relating to credits for discounts included in invoices for energy efficiency activities in apartment buildings, resulting in an increase in tax assets amounting to 23.4 million euro;
- net allocations to the provision for bad debts of the Parent company and the main sales companies, resulting in an increase in tax assets amounting to 18.6 million euro overall.
- net allocations to the provision for risks and expenses, resulting in an increase in tax assets coming to 11.2 million euro.

As regards the assets recorded in 2021 for the realignment of goodwill defined by specific legal provisions, for which tax regulations provide for annual utilisation on a straight-line basis over a period of 50 years from the date of recognition, the Group's management confirms its assessment of full recoverability, considering the temporal extension of predictability for regulated distribution businesses, the particularly limited impact of the taxable income required to recover these deferred tax assets on the overall taxable income generated by the distribution assets with a residual useful life of several decades, as well as the tax consolidation regime under which the Group operates, which makes it possible to offset any tax losses across all businesses.

"Deferred tax liabilities" arise from timing differences between reported profit and taxable profit. The item also includes the significant tax effects of recognising or adjusting assets and liabilities in the consolidated financial statements.

The substantial decrease compared to 31 December 2022 is due to the following effects:

- change for the period in the fair value of commodity derivatives classified as cash flow hedge, resulting in a decrease in liabilities coming to 123.8 million euro with a balancing entry in the statement of comprehensive income;
- recognition of deferred taxes on customer lists and other intangible assets recognised as a result of acquisitions of control in 2023, totalling 19.6 million euro, as illustrated in the section "Business combinations (additional information)" in paragraph 2.02.10 "Other information".

Reporting on tax litigations

IRES, IRAP and VAT

Company	Description of litigation	Status of litigation	Disputed amount*	Amounts paid (including provisionally)**	Provisions booked in the financial statement
Tax					
Ascotrade Spa	Notice of assessment for the years between 2013 and 2017, and for the year 2019 concerning the deductibility of a number of components of the purchase cost of raw material and the irregular VAT deduction. Notice of assessment for the year 2018 concerning VAT alone.	For the years 2013 and 2014, the Second Degree Tax Court rejected the appeal brought by the Revenue Agency and ordered it to pay the costs. The proceedings for the year 2015 saw first instance rulings in favour of the company, but the Revenue Agency appealed and the proceedings are pending before the Second Degree Tax Court. For the years 2016 to 2018, the First Degree Tax Court annulled the assessments, but the Tax Agency appealed the ruling. For the year 2019, the company notified an appeal.	11.8	0.7	-
Hera Trading Srl	Notices of assessment for the years between 2011 and 2013 (only the latter for the Robin tax) concerning the deduction of valuation charges, net of related income, from commodity derivatives and environmental certificates.	In 2023, the company settled the claims contained in the notices of assessment for all the years from 2011 to 2013 by paying the amount due and requesting the extinction of the judgement. Believing that it has in any case behaved in compliance with the reference regulations, a request for reimbursement is currently being prepared.	3.4	3.4	-
IRES and "Robin Tax" surtax	Notices of assessment for the years from 2009 to 2013, focused on eligibility for the IRAP "tax wedge" relief in favour of the company.	In relation to the tax years for which notices were received, proceedings are pending before the Court of Cassation following the appeals lodged by the losing party (the rulings are both favourable and unfavourable to the company).	4.1	4.1	-
Herambiente Spa	Notices of assessment towards non-application of withholding tax on dividends paid to Ambiente Arancione U.A. and European Waste Holding Ltd in the years 2016 and 2017.	Appeals have been lodged with the appropriate Tax Court in relation to the proceedings for both years. The hearing was held and the first degree judgement is pending.	5.1		
Withholdings on dividends					
Marche Multiservizi Spa	Notices of assessment for the years 2009 and 2016 with objection to the deduction of the provision to the landfill post management allowance.	Proceedings for the years 2009 to 2014, following appeals filed by the losing party against unfavourable rulings (there are rulings both favourable and unfavourable to the company), are pending before the Regional Tax Commission. The proceeding for the year 2015 witnessed a ruling favourable to the Company, but the Inland Revenue has lodged an appeal and the Company appeared before the second-degree Tax Court of the Marche Region. Regarding the year 2016, the company has appealed the assessment, with the first hearing held at the end	2.5	1.3	0.5
IRES and IRAP					

of 2023, with the issuance of an order remanding the case for further proceedings.

Inrete Distribuzione SpA	IRES and IRAP notices of assessment for the years 2016 and 2017 concerning the undue deduction of discounting charges, the erroneous determination of the maxi-amortisation and hyper-amortisation relief (the latter contested for 2017) concerning the ancillary charges for the installation of smart meters, or the undue deduction of employee-related costs for IRAP purposes (2016 only).	With regard to the IRAP claim, the Company settled the dispute with the Inland Revenue Office and paid the tax due (of a modest amount). With regard to the two IRES assessments, against which an appeal was lodged, in 2022 the Tax Court ruled in the first degree in favour of the company. Consequently, the Revenue Agency filed an appeal. The proceedings are currently pending in the second degree. Amounts paid on an interim basis were refunded following the favourable first instance ruling.	1.3	0.2	-
Hera Luce Srl	Notice of assessment for the year 2013 concerning the deductibility of routine maintenance costs.	With reference to the 2017 notice of assessment, an appeal has been filed and a hearing is awaited. Pending the hearing, the company has provisionally paid 1/3 of the tax and interest due.			
IRES and IRAP		An appeal was lodged with the Second Degree Tax Court against the first degree ruling, which cancelled the penalties but confirmed the higher taxes claimed. The Company settled the case by resorting to the definition of tax disputes pursuant to Article 1, paragraphs 197 ff of Law no. 197 of 29/12/2022 (Budget Law 2023).	0.6	0.3	-
Hera Servizi Energia SpA	Assessment with adhesion for the 2018 tax year.	As a result of the adversarial process established with the Revenue Agency, the deeds of adhesion were signed in 2024, which led to the closure of the dispute.	2.4	2.4	
IRES, IRAP and VAT					

* "disputed amount" indicates the original amount of the claim with no interest, unless it was redetermined as a result of judicial conciliation, assessment with adhesion, partial annulment in judicial proceedings or on self-defence.

** the amounts paid include interest, where due.

Other taxes

Company	Description of litigation	Status of litigation	Disputed amount*	Amounts paid (including provisionally)**	Provisions booked in the financial statement
Herambiente SpA	Dispute documents related to the Sommacampagna landfill for the periods 2014-2017.	For the 2014, 2016 and 2017 tax periods, a hearing was held and the publication of the ruling is pending. For the 2015 period, instead, an unfavourable ruling was given to the company with a redetermination of the penalties against which the company filed an appeal with the competent Second Degree Tax Court.	7	-	1.5
Herambiente SpA	Notices of assessment for the years 2008 to 2018 following the reclassification in the real estate registry of the Ferrara waste-to-energy plant.	The proceedings were concluded for the 2008-2013 notices with a ruling favourable to the Company, while they are still pending before the first-instance Tax Court for the remaining years.	2.1	-	3.2
Herambiente SpA	Notices of assessment for the years between 2011 and 2020 concerning the classification in the real estate registry of land, facilities and buildable areas located in Ravenna.	For the years 2011-2020, partially favourable and partially unfavourable rulings were given. For the purpose of payment of the amount due, the outcome of the real estate registry disputes is awaited.	2	-	2.7
Herambiente SpA	Notices of assessment for the years between 2013 and 2019 concerning the waste to energy plant and the recycling plant located in the municipality of Coriano.	For the years 2013-2019, the Company, with a settlement agreement pursuant to Article 48 of Legislative Decree 546/1992, defined with the Municipality of Coriano the amounts due, paying the amounts requested.	0.7	0.7	-
AcegasApsAmga SpA	Technical-administrative audit of the Padua and Trieste waste-to-energy plants carried out by the Customs Agency for the years 2012 to 2015 in relation to the installation of measuring instruments for detecting electricity	With reference to the Padua waste-to-energy plant, the Court of Cassation upheld the appeal and sent the case back to the Second Instance Tax Court. At present, a date for the hearing is pending. With reference to the Trieste waste-to-energy plant, following the sentence of the Tax Court that had	2.1	1	-
Excise on self-consumption					

	produced and used for self-consumption and associated payment of the excise.	granted the entitlement to the reduced excise tax, the Revenue Agency appealed to the Court of Cassation. A date for the hearing is pending.		
EstEnergy Spa				
Windfall contributions	Request for reimbursement of the non-recurring contribution against high utility bills – Revenue Agency.	The Company filed an application with the competent office of the Revenue Agency for reimbursement of the amounts paid as advance and balance for the year 2022. The Company has filed an appeal against the tacit refusal given by the office and is currently waiting for the date of the hearing to be set.	-	9.6
Hera Spa				
Windfall contributions	Application for reimbursement in relation to the payment of the "non-recurring contribution against the high cost of utility bills" introduced for the year 2022 only by Law No 51/2022, since it is no longer due as a result of the change in the scope of the matter introduced by the subsequent Law No 197/2022.	The company filed an appeal against the silent rejection of the refund request in the second half of 2023. A date for the hearing is pending.	-	13
Hera Spa				
COSAP/TOSAP	Notices of assessment for the tax periods from 2013 to 2017, notified by the Municipality of Riccione for the permanent occupation of public land with waste bins.	The Tosap proceedings for the years from 2013 to 2016 are pending at the Emilia-Romagna Second Degree Tax Court, and the Cosap 2018 procedure is pending before the Bologna Court of Appeals. The first-degree ruling is partially favourable to the Company.	1.2	1.2
Hera Spa	COSAP notice of objection for the tax periods from 2018 and 2019, notified by the Municipality of Riccione for the permanent occupation of public land with waste bins.	The proceedings concerning 2018 are pending before the Civil Court. With reference to 2019, the judgment of first instance was partially unfavourable. An appeal was filed against the same before the Court of Appeal of Bologna.	1.3	0.2
COSAP/TOSAP	TOSAP notices of assessment for the tax years 2014-2018, notified by the Municipality of Coriano for the permanent occupation of public land with waste bins.	The 2014 and 2015 proceedings are currently pending at the Emilia-Romagna Second Degree Tax Court. Both first instance rulings were unfavourable to the company. Concerning the notices for 2016, 2017 and 2018, the first instance rulings were both unfavourable and therefore the Company has filed an appeal. The case is pending before the Court of Emilia-Romagna.	0.9	0.1

* "disputed amount" indicates the original amount of the claim with no interest, unless it was redetermined as a result of judicial conciliation, assessment with adhesion, partial annulment in judicial proceedings or on self-defence.

** the amounts paid include interest, where due.

As regards the disputes in question, having consulted its lawyers, the Group has decided to allocate the provisions indicated. In cases in which no provision has been allocated, the alleged violations have been deemed groundless.

2.02.04 Equity and financial structure

	31 Dec 23	31 Dec 22	Change
Net equity	3,751.6	3,644.7	106.9
Net financial debt	3,827.7	4,249.8	(422.1)
Net financial debt / net equity	1.02	1.17	

Compared to 31 December 2022, net equity increased, mainly due to the combination of the following:

- net income for the year amounting to 483.2 million euro, up from 305.3 million at 31 December 2022;
- dividend payments amounting to 216.7 million euro;
- a negative change in the other comprehensive income components totalling 196.6 million euro, driven mainly by changes in cash flow hedge reserves related to gas and electricity commodity transaction hedges;

- the recognition of minority interests due to acquisitions carried out during the year totalling 56.8 million euro;
- a negative change resulting from operations carried out on treasury shares totalling 19.7 million euro.

Net financial debt is an alternative performance indicator, as reported in Section 1.04 "Overview of operating and financial trends and definition of alternative performance indicators". The amount recorded at 31 December 2023 decreased significantly compared to the previous year. This is due in particular to the generation of cashflow from operations for the year, which, as reported in the cashflow statement in paragraph 2.01.04, showed a sharp increase coming to 1,537 million euro compared to the previous year (going from 35.7 million euro to 1,572.7 million euro), due to both improvement in the Group's operating results and a better performance of net working capital. The latter, in particular, was positively impacted by the drop in commodity prices (including with reference to the natural gas storage business), which naturally led to a levelling of the exposure that had been seen at 31 December 2022. The excellent generation of operating cashflow made it possible to support both investments and the early repayment of part of the short- and medium-term financing contracts signed in the second half of 2022 to meet the needs of net working capital management. For more details, see Section 1.04.02 "Financial structure and adjusted net debt" and Note 19 "Financial Liabilities".

Net equity

15 Group net equity

	31 Dec 23	31 Dec 22	Change
Share capital (nominal value)	1,489.5	1,489.5	-
Treasury share reserve	(45.8)	(38.5)	(7.3)
Share capital increase costs	(0.7)	(0.7)	-
Share capital	1,443.0	1,450.3	(7.3)
Legal reserve	133.9	120.3	13.6
Other reserves	1,471.4	1,409.1	62.3
Components of comprehensive income (OCI)	4.5	207.1	(202.6)
Reserve for treasury share transactions	(56.0)	(43.6)	(12.4)
Reserves	1,553.8	1,692.9	(139.1)
Profit (loss) for the period	441.4	255.2	186.2
Total	3,438.2	3,398.4	39.8

The share capital at 31 December 2023 amounted to 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up. The number of treasury shares held by the Group at 31 December 2023 was 45,830,208 (38,541,380 at 31 December 2022).

Other reserves consist of the profits generated in previous years and reserves established on capital contributions or equity investments.

The reserve for treasury share operations reflects transactions on treasury shares at 31 December 2023. Note that in 2023 only transactions involving purchases were carried out.

16 Non-controlling interests

	31 Dec 23	31 Dec 22	Change
Share capital and reserves	266.8	197.4	69.4
Components of other comprehensive income (OCI)	4.8	(1.2)	6.0
Profit (loss) for the period	41.8	50.1	(8.3)
Total	313.4	246.3	67.1

This item mainly comprises the minority equity interests of the Herambiente Group, the Marche Multiservizi Spa Group and Acantho Spa. The change is mainly due to the non-total acquisitions of A.C.R. Spa, amounting to 32.7 million euro, and Asco TLC Spa (through merger by incorporation into Acantho Spa), amounting to 24.1 million euro. For further details, see the section “Business combinations (additional information)” in paragraph 2.02.10 “Other information”.

As regards the acquisition of non-total controlling interests achieved in previous years through business combinations, various contractual agreements entered into by the Group provided for granting irrevocable put options to minority shareholders, to be exercised within specific timeframes. The existence of these rights owned by minority shareholders has led to the need to classify the options on the shares/quotas of the acquired companies held by minority shareholders as financial liabilities in the consolidated financial statements, thus considering the related shareholdings as fully owned. For further details on the calculation of the fair value of the put option debt, see Note 19 “Financial liabilities”.

Net profit attributable to non-controlling interests decreased compared to the previous year, mainly due to the lower results seen in the energy services and plastics processing businesses, only partially offset by the effect of the acquisitions made in 2023.

Reconciliation statement

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

	Net result	Net equity
Balances as per parent company's financial statements	244.8	2,584.8
Excess of shareholders' equity (including the result of the period) over the carrying amounts of investments in consolidated companies	197.2	728.0
Consolidation adjustments		
net equity valuation of companies recognised in the separate financial statements at cost	(0.6)	43.9
difference between purchase price and corresponding net book equity	2.1	94.5
elimination of intra-group transaction effects	(2.1)	(13.0)
Total	441.4	3,438.2
Allocation of third-party holdings	41.8	313.4
Balances as per consolidated financial statement	483.2	3,751.6

17 Earnings per share

	2023	2022
Profit or loss for the period attributable to holders of ordinary shares of the parent company (A)	441.4	255.2
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss) per share		
basic (B)	1,446,069,736	1,454,636,032
diluted (C)	1,446,069,736	1,454,636,032
Earnings (loss) per share (in euro)		
basic (A/B)	0.305	0.175
diluted (A/C)	0.305	0.175

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

When this consolidated financial statement was prepared, the share capital of the parent company Hera Spa consisted of 1,489,538,745 ordinary shares, unchanged from 31 December 2022, which were used in determining basic and diluted earnings per share.

Net financial debt

What follows is the financial debt prepared in accordance with Guideline no. 39, issued on 4 March 2021 by ESMA, as implemented by Consob in its communication 5/2021 of 29 April 2021. The Group also monitors its financial performance through the Net financial debt indicator, which adds non-current financial receivables to the regulatory statement.

		notes	31 Dec 23	31 Dec 22
A	Cash	18	1,332.8	1,942.4
B	Cash equivalents	18	-	-
C	Other current financial assets	18	90.9	77.7
D	Liquidity (A+B+C)		1,423.7	2,020.1
E	Current financial debt	19	(411.9)	(563.0)
F	Current portion of non-current financial debt	19, 22	(524.1)	(108.4)
G	Current financial indebtedness (E+F)		(936.0)	(671.4)
H	Net current financial indebtedness (G+D)		487.7	1,348.7
I	Non-current financial debt	19, 22, 29	(1,087.0)	(2,553.0)
J	Debt instruments	19	(3,391.2)	(3,197.3)
K	Non-current trade and other payables		-	-
L	Non-current financial indebtedness (I+J+K)		(4,478.2)	(5,750.3)
M	Total financial indebtedness (H+L) ESMA guidelines 32 - 382 - 1138		(3,990.5)	(4,401.6)
	Non-current financial receivables	18	162.8	151.8
	Net financial debt		(3,827.7)	(4,249.8)

To better understand the financial events that took place during the course of 2023, see the financial statements and the comments shown in the Directors' report in paragraph 1.04.02 "Financial structure and adjusted net debt".

For the statement of financial debt with related parties, see paragraph 2.03.04.

The following is an analysis of the balance sheet items included in the determination of net financial debt, with the exception of financial assets and liabilities related to interest rate derivative financial instruments, which are detailed in Note 29 "Derivative Instruments", and lease liabilities, which are shown in Note 22 "Rights of Use and Leasing Liabilities".

18 Financial assets, cash holdings and cash equivalents

	31 Dec 23	31 Dec 22	Change
Loan receivables	19.6	27.0	(7.4)
Receivables for construction services	100.3	80.4	19.9
Portfolio securities	2.0	2.0	-
Other financial receivables	40.9	42.4	(1.5)
Total non-current financial assets	162.8	151.8	11.0
Loan receivables	6.3	7.2	(0.9)
Portfolio securities	1.6	-	1.6
Other financial receivables	83.0	70.5	12.5
Total current financial assets	90.9	77.7	13.2
Total cash holdings	1,332.8	1,942.4	(609.6)
Total financial assets and cash holdings	1,586.5	2,171.9	(585.4)

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

	Fatto fi 31 Dec 23			31 Dec 22		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe SpA	4.6	0.8	5.4	5.4	0.8	6.2
Calenia Energia SpA	-	-	-	3.3	-	3.3
Set SpA	8.9	5.2	14.1	12.2	3.2	15.4
Other minor companies	6.1	0.3	6.4	6.1	3.2	9.3
Total	19.6	6.3	25.9	27.0	7.2	34.2

Loans to companies that are vehicles through which the Group owns production quotas for electricity generation plants (Set SpA and Tamarete Energia Srl) were tested for impairment, the result of which did not lead to changes in the carrying values during the 2023 financial year, as explained in Note 27 “Impairment tests on equity investments”. As regards receivables from the associated companies Tamarete Energia Srl and H.E.P.T. Co. Ltd, which were already fully written down at 31 December 2022, the Group received collections during the year totalling 2.6 million euro and recorded the consequent revaluation under financial income.

“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 for the item “Loans and receivables” in section 2.02.01 “Introduction”.

“Portfolio securities”, in its non-current and current portions, mainly include bonds, funds and insurance policies guaranteeing post-mortem management of the landfill held by subsidiary Asa SpA, amounting to 3.4 million euro, whose book value was essentially aligned with the fair value at year-end. These securities are measured at fair value through other comprehensive income components.

“Other financial receivables” include the following counterparties:

	31 Dec 23			31 Dec 22		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Collinare Consortium	13.3	-	13.3	13.0	-	13.0
Acosea Impianti	12.7	-	12.7	12.7	-	12.7
Municipality of Padua	10.6	1.5	12.1	12.1	1.5	13.6
Market data exchange	-	10.8	10.8	-	-	-
Cato and Veneto Region	-	6.1	6.1	-	7.0	7.0
ex-CMV municipalities	3.9	-	3.9	3.9	-	3.9
Other financial receivables	0.4	64.6	65.0	0.7	62.0	62.7
Total	40.9	83.0	123.9	42.4	70.5	112.9

- The item Collinare Consortium represents the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- Acosea Impianti refers to a security deposit left with the parent company Hera Spa;
- The Municipality of Padua is mainly related to the construction of photovoltaic systems. The repayment of this credit, which is regulated at a market rate, is scheduled at the end of 2030;
- Market data exchange includes advances related to electricity and gas exchange contracts entered into on the EEX and ICE platforms, which call for the daily settlement of outstanding fair value differentials. The change compared to the previous year, in which this item was a 145.1 million euro payable, is due to the trend in energy commodity prices, which decreased significantly in 2023 compared to the peak values reached in 2022;
- Cato and Veneto Region reflects government grants that will be collected after the balance sheet date;
- Ex-CMV municipalities concerns the compensation due to the outgoing operator at the end of the concession of the management of gas distribution service in the municipalities of Vigarano, Goro and Castello d'Argile;
- Other financial receivables include transactions for the assignment of energy efficiency tax credits concluded at the end of fiscal year 2022, formally validated and accepted by the bank counterparties, the collection of which took place in January 2023, amounting to 43.6 million euro (46.3 million euro at 31 December 2022).

“Cash and cash equivalents” consisted solely of bank and postal deposits amounting to 1,332.8 million euro at 31 December 2023 (1,941.8 million euro at 31 December 2022). To better understand the change in the amount of cash and cash equivalents, see the cash flow statement.

19 Financial liabilities

	31 Dec 23	31 Dec 22	Change
Bonds and loans	4,072.2	5,171.5	(1,099.3)
Minority shareholder' put option	327.8	499.5	(171.7)
Payables to acquire controlling shareholdings and potential consideration	20.1	17.4	2.7
Other financial liabilities	1.6	1.5	0.1
Total non-current financial liabilities	4,421.7	5,689.9	(1,268.2)
Bonds and loans	479.2	87.1	392.1
Overdrafts and interest liabilities	92.6	316.6	(224.0)
Payables to acquire controlling shareholdings and potential consideration	13.8	13.3	0.5
Minority shareholders' put option	-	1.7	(1.7)
Other financial liabilities	305.2	231.4	73.8
Total current financial liabilities	890.8	650.1	240.7
Total financial liabilities	5,312.5	6,340.0	(1,027.5)

The non-current portion of "Bonds and loans" changed mainly due to the overall effect of the following:

- issue of the Hera Group's second Sustainability-linked bond, part of its strategy aimed at reducing greenhouse gas emissions and increasing the amount of recycled plastic. The new bond, listed on the regulated markets of the Irish, Luxembourg and Italian stock exchanges, has a nominal value of 600 million euro, a ten-year term and a nominal coupon of 4.25%, with a possible step-up starting from 2032 should the company fail to achieve the sustainability targets called for by the bond. For further details regarding the new issuance, reference should be made to chapter 1.03 "Main events occurred" in the Directors' report;
- early repayment of the medium/long-term credit line, in the form of a Term loan bullet, granted in 2022 by a pool of major banks operating with the Group, amounting to 450 million euro and secured by a guarantee issued by Sace Spa (based on Article 15 of Legislative Decree No. 50 of 17 May 2022, subsequently converted into law);
- early repayment of debts underwritten with leading financial institutions in 2022 totalling 300 million euro.
- classification in the current portion and subsequent early repayment of the 500 million euro bridge loan that a pool of banks granted in October 2022 in anticipation of the aforementioned issuance of the new Sustainability-linked bond;
- classification in the current portion of two bonds with a total residual nominal value of 438.1 million euro, both maturing in August 2024.



The item also includes the value of the put option, amounting to 55.3 million euro, related to Ascopiaeve Spa's 3% 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. This debt, with a nominal value of 54 million euro, increased due to the financial evaluation component and decreased due to dividends paid out:

	Opening value	Financial expenses	Flows paid out	Terminal value
2022 financial year	55.0	3.2	(3.4)	54.8
2023 financial year	54.8	3.2	(2.7)	55.3
Total	54.8	3.2	(2.7)	55.3

The current portion of "Bonds and loans" includes the amounts of medium- and long-term debt due within the next financial year, in addition to the bonds mentioned above maturing in August 2024.

Bonds

The main conditions of the bonds outstanding at 31 December 2023 are as follows:

Bonds	Duration (years)	Maturity	Nominal value (mn)	Coupon	Annual rate
Sustainability linked bond	12.5	25 Apr 2034	500 EUR	Fixed, annual	1.00%
Sustainability linked bond	10	20 Apr 2033	600 EUR	Fixed, annual	4.25%
Green bond	10	04 Jul 2024	288.3 EUR	Fixed, annual	2.375%
Bond*	15	05 Aug 2024	20,000 JPY	Fixed, six-monthly	2.93%
Bond	12	22 May 2025	15 EUR	Fixed, annual	3.5%
Green bond	7	25-mag-2029	500 EUR	Fixed, annual	2.5%
Bond	10	14 Oct 2026	325.44 EUR	Fixed, annual	0.875%
Bond	10	03 Dec 2030	500 EUR	Fixed, annual	0.25%
Bond*	15/20	14 May 2027/2032	102.5 EUR	Fixed, annual	5.25%
Green bond	8	05 Jul 2027	357.2 EUR	Fixed, annual	0.875%
Bond	15	29 Jan 2028	599.02 EUR	Fixed, annual	5.20%

* Unlisted instrument

At 31 December 2023, the outstanding bonds, totalling a face value of 3,937.2 million euro (3,359.2 at 31 December 2022) and recorded at discounted cost of 3,804.5 million euro, have a fair value of 3,737.7 million euro (2,986.8 at 31 December 2022) determined by market quotations where available.

There are covenants on some loans that require compliance with the corporate rating limit, which must be rated, even only by a single rating agency, no lower than investment grade (BBB-). As of the balance sheet date this covenant has been complied with.

Put options

"Minority shareholders' put option" includes the fair value assessment of the put options granted, with specific contractual arrangements, to minority shareholders on their own shares. The most significant amount refers to the put option on the non-controlling shares in EstEnergy Spa, equal to 25% of the share capital, held by Ascopiateve Spa.

The Group's policy is not to represent the holdings of minority shareholders in the component of results for the period, and therefore the value of debts for the options (to be paid at the date of exercising the option according to the contractual mechanism agreed between the parties) is increased by the dividends expected to be paid by the subsidiary companies along the hypothetical life of the options themselves. The fair value recognised as a liability in the balance sheet is therefore not only the present value of the expected price of the put option at the date of it is exercised, but also contains the discounted estimate of future dividends paid as part of the variable consideration due to the counterparty. Given the structure of the operation, during the period in which the option is exercised, the profit generated by subsidiary companies will be distributed according to their respective nominal shareholdings. This mechanism means that the portion of the fair value of the put option that will be settled through the distribution of future dividends is actually self-liquidating, since the necessary financial resources (i.e. dividends of non-controlling shareholdings) will be directly generated by the subsidiary companies, without thus determining during that period a real additional financial need for the Group.

The following are the changes for the year, compared with the previous period:

Put options	Opening value	Acquisitions	Financial expenses	Changes in assumptions	Flows paid out	Terminal balance
31 Dec 22						
Equity value	442.9	6.9	15.4	35.0	(79.0)	421.2
Future dividends	142.3	2.2	5.1	(47.6)	(21.9)	80.0
Total	585.2	9.0	20.5	(12.6)	(100.9)	501.2
31 Dec 23						
Equity value	421.2	7.6	14.4	(11.9)	(149.5)	281.9
Future dividends	80.0	3.1	2.8	(19.3)	(20.7)	45.9
Total	501.2	10.7	17.2	(31.1)	(170.2)	327.8

Regarding the changes occurring during the year:

- acquisitions refer to the extraordinary acquisition of F.Ili Franchini Srl;
- financial expenses include the notional effects of discounting the liability recognised at the previous balance sheet date;
- changes in assumptions represent the effects of updating the variables underlying the determination of the fair value of the options themselves. More specifically, the fair value of these options is calculated by referring to the future exercise scenario deemed most probable by Group management, taking into account the partial exercises carried out, consistently with the updated planning assumptions, adopting criteria according to the conditions agreed between the parties and discounting the corresponding future cash flows, using the average cost of the Group's long-term debt at the date of the transaction as the discount rate. In 2023, the revision of the estimates resulted in the recognition of income amounting to 31.3 million euro and expenses totalling 0.2 million euro. the income mainly refers to options on minority interests in EstEnergy Spa amounting to 26.9 million euro and Recycla Spa totalling 4.1 million euro;
- the flows paid out include the amounts paid to minority shareholders both for exercising the options themselves (equity value) and for the payment of dividends belonging to them. During 2023, note the following movements in relation to the equity value component:
 - the partial exercise by Ascopiae Spa of the put option in its possession, resulting in the sale to Hera Comm Spa of 15% of the shares of EstEnergy Spa for an amount of 137.5 million euro;
 - the total exercise by Herambiente Servizi Industriali Srl of the put option in its possession, correlated with a corresponding put option held by minority shareholders, equal to 30% of the shares of Recycla Spa for an amount of 10.3 million euro.

In "Overdrafts and interest liabilities", the significant change compared with the previous financial period is due to the underwriting of short-term monetary loans in the form of hot money in the last quarter of 2022, totalling 230 million euro. These loans were paid up in the initial months of 2023 and, at the same time, the Group did not take out any further short-term loans with these characteristics, given its satisfactory cash position.

"Payables to acquire controlling shareholdings and potential consideration" include the amounts still to be paid to transferor shareholders as part of the business combination transactions concluded in the period or in previous periods, as well as the estimate of the potential payments (earn-out) foreseen by the agreements signed at the time of the acquisition.

The following is a breakdown of this item at 31 December 2023 by individual acquisition, compared with the previous period:

	31 Dec 23			31 Dec 22		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aliplast Spa	17.4	-	17.4	17.4	-	17.4
Macero Maceratese Srl	-	-	-	-	1.1	1.1
Payables to acquire controlling shareholdings	17.4	-	17.4	17.4	1.1	18.5
Pistoia Ambiente Srl	-	11.9	11.9	-	11.5	11.5
A.C.R Spa	2.5	1.0	3.5	-	-	-
Aliplast Spa	-	0.5	0.5	-	0.5	0.5
F.Ili Franchini Srl	0.2	0.3	0.5	-	-	-
Recycla Spa	-	-	-	-	0.2	0.2
Other minor companies	-	0.1	0.1	-	-	-
Potential consideration	2.7	13.8	16.5	-	12.2	12.2
Total	20.1	13.8	33.9	17.4	13.3	30.7

“Other financial payables” mainly refer to:

	31 Dec 23			31 Dec 22		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Settlements	-	154.1	154.1	-	-	-
Factoring	-	117.7	117.7	-	61.0	61.0
Fund for energy and waste management services (CSEA)	-	21.3	21.3	-	20.4	20.4
Municipal Pension Fund of the Municipality of Trieste	1.2	0.3	1.5	1.5	0.3	1.8
Market data exchange	-	-	-	-	145.1	145.1
Other minor items	0.4	11.8	12.2	-	4.6	4.6
Total	1.6	305.2	306.8	1.5	231.4	232.9

- Settlements includes the amounts collected as of the reporting date in relation to the provisional balancing service adjustment session for the gas sector in 2019-2022 (pursuant to the mechanism set out by ARERA in resolution 72/2018/R/gas) that took place during 2023. Following a verification of the volumes provided to end customers, the Group believes that it will have to reimburse these amounts in future sessions involving annual adjustments, during which the allocations will be redefined, until the definitive determination of the fifth consecutive year. These assessments were carried out also on the basis of the data communicated by distributors and taking into account noteworthy critical issues relating to the allocation and equalisation of methane gas orders in the Italian market;
- Factoring mainly includes collections yet to be transferred to financial institutions at the end of the year, in relation to receivables subject to non-recourse assignments for which the Group has maintained collection activities on behalf of factor companies. The increase during the year is related to the higher amount of revolving transfers made compared to the previous year;
- Fund for energy and waste management services includes revenues to be retroceded since they have already been advanced by CSEA mainly in relation to the reports made by the Group for the activities carried out in the gas and electricity sales markets subject to tenders, as detailed in Note 36 “Other current liabilities” which can be consulted for more details;
- Market data exchange includes advances related to electricity and gas exchange contracts concluded on the EEX and ICE platforms, which provide for the daily settlement of outstanding fair value

differentials. This item is a credit in the current year, as illustrated in Note 18 “Financial assets, cash and cash equivalents”;

- Other minor items mainly include payables to the Tax authorities in relation to the collection of the RAI fee charged to customers in their electricity bills by the Group’s sales companies, amounting to 6.4 million euro (3.6 million euro at 31 December 2022).

Debt analysis by maturity

The following table shows financial liabilities broken down by nature at 31 December 2023, with an indication of their maturity:

Type	Residual amount 31 Dec 23	Portion due within the period	Portion due within 2nd year	Portion due within 5th year	Portion due beyond 5th year
Bonds	3,804.5	414.1	14.6	1,260.5	2,115.3
Loans	746.9	65.2	433.5	202.9	45.3
Minority shareholders' put option	327.8	-	10.4	317.4	-
Payables to acquire controlling shareholdings and potential consideration	33.9	13.7	18.5	1.7	-
Other financial liabilities	306.8	305.2	1.4	0.1	0.1
Overdrafts and interest liabilities	92.6	92.6	-	-	-
Total	5,312.5	890.8	478.4	1,782.6	2,160.7

Scenario analysis

The table below shows the worst-case scenario, in which assets (cash, financial and trade receivables) are not taken into account, unlike financial liabilities for bonds, financing and overdrafts, shown in the capital and interest portion, trade payables and interest rate derivatives. Financial lines were assumed to be revoked on demand, while loans were assumed to be repaid at the earliest date provided for in the contractual terms.

Worst case scenario (mn€)	31 Dec 23			31 Dec 22		
	from 1 to 3 months	more than 3 months to 1 year	from 1 to 2 years	from 1 to 3 months	more than 3 months to 1 year	from 1 to 2 years
Bonds	33.2	536.2	102.3	33.0	99.0	511.0
Financial payables and other liabilities	98.0	81.9	444.9	329.6	732.0	91.0
Payables to suppliers	2,637.2	-	-	3,093.1	-	-
Total	2,768.4	618.1	547.2	3,455.8	831.0	602.0

Credit lines

Current cash and lines of credit, in addition to the resources generated by the operating and financing activities, are deemed sufficient to meet future financial needs. The following is a summary of the credit lines available at 31 December 2023, compared with the previous year:

	31 Dec 23	31 Dec 22
Committed credit lines	1,565.0	1,230.0
Uncommitted credit lines	752.0	517.0
Total	2,317.0	1,747.0

The credit lines are distributed among the leading Italian and international banks and allow for adequate diversification of counterparty risk and competitive conditions. In 2023, in particular, the following were signed:

- a sustainability-linked revolving credit facility with a pool of leading banks totalling 450 million euro, with a five-year term;
- a credit line with the European Investment Bank amounting to 460 million euro, usable within the next three years and repayable in sixteen annual instalments starting four years after being drawn.

Sureties and guarantees

	31 Dec 23	31 Dec 22
Bank sureties and guarantees	2,951.4	2,780.0
Insurance sureties and guarantees	987.5	851.5
Total	3,938.9	3,631.5

For "Bank sureties and guarantees", the value at 31 December 2023, compared with the previous period, comprises the following:

	31 Dec 23	31 Dec 22
Bank sureties	1,075.8	1,244.4
Letters of patronage	1,875.6	1,535.6
Total	2,951.4	2,780.0

More specifically:

- bank sureties are related to sureties made to public institutions (the Ministry of the Environment and Energy Security, the regions, provinces and municipalities) and private entities to guarantee the suitable management of plants for treating and disposing of waste, for the suitable provision of waste disposal and intermediation services, for reclamation work and for the proper fulfilment of contractual commitments on wholesale energy commodity markets;
- letters of patronage are issued mainly to guarantee the timely payment of raw material supplies.

The increase compared to the previous year is due to the higher guarantees provided for operations on the wholesale procurement markets and sales to end customers of gas and electricity commodities.

"Insurance sureties and guarantees" refers to sureties issued to public entities (provinces, municipalities and the Ministry of the Environment and Energy Security) 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.

Note, lastly, that at 31 December 2023, the Hera Group provided the guarantees for certain bank loans, in the amount of 11.8 million euro.

20 Cash flows related to financing activities

Changes in financial liabilities

The following is a breakdown of information on changes in financial liabilities during the 2023 financial year, differentiating between cash flows and non-cash flows.

Type	31 Dec 23	31 Dec 22	Change (a)	Non-cash flows			Cash flows (f)=(a)- [(b)+(c)+(d)+(e)]
				Acquisitions divestitures (b)	Economic valuation components (c)	Changes in fair value (d)	
Non-current financial liabilities	4,421.7	5,689.9	(1,268.2)	15.3	47.5	(27.1)	(1,031.3) (272.6)
Current financial liabilities	890.8	650.1	240.7	14.0	3.6	(19.7)	1,013.8 (771.0)
Cash flows related to financial liabilities	5,312.5	6,340.0	(1,027.5)	(29.3)	51.1	(46.8)	(17.5) (1,043.6)
of which							
New issue of long-term bonds							614.9
Repayments of non-current financial liabilities							(750.0)
Repayments and other net changes in financial liabilities							(908.5)
Lease liabilities	81.3	76.4	4.9	7.0	-	-	20.3 (22.4)
Financial liabilities generated by financing activities	5,393.8	6,416.4	(1,022.6)	36.3	51.1	(46.8)	2.8 (1,066.0)

“Acquisitions and Divestitures” include the effects arising from the control acquisition transactions carried out in the 2023 financial year, as explained in the section “Business combination (supplementary information)” in Section 2.02.10 “Other information”.

“Economic valuation components” include:

- charges from the amortised cost valuation of bonds and loans in the amount of 33.5 million euro, as reported in Note 11 “Financial expenses”;
- discounting charges related to the put options of non-controlling shareholdings and earn-outs contracted as part of the acquisition of control over companies and business units, amounting to 17.6 million euros, as reported in Note 11 “Financial expenses”,

“Changes in fair value” mainly include:

- the adjustment to fair value of the carrying amount of the put option recorded against the minority shareholder of EstEnergy Spa, which resulted in the recognition of income in the amount of 26.9 million euro, as reported in Note 19 “Financial liabilities”;
- the adjustment to fair value of the carrying amount of the put option recognised to the minority shareholders of Recycla Spa, following the Group’s exercise of the related put option on all remaining shares, which resulted in the recognition of income coming to 4.1 million, as reported in Note 19 “Financial Liabilities”;
- the adjustment made to the carrying value of a foreign currency bond due to the fair value hedge relationship that resulted in the recognition of charges amounting to 15.6 million euro, as reported in Note 29 “Derivative Instruments”.

“Other changes” include effects mainly due to:

- payment of dividends to minority shareholders with whom the Group contracted put options at the time of acquiring control, amounting to 20.7 million euro. In the cash flow statement, the related cash flow is represented in dividends paid out, although it is accounted for as a change in the financial liability already recorded (this mechanism is explained in Note 19 “Financial liabilities”);

- recognition, in application of amortised cost, of the initial adjustment of the nominal value of the bond issued during the year totalling 7.1 million euro, in order to represent the costs related to this issuance as separate cash flows;
- the recognition of liabilities related to leases entered into during the year and the remeasurement of outstanding lease liabilities generated by an update of the underlying assumptions about renewal, purchase, or early termination options, as reported in Note 22, "Rights of Use and Lease Liabilities".

Acquisition of interests in consolidated companies

This amount mainly refers to the outlay related to the purchase of non-controlling shares in Tri-Generazione Scarl, as described in paragraph 2.02.01 "Introduction", while the amount for the previous year refers to the acquisition of shares in Hera Comm Marche Srl.

Minority share capital increase

This amount mainly refers to the share capital increase subscribed and paid up by the minority shareholders of A.C.R. Spa, which took place after the acquisition of control by the Hera Group.

Dividends paid out to Hera shareholders and non-controlling interests

The value refers to dividends paid out during 2023 to:

- parent company's shareholders in the amount of 182.6 million euro;
- minority shareholders in the amount of 56.5 million euro, of which 20.7 million euro were paid to minority shareholders to whom the Group had recognized payables for put options in previous years, as mentioned above.

Lastly, note that non-monetary flows due to exchange rate differences were absent in 2023.

2.02.05 Investment activities

Assets increased compared to the previous year mainly as a result of new investments made for works on plants, networks and infrastructures, as well as investments made for regulatory adjustments, which mainly concerned gas distribution (for the large-scale replacement of meters) and the purification and sewage area.

Also note the recognition of customer lists amounting to 67.2 million euro and goodwill amounting to 60.6 million euro in connection with business combinations carried out during the year.

The following notes comment on the composition of and main changes within each asset category; note that additional information concerning investments made during the period can be found in paragraph 1.07 "Analysis by Strategic Business Area" of the Directors' Report.

The value of all tangible and intangible assets, including goodwill, was subjected to impairment testing, the results of which can be found in Note 25 "Impairment tests on assets".

21 Tangible assets

	31 Dec 23	31 Dec 22	Change
Land and buildings	635.7	620.4	15.3
Plants and machinery	1,067.9	1,089.5	(21.6)
Other movable assets	107.7	89.5	18.2
Assets under construction	246.1	183.0	63.1
Total operating assets	2,057.4	1,982.4	75.0
Investment property	1.9	2.0	(0.1)
Total	2,059.3	1,984.4	74.9

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

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net terminal value	of which gross terminal value	of which amortisation provision
31 Dec 22									
Land and buildings	585.3	24.0	(1.9)	(19.5)	3.7	28.8	620.4	908.7	(288.3)
Plants and machinery	1,107.8	61.8	(3.7)	(112.5)	9.0	27.1	1,089.5	3,060.2	(1,970.7)
Other movable assets	123.7	13.7	(0.3)	(21.0)	0.6	(27.2)	89.5	433.1	(343.6)
Assets under construction	122.1	126.1	(0.5)	-	-	(64.7)	183.0	183.0	-
Total	1,938.9	225.6	(6.4)	(153.0)	13.3	(36.0)	1,982.4	4,585.0	(2,602.6)
31 Dec 23									
Land and buildings	620.4	21.0	(0.5)	(23.7)	8.4	10.1	635.7	955.0	(319.3)
Plants and machinery	1,089.5	57.1	(7.8)	(123.4)	5.5	47.0	1,067.9	3,152.4	(2,084.5)
Other movable assets	89.5	22.0	(0.4)	(24.2)	7.7	13.1	107.7	480.1	(372.4)
Assets under construction	183.0	142.6	(0.8)	(0.9)	0.4	(78.2)	246.1	246.1	-
Total	1,982.4	242.7	(9.5)	(172.2)	22.0	(8.0)	2,057.4	4,833.6	(2,776.2)

“Land and buildings” consists of 127.2 million euro in land and 508.5 million euro in buildings. These are mainly company-owned properties on which the majority of the sites and production plants stand.

“Plants and machinery” is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system such as district heating, electricity in the Modena area, waste disposal and waste treatment as well as plastic production plants. The main investments for the year were in waste treatment activities amounting to 28.8 million euro and electricity distribution amounting to 21.3 million euro. Disinvestments concern demolitions and divestitures of obsolete plants.

“Other movable assets” mainly include, regarding business areas that have not yet gone out to tender for service concessions, waste collection equipment and bins amounting to 67 million euro and motor vehicles amounting to 40.7 million euro.

“Assets under construction” mainly consist of investments in progress for waste treatment plants amounting to 59 million euro and for the electricity distribution network amounting to 25.7 million euro, as well as investments for developing the district heating network amounting to 23.7 million euro.

“Other changes” covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial year, as well as the reclassification from tangible assets to intangible assets, especially when goods used in activities under concession are involved.

For the column “Change in the scope of consolidation,” please refer to the section “Business combinations (supplementary information)” contained in paragraph 2.02.10 “Other information”.

For additional details on guarantees granted in favour of third parties and in relation to tangible assets held by the Group, see Note 19 “Financial liabilities”.

22 Rights of use and lease liabilities

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

	31 Dec 23	31 Dec 22	Change
Rights of use land and buildings	59.1	50.7	8.4
Rights of use plants and machinery	6.4	7.1	(0.7)
Rights of use other movable assets	25.1	26.4	(1.3)
Total	90.6	84.2	6.4

	Net opening balance	New contracts and contractual changes	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net terminal value	of which gross terminal value	of which amortisation provision
31 Dec 22								
Rights of use land and buildings	65.7	12.5	(7.6)	0.4	(20.3)	50.7	94.1	(43.4)
Rights of use plants and machinery	7.8	0.6	(1.2)	0.8	(0.9)	7.1	12.4	(5.3)
Rights of use other movable assets	28.1	8.2	(10.1)	0.8	(0.6)	26.4	49.4	(23.0)
Total	101.6	21.3	(18.9)	2.0	(21.8)	84.2	155.9	(71.7)
31 Dec 23								
Rights of use land and buildings	50.7	10.1	(8.6)	6.9	-	59.1	104.1	(45.0)
Rights of use plants and machinery	7.1	0.8	(1.3)	-	(0.2)	6.4	12.5	(6.1)
Rights of use other movable assets	26.4	9.6	(10.6)	0.1	(0.4)	25.1	48.5	(23.4)
Total	84.2	20.5	(20.5)	7.0	(0.6)	90.6	165.1	(74.5)

"Rights of use land and buildings" consists of 51 million euro in rights of use related to buildings and 8.1 million euro in rights of use related to land. The rights of use for buildings refers mainly to contracts concerning the real estate structures used for headquarters, offices and customer service desk.

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

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

The column "New contracts and contractual changes" shows the leases signed during the year, as well as the change in the assumptions regarding the duration, renewal or termination options of the existing contracts.

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

Financial liabilities show the following composition and change, compared with the previous year:

	Net opening balance	New contracts and contractual changes	Decreases	Financial expenses	Changes in the scope of consolidation	Other changes	Net terminal value
31 Dec 22							
Lease liabilities	96.6	21.2	(46.0)	2.7	1.9	-	76.4
of which							
non-current liabilities	53.2						55.1
current liabilities	43.4						21.3
31 Dec 23							
Lease liabilities	76.4	20.3	(25.2)	2.8	7.0	-	81.3
of which							
non-current liabilities	55.1						56.8
current liabilities	21.3						24.5

The column "New contracts and contractual changes" includes the new contracts signed in the period and the re-assessment of the debt of some of the existing contracts, generated by the update of the assumptions underlying the contracts themselves concerning options of renewal, purchase or early termination.

"Decreases" are generated by the reimbursement of contractual fees scheduled during the course of the financial period and exemption options exercised. With reference to the previous year, note that buildings where some of the Group's major production facilities are located were redeemed, which represented the leases with the highest value.

In accordance with its procurement policies, the Group subscribed contracts in line with market standards for all types of underlying assets. In the case of offices, customer service desks, cars and IT infrastructure, the contracts do not contain any binding clauses or special fees in the event of annulment, as these assets are perfectly interchangeable and are offered by a large number of counterparties. The liability reported in the financial statements therefore represents the most likely total sum of disbursements that the Group will have to make in future periods. For the same reasons, moreover, the renewal clauses, when they exist, are not currently expected to be exercised, possibly assessing their cost-effectiveness in the future or the option of signing new contracts with different counterparties.

The table below shows the lease liabilities broken down by category according to their expiration date range:

Type	Total	Portion due within the period	Portion due within 2nd year	Portion due within 5th year	Portion due beyond 5th year
2022 financial year	76.4	21.3	17.4	25.1	12.6
2023 financial year	81.3	24.5	14.2	25.3	17.3

23 Intangible assets

	31 Dec 23	31 Dec 22	Change
IT applications	105.3	82.5	22.8
Concessions and other rights	100.7	110.8	(10.1)
Public services under concession	3,315.7	3,184.5	131.2
Customer lists	605.6	581.1	24.5
Other intangible assets	119.4	92.9	26.5
Intangible assets ongoing, public services under concession	380.3	273.9	106.4
Intangible assets ongoing	92.6	91.7	0.9
Total	4,719.6	4,417.4	302.2

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	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net terminal value	of which gross terminal value	of which amortisation provision
31 Dec 22									
IT applications	84.6	4.5	-	(42.9)	0.1	36.2	82.5	565.7	(483.2)
Concessions and other rights	113.8	0.5	-	(15.8)	12.0	0.3	110.8	483.8	(373.0)
Public services under concession	2,963.4	208.3	(4.7)	(174.9)	-	192.4	3,184.5	5,595.3	(2,410.8)
Customer lists	576.2	-	-	(39.4)	44.3	-	581.1	741.8	(160.7)
Other intangible assets	79.4	43.4	0.0	(33.5)	0.1	3.5	92.9	269.7	(176.8)
Intangible assets ongoing, public services under concession	237.4	166.8	(0.4)	-	-	(129.9)	273.9	273.9	-
Intangible assets ongoing	71.9	60.4	-	(0.3)	-	(40.3)	91.7	91.7	-
Total	4,126.7	483.9	(5.1)	(306.8)	56.5	62.2	4,417.4	8,021.9	(3,604.5)
31 Dec 23									
IT applications	82.5	8.6	-	(45.8)	0.1	59.9	105.3	637.1	(531.8)
Concessions and other rights	110.8	0.6	-	(14.1)	1.5	1.9	100.7	487.2	(386.5)
Public services under concession	3,184.5	209.4	(7.3)	(183.8)	-	112.9	3,315.7	5,902.5	(2,586.8)
Customer lists	581.1	-	-	(42.6)	67.1	-	605.6	808.9	(203.3)
Other intangible assets	92.9	79.5	-	(46.7)	1.8	(8.1)	119.4	328.7	(209.3)
Intangible assets ongoing, public services under concession	273.9	212.2	(0.2)	-	-	(105.6)	380.3	380.3	-
Intangible assets ongoing	91.7	62.8	-	(0.4)	-	(61.5)	92.6	92.6	-
Total	4,417.4	573.1	(7.5)	(333.4)	70.5	(0.5)	4,719.6	8,637.3	(3,917.7)

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

"Concessions and other rights" mainly includes:

- concessions, for 32.3 million euro, primarily involving the rights relating to the activities of gas distribution and integrated water cycle, classified as intangible assets even before the IFRIC 12 interpretation "Service concession arrangements" was first applied;

- the authorisation to operate the Serravalle Pistoiese landfill, for 49.7 million euro, an asset recorded as part of a business combination operation carried out in previous periods and amortised on the basis of the number of tons consigned.

“Public services under concession” includes assets relating to gas distribution, electricity distribution (Imola area), the integrated water cycle and public lighting activities (except for the latter, as specified in Note 18 “Current financial assets, cash holdings and cash equivalents”) provided through contracts awarded by 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 133.8 million euro, and gas distribution networks, in the amount of 70.5 million euro.

“Intangible assets ongoing and public services under concession” includes investments related to concessions that are still to be completed at the end of the period and mainly refers to the water networks, in the amount of 244.2 million euro, and gas distribution networks, in the amount of 76.8 million euro and municipal waste collection in the amount of 35.5 million euro.

“Intangible assets ongoing” essentially comprises IT projects that have not yet been completed.

“Customer lists” are recorded as a result of business combination transactions and the consequent valuation of the assets acquired. The amortisation period of these customer lists is correlated to the churn rate identified for each individual transaction.

The item “Other intangible assets” refers mainly to the rights of use for networks and infrastructures for the passage and laying down of telecommunication networks and the incremental costs incurred for obtaining new sale contracts. In particular, the incremental costs for obtaining new contracts, represented exclusively by commissions, increased sharply as a result of the sales development strategy implemented, amounting to 78.3 million euro (as against 36 million euro in 2022), and the significant increase in amortisation for the period is due to them.

“Other changes” include reclassifications of tangible assets ongoing to their respective categories, specific to assets that became operational during the year and reclassifications from/to tangible fixed assets, especially in the presence of assets under concession.

“Change in scope of consolidation” reflects the control acquisitions made during the year, for details of which please refer to the section “Business combinations (supplementary information)” contained in Section 2.02.10 “Other information”.

24 Goodwill

	31 Dec 23	31 Dec 22	Change
Goodwill	908.7	848.1	60.6

The value of goodwill at 31 December 2023 mainly reflects the following operations of acquisition of control during previous years of:

- “Ascopiaeve business activities,” i.e. the companies EstEnergy Spa, Ascotrade Spa, Ascopiaeve Energie Spa, Blue Meta Spa, Etra Energia Srl and Amgas Blu Srl, which took place in 2019 for a total of 431.2 million euro;
- the integration that resulted in the creation of Hera Spa, totalling 81.3 million euro (2002);
- merger of Agea Spa, amounting to 41.7 million euro (2004);
- merger of Gruppo Meta, as a result of the merger of Meta Spa into Hera Spa, totalling 117.7 million euro (2005);
- merger of Sat Spa, amounting to 54.9 million euro (2008);
- Gruppo Aliplast, amounting to 25 million euro (2017);
- Marche Multiservizi Spa Group, amounting to 20.8 million euro.

During the 2023 fiscal year, business combinations took place resulting in an increase in goodwill. More specifically, note the following:

- A.C.R Spa, amounting to 27.1 million euro;
- Asco TLC Spa through merger by incorporation into Acantho Spa, amounting to 18.1 million euro;
- F.Ili Franchini Srl, amounting to 15.4 million euro.

For further details on business combination operations, see the section "Business combinations (supplementary information)" of paragraph 2.02.10 "Other information".

Below is the value of goodwill broken down by operating segment:

	31 Dec 23	31 Dec 22	Change
Gas	493.5	493.5	-
Waste management	260.6	233.5	27.1
Electricity	88.9	73.5	15.4
Water cycle	42.7	42.7	-
Other services	23.0	4.9	18.1
Total	908.7	848.1	60.6

25 Impairment tests on assets

Cash-generating and goodwill units

Assets and goodwill have been subjected to impairment tests by determining the value in use, which is the current value of operating cash flows (duly discounted according to the dcf - discounted cash flow method) resulting from the 2023 - 2027 business plan approved by the Board of Directors of the parent company at its meeting 24 January 2024.

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 2.02.10 "Other Information".

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 2023-2027 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 updated 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 projected according to the principles of ARERA resolutions 737/22 (RTDG) for gas and 616/23 (TIT), 163/23 (TIROSS) and 497/23 (version of ROSS-base regulation) for electricity distribution. Account was also taken of the respective rates of return on capital (WACC) approved by ARERA, up to the year 2024, as set forth in the integrated reference text (TIWACC 2022-2027, resolution 614/21 as amended). For subsequent years, the WACCs were updated in accordance with the methodology indicated by the same resolution and according to the forecasts of the financial and fiscal parameters included in the approved business plan.

Revenues from energy sales under the protected system and with reference to last resort services were instead estimated on the basis of the respective reference regulatory texts, i.e. the TIV (resolutions 208/22 and 491/20, as amended and supplemented) for electricity and the TIVG (approved by resolution ARG/GAS/64/09, as amended and supplemented) for gas. Revenues from the awarded Gradual protection services for electricity customers were estimated on the basis of resolution 362/23, while the elimination of protected gas services was regulated by resolution 100/2023.

For the integrated water cycle, revenues were forecast in the event of inertia in the volumes distributed, based on the tariffs deriving from the agreements signed with Atersir, as well as from the application of the new Water tariff method (MTI-4) updated by ARERA resolution 639/23, taking into account, among other factors, the parameters underlying the coverage of financial and tax charges. 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 electricity 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 waste treatment and recycling is consistent with the forecasts of the provincial plans for the provinces 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 during the period covered by the plan was developed by formulating hypotheses based on the information available. 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 2024 - 2027 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, normalised free cash flows were considered equal to the amount of Ebit for the last year of the plan, following the assumption that the value of depreciation and provisions remains at the level of 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 incorporate the effects of such events. The cashflows are calculated by applying the growth rate (g) to the normalised free cash flows with the medium/long-term timeframe for the sector in question (2% on average) for the 2028-2043 period (20 years total). For regulated services, these flows are brought into line with the expected continuation of market shares following the completion of the expected calls for tenders.

These flows are supplemented by the current value of perpetuity and calculated as follows:

- for free-market activities, the cashflow resulting from the application of the perpetuity criterion for the last year (2043) was considered, assuming a 2% average growth factor;
- 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. Since the Group has a diversified business portfolio, with balance between regulated and free-market activities that make it less exposed to cyclical trends in the economy, a methodological approach has historically been used, which involves observing the nine months of the last financial year with reference to the main variables underlying the WACC calculation. A sensitivity scenario was then

prepared with the aim of grasping possible short-term developments in the Group's economic context and financial structure.

More specifically, the rates used for the purposes of the final assessments are as follows:

	2023	2022
WACC Gas – Electricity – Water cycle – Other services	5,38%	4,58%
WACC Waste management	6,24%	5,36%

The results of the test were positive for all cash generating units, with a usage value appearing that was higher than the book value.

Bearing this in mind, two sensitivity scenarios were imagined:

- an initial analysis focused on the margins of the individual businesses, assuming a 5% decrease, with an ensuing reduction in the cashflows produced in the years covered by the plan and the following years;
- a second analysis involved discounting all cash flows using WACC increased by 25 bps.

In this context, the values obtained were much higher than those recorded in the balance sheets, and this analysis therefore additionally confirmed the carrying values.

Assessments concerning climate change scenarios and consequent sensitivity

The electrification of energy consumption is one of the most significant risks/opportunities related to climate change. Achieving climate change mitigation, as defined through emission reduction targets at the European level and translated on a national basis with related implementation plans, requires initiatives to change both the technologies adopted to meet energy needs and measures to make them more efficient.

The Hera Group has therefore begun conducting specific analyses aimed at identifying the possible impacts of the scenario of transition on the evolution of end customers' energy consumption, with reference to the business areas it has selected within a timeframe that extends up to 2050.

The analyses took into account exogenous drivers, such as national and European policies on the topic and consumer preferences, drivers of change, and related enabling technologies. The results have allowed the company to gauge the impact that the transitional scenario could have on the evolution of gas and electricity consumption as a function of key determinants such as energy efficiency, technology mix, mobility, and self-consumption. These analyses confirmed, in particular, the widespread expectation that the future will witness a growth in electricity consumption and a simultaneous reduction in gas consumption.

With reference to the businesses operated by the Group, the assessments conducted necessarily took into account the differing nature of the regulated distribution business and the free-market sales business.

Regarding the gas distribution business, it should first be mentioned that ordinary and extraordinary maintenance activities, for which tariff remuneration is provided, are correlated to the physicality of the assets and not to the volumes of gas distributed. Indeed, renovation work is mainly carried out to resolve critical issues through event-driven interventions, resulting, for example, from a network or plant leakage or breakdown, or through scheduled operations to comply with the dictates of technical and regulatory standards.

The transitional risk related to climate change thus appears to depend on purely regulatory decisions and future systemic developments in the gas distribution network. One prospect considered likely by the Group is that the drivers generating gas network development needs might change from the need to meet consumption demands to the need to meet input requirements for biomethane and green gas in general that can enable the running of energy production systems using renewable sources.

In this respect, ARERA has also shown interest in exploring issues related to possible transition costs that may emerge when there is a decline in consumption and thus a decline in the use of this energy vector. The 2022-25 Strategic Framework reveals an awareness of the need to reflect on which market and regulatory tools might be the most suitable to facilitate the carrying out of investments that are of real benefit to the system, in compliance with efficiency and economic sustainability criteria.

At present, however, the Regulatory Authority has not issued any measures, deeming that it is proceeding in full accordance with the current regulatory criteria. Therefore, on the basis of these considerations, the Group does not judge that any elements can be identified in the current framework to assume that the system will be severely disrupted without mechanisms in place to protect the financial equilibrium of companies providing gas distribution services.

Electricity distribution, on the other hand, is set to have an ever increasing impact on the energy grid due to the electrification of consumption. This may in effect represent a development opportunity for the Group, especially when the current concessions are put up for tender.

Relative to sales activity, a model scenario extending beyond the horizon of the plan was formulated that, taking into account transitional risks, projects customer consumption by service and type of use through to 2050. In particular, by considering the various effects of energy efficiency and transition dynamics, average volumes by customer cluster were calculated and growth/decrease rates over time were applied to these calculated volumes. To provide an estimate of overall marginality, intermediate steps were taken, estimating the evolution of the customer base in terms of supply points, to which an average volume per segment was attributed, adjusted over time to consider the impact of energy transition. Assuming that the margins hypothesized in the business plan for each service/segment remain constant over time, a significant growth in electricity margins was estimated for the period 2028-2050, associated with a lesser reduction in gas margins.

In order to conduct a sensitivity analysis in relation to the impairment test, projections for natural gas sales were incorporated into the valuation models, both adjusting the annual cash flows up to 2050 (based on the assumptions made previously) by an average of 4 million euro and normalizing the cash flow used to calculate the terminal value by an analogous amount. In this hypothetical scenario as well, the results confirm the full recoverability of the asset values recorded in the balance sheet.

An additional physical risk that may impact the Group is increased temperatures. Therefore, an additional medium- to long-term Cgu gas stress scenario was developed that would take into account the effects of an increase in average winter temperatures. Specifically, the projected increase in the RCP8.5 scenario is 1.5°C up to 2030 2°C up to 2050, relative to the 1981-2010 average. In relation to the climate assumptions for estimating gas sales volumes for the purposes of the Business Plan, this results in an 0.7°C increase up to 2030 and an 1.2°C increase up to 2050, respectively. Based on this scenario, a sensitivity analysis was developed to take into account a consequent reduction in Cgu gas margins (please also refer to the section of the Directors' Report 1.02.03 "Environmental-Catastrophic Risk Management"). In this case, too, the results obtained confirm the full recoverability of the values of the assets recorded in the financial statements

2.02.06 Shareholdings

During the fiscal year 2023, there were no significant transactions involving the purchase or sale of shareholdings. The changes in value from the previous year are therefore attributable to the valuated processes of investee companies.

26 Shareholdings

	31 Dec 23	31 Dec 22	Change
Shareholdings valued using the equity method	147.0	151.4	(4.4)
Other shareholdings	48.6	38.9	9.7
Total	195.6	190.3	5.3

Associated companies and joint ventures

The changes in joint ventures and associated companies as compared to 31 December 2022 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.

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

	Opening value	Investments and disinvestments	Profit for the year	Dividends paid out	Changes in the scope of consolidation	Write-downs and other changes	Terminal value
31 Dec 22							
Joint ventures							
Enomondo Srl	17.6	-	3.1	(2.2)	-	0.3	18.8
Total joint ventures	17.6	-	3.1	(2.2)	-	0.3	18.8
Associated companies							
Aimag Spa	51.7	-	2.3	(2.8)	-	-	51.2
Set Spa	28.5	-	(0.6)	-	-	-	27.9
Sgr Servizi Spa	25.2	-	2.4	(2.0)	-	(0.1)	25.5
ASM SET Srl	18.9	-	1.5	(1.4)	-	(0.1)	18.9
SEA - Servizi Ecologici Ambientali Srl	8.7	-	1.3	(1.0)	-	0.1	9.1
Total associated companies	133.0	-	6.9	(7.2)	-	(0.1)	132.6
Total	150.6	-	10.0	(9.4)	-	0.2	151.4
31 Dec 23							
Joint ventures							
Enomondo Srl	18.8	-	2.2	(2.2)	-	(0.2)	18.6
Total joint ventures	18.8	-	2.2	(2.2)	-	(0.2)	18.6
Associated companies							
Aimag Spa	51.2	-	1.4	(1.7)	-	-	50.9
Set Spa	27.9	-	0.6	-	-	(5.9)	22.6
Sgr Servizi Spa	25.5	-	3.3	(2.1)	-	0.1	26.8
ASM SET Srl	18.9	-	1.5	(1.3)	-	-	19.1
SEA - Servizi Ecologici Ambientali Srl	9.1	-	1.3	(1.4)	-	-	9.0
Total associated companies	132.6	-	8.1	(6.5)	-	(5.8)	128.4
Total	151.4	-	10.3	(8.7)	-	(6.0)	147.0

The result for the year, essentially in line with the previous year, was positively influenced by the higher results achieved by Sgr Servizi Spa, which operates in the business of gas and electricity commodity sales to end customers, offset by the drop in the results of the companies Aimag Spa and Enomondo Srl.

“Write-downs and other changes” mainly include the results of the impairment test conducted on the associated company Set Spa. For more details on the assumptions and results of the impairment tests to which the carrying values of the investments in affiliates that represent vehicles through which the Group holds shares in the production of electricity generation plants (Set Spa and Tamarete Energia Srl) were subjected, see the information in Note 27 “Impairment tests on shareholdings” below.

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

**Other
shareholdings**

	Fair value hierarchy	Opening value	Investments and disinvestments	Fair value valuations	Other changes	Terminal value
31 Dec 22						
Ascopiave Spa	1	39.9	-	(12.3)	-	27.6
Calenia Energia Spa	3	1.7	-	-	-	1.7
Veneta Sanitaria Finanza di Progetto Spa	3	3.6	-	-	-	3.6
Other minor companies	3	2.7	3.2	-	0.1	6.0
Total		47.9	3.2	(12.3)	0.1	38.9
31 Dec 23						
Ascopiave Spa	1	27.6	-	(1.7)	-	25.9
Calenia Energia Spa	3	1.7	-	12.7	-	14.4
Veneta Sanitaria Finanza di Progetto Spa	3	3.6	-	-	-	3.6
Other minor companies	3	6.0	-	-	(1.3)	4.7
Total		38.9	-	11.0	(1.3)	48.6

In the case of shareholdings with a level 1 fair value hierarchy, the value adjustment, recorded in the components of the comprehensive income statement, makes it possible to align the book value of the shares with the market prices at the end of the year. In the case of investments with a level 3 hierarchy, the results obtained from the application of valuation techniques based on internal estimates, in the absence of observable market parameters, led to the recognition among the components of the comprehensive income statement of a positive adjustment to the carrying value of the investment in Calenia Energia Spa.

Investee data

Below are presented the main aggregate values of the joint venture Enomondo Srl as well as companies with significant influence (Aimag Spa, ASM SET Srl, SEA Srl, Set Spa, Sgr Servizi Spa and Tamarete Energia Srl):

Assets	Joint ventures	Associated companies	Total
Non-current assets			
Tangible assets	33.0	401.3	434.3
Rights of use		0.4	0.4
Intangible assets		58.6	58.6
Goodwill		101.5	101.5
Shareholdings		7.3	7.3
Financial assets	0.5	13.2	13.7
Deferred tax assets	0.5	4.0	4.5
Total non-current assets	34.0	586.3	620.3
Current assets			
Inventories	0.7	7.0	7.7
Trade receivables	7.3	279.7	287.0
Contract work in progress		0.4	0.4
Current tax assets	0.2	2.9	3.1
Other current assets	4.5	80.3	84.8
Derivative instruments	0.3		0.3
Cash and cash equivalents	11.6	28.9	40.5
Total current assets	24.6	399.2	423.8
Total assets	58.6	985.5	1,044.1

Net equity and liabilities	Joint ventures	Associated companies	Total
Share capital and reserves			
Share capital	14.0	88.0	102.0
Reserves	18.9	286.5	305.4
Profit (loss) for the period	4.4	27.0	31.4
Group net equity	37.3	401.5	438.8
Non-controlling interests		14.6	14.6
Total net equity	37.3	416.1	453.4
Non-current liabilities			
Non-current financial liabilities	7.7	202.3	210.0
Non-current lease liabilities		0.3	0.3
Post-employment and other benefits		6.2	6.2
Provisions for risks and charges	0.2	41.5	41.7
Deferred tax liabilities	0.1	0.6	0.7
Derivative financial instruments		0.1	0.1
Total non-current liabilities	8.0	251.0	259.0
Current liabilities			
Current financial liabilities	3.7	100.8	104.5
Current lease liabilities		0.1	0.1
Trade payables	6.3	207.4	213.7
Current tax liabilities		(0.1)	(0.1)
Other current liabilities	3.3	10.2	13.5
Total current liabilities	13.3	318.4	331.7
Total liabilities	21.3	569.4	590.7
Total net equity and total liabilities	58.6	985.5	1,044.1

Income statement	Joint ventures	Associated companies	Total
Revenues	28.4	773.0	801.4
Other operating revenues	1.3	4.2	5.5
Raw and other materials	(1.8)	(520.2)	(522.0)
Service costs	(16.6)	(108.3)	(124.9)
Personnel costs	(0.3)	(35.4)	(35.7)
Amortisation, provisions and depreciation	(5.0)	(56.5)	(61.5)
Other operating expenses	(0.2)	(6.4)	(6.6)
Operating profit	5.8	50.4	56.2
Financial income	0.3	8.2	8.5
Financial expenses	(0.6)	(18.9)	(19.5)
Total financial operations	(0.3)	(10.7)	(11.0)
Other non-operating revenues (expenses)		0.3	0.3
Earnings before taxes	5.5	40.0	45.5
Taxes for the period	(1.1)	(12.5)	(13.6)
Net profit for the period	4.4	27.5	31.9

27 Impairment tests on equity investments

As regards 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 Spa and Tamarete Energia Srl.

A downwards trend in gas and electricity prices on the reference markets appeared in 2023, resulting in a negative baseload Clean Spark Spread (CSS). The short-term trend shows no signs of improvement in the baseload CSS, while in the medium to long term the outlook indicates improving values, albeit still negative. Various causes have determined the performance of the electricity market in recent years and can be traced back to cyclical factors, as regards both supply and demand. The main factors affecting current price dynamics are to be found in:

- an increasing amount of renewable generation within the production mix, due to the steady increase in wind and photovoltaic plants;
- moderate growth in GDP and the drive for consumption efficiency (guided by the objectives of European and national climate policies) that contributed to slight growth in energy demand;
- European and national policies favouring the reduction of CO₂ emissions.

Based on the scenarios developed, it is believed that the market will maintain a negative Clean spark spread baseload in the short term, with improvement in the medium to long term, due to a combination of multiple factors, including:

- entry, starting in 2022, of new and highly efficient capacity (CCGT) subsidised by the Capacity Market mechanism that is gradually replacing coal plants, aimed at phasing them out by 2025;
- the end-of-life of CCGT plants having lower efficiency, which, for several years now, has been creating favourable market conditions for interventions to improve efficiency and flexibility and which will be given an adequate return on investment with the margins that can be extracted from the day-ahead and dispatching markets. These investments not only increase the adequacy of the system in the medium to long term, but are also necessary to guarantee an adequate amount of margins;
- consequently, low margins on the day-ahead market;
- increasing role of renewable energy sources, supported by the challenging European decarbonisation targets and by the need to reduce geopolitical risk in energy 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. This scenario alters the one used in the previous exercise, affecting future Clean spark spread values. The estimated cash flows were discounted using a WACC coming to 5.93% (as against 5.21% WACC used in 2022), calculated in the same manner as illustrated for the cash generating units in Note 25 "Impairment tests on assets".

The outcome of the test resulted in a write-down of the investment in Set Spa amounting to 5.9 million euro and confirmed a highly critical scenario for Tamarete Energia Srl, as the conditions for the recovery of the amounts invested did not emerge.

Two sensitivity scenarios were also hypothesised:

- an initial sensitivity analysis was developed assuming a CSS reduced by 1 euro/MWh, with a consequent reduction in the cash flows produced over the life of the plants.
- a second analysis hypothesized discounting all cash flows using a WACC increased by 25 bps.

The first scenario would result in a further write-down of the investment in Set Spa amounting to 1.4 million euro, while in the second scenario the value of the investment would be essentially equivalent to its current book value.

At the end of the valuation process, the carrying amount of financial assets, shareholdings and receivables attributable to Set Spa respectively came to 22.6 million euro and 14.1 million euro, while the financial assets attributable to Tamarete Energia Srl were written down in full.

28 Cash flows related to investment activities

Investments in subsidiary companies and business units net of cash holdings

For further details on the acquisition transactions carried out during 2023, see paragraph 2.02.10, "Other Information".

The table below details the main cash disbursements and cash holdings acquired, when present, associated with shareholdings in companies and business units.

31 Dec 23	A.C.R. Spa	Asco TLC Spa	F.Ili Franchini Srl	business unit "Pagnanini"	Total investments
Cash outlays leading to the acquisition of control	72.6	14.9	9.0	0.3	96.8
Cash holdings acquired	(15.3)	(2.3)	(3.0)		(20.6)
Investments in subsidiary companies and business units net of cash holdings	57.3	12.6	6.0	0.3	76.2
Cash outlays in non-consolidated companies					-
Investments in subsidiary companies, business units and other shareholdings	57.3	12.6	6.0	0.3	76.2

Increase/decrease in other investment activities

The following is a breakdown of information on changes in the other investment activities during the 2023 financial year, differentiating between cash flows and non-cash flows.

Type	31 Dec 23	31 Dec 22	Change (a)	Non-cash flows				Cash flows (f)=[(b)+(c)+(d)+(e)]-(a)
				Acquisitions divestitures (b)	Economic valuation components (c)	Changes in fair value (d)	Other changes (e)	
Current and non-current financial assets	253.7	229.5	24.2	0.1	6.5	3.5	44.2	30.1

“Acquisitions divestitures”, include the effects arising from acquisitions of control during 2023, as illustrated in paragraph 2.02.10 “Other information”.

“Economic valuation components” mainly include income from discounting non-current financial receivables amounting to 6.5 million, as reported in Note 10 “Financial income”.

“Fair value changes” include the economic effects related to the revaluation of financial receivables subject to impairment, as illustrated in Note 18 “Financial assets, cash and cash equivalents”.

“Other changes” mainly include the amount of tax credit transfers carried out at the end of 2023, the which were collected in January 2024, amounting to 43.6 million euro. For further details, see Note 18 “Financial assets, cash holdings and cash equivalents”.

2.02.07 Derivatives and related instruments

The derivative instruments used by the Group are divided into two types based on the underlying assets hedged: interest and exchange rates with reference to financing transactions, and commodities with reference to the commercial purchase and sale of gas and electricity. All commodity derivatives are classified as current assets and liabilities by virtue of the high level of liquidity and the operational time span that characterise these instruments.

29 Derivative instruments

At 31 December 2023, the net exposure of interest and exchange rate derivatives was negative and more significant than the previous year. The net exposure of commodity derivatives, which was significantly lower than in the previous year, mainly reflects the sharp decline in energy commodity price volatility compared to the peaks seen in 2022.

	31 Dec 23			31 Dec 22			Change
	Fair value assets	Fair value liabilities	Net effect	Fair value assets	Fair value liabilities	Net effect	
Interest/exchange rate derivatives							
Loans	0.3	-	0.3	0.5	-	0.5	(0.2)
Foreign currency loans	0.9	21.6	(20.7)	0.5	6.3	(5.8)	(14.9)
Total interest/exchange rate derivatives	1.2	21.6	(20.4)	1.0	6.3	(5.4)	(15.0)
Commodity derivatives							
Commercial portfolio	409.5	336.9	72.6	1,531.0	1,244.2	286.8	(214.1)
Trading portfolio	67.6	99.1	(31.5)	91.2	103.4	(12.2)	(19.3)
Total commodity derivatives	477.1	436.0	41.1	1,622.2	1,347.6	274.6	(233.5)
Total derivatives	478.3	457.6	20.7	1,623.2	1,353.9	269.2	(248.5)
of which non-current	0.3	-		1.0	6.3		
of which current	478.0	457.6		1,622.2	1,347.6		

The financial management policy foresees the use of hedging instruments to effectively offset changes in the fair value, cash flows of the hedged instrument or, more specifically, changes in interest and exchange rate fluctuations that affect the sources of funds used. At 31 December 2023, net exposure in terms of fair value concerning current and non-current interest and exchange rate derivatives, in the form of interest rate swaps (IRS) and cross currency swaps (CCS), was negative and the change from the previous year was mainly due to the significant depreciation of the yen against the euro and the increase in interest rates, only partially offset by the cashflows generated during the period.

The operational management of commodities, on the other hand, is carried out through a process that identifies objectives, strategies and responsibilities for each existing operation. Contracts, both financial and physical in nature, are classified into the commercial or trading portfolios according to the purpose of the contracts. The Group's internal organisational model make it possible to identify the nature of the operation (commercial or trading) and produce the information required for a formal identification of the purpose of derivatives. The centralised management of hedging transactions allows every possible synergy to be introduced for covering electricity and gas requirements and is supplemented with exchange rate transactions, as well as being realised through the exclusive use of swap contracts or other authorised derivatives. All other derivatives or similar instruments that are not intended to hedge the Group's requirements are classified in the trading portfolio.

In 2023, commodity derivatives showed a significantly lower net positive exposure than in the previous year, mainly linked to the significant decrease in energy commodity prices.

Interest rate derivatives

Interest rate and foreign exchange derivative instruments held as of 31 December 2023, subscribed in order to hedge loans, can be classed into the following categories:

Type	Fair value hierarchy	31 Dec 23			31 Dec 22		
		Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Cash flow hedges	2	5.9 mn	0.3	-	8.3 mn	0.5	-
Fair value hedges	2	149.8 mn	0.9	21.6	149.8 mn	0.5	6.3
Total fair value			1.2	21.6		1.0	6.3
31 Dec 23							
Type	Fair value hierarchy	Income	Expenses	Net effect	Income	Expenses	Net effect
Cash flow hedges	2	0.2	-	0.2	0.1	(0.1)	-
Fair value hedges	2	4.9	(23.8)	(18.9)	18.2	(21.4)	(3.2)
Total income (expenses)		5.1	(23.8)	(18.7)	18.3	(21.5)	(3.2)

Cash flow hedge

The change in the fair value of derivatives classified as cash flow hedges is mainly due to the realisation of cash flows during the period, that is, the reduction in the notional amount of the derivative. In the current financial year, there were no significant ineffective amounts relating to the residual financial instruments. The effect on the statement of comprehensive income for 2023 is an expense amounting to 0.2 million euro.

Fair value hedge

Derivatives designated as hedges of interest rate and exchange rate risks and of the fair value of foreign currency financial liabilities (fair value hedges), in the form of interest rate swaps (IRS) and cross currency swaps (CCS), are related to a bond denominated in Japanese yen, expiring in August 2024, with a remaining notional amount of 20 billion yen equal to 149.8 million euro (converted at the original exchange rate being hedged). The change in fair value is due to the exchange rate, as the Japanese yen depreciated significantly against the euro during 2023, and the increase in the interest rate curve, only partially offset by the generation of cashflows for the period.

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 23			31 Dec 22		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives	-	(14.6)	(14.6)	13.2	(12.6)	0.6
Accrued interest	0.5	(0.7)	(0.2)	0.5	(0.6)	(0.1)
Realised cash flows	4.4	(8.5)	(4.1)	4.4	(8.1)	(3.6)
Economic effect of derivatives	4.9	(23.8)	(18.9)	18.2	(21.4)	(3.1)
Fair value hedges						
Underlying amounts hedged	31 Dec 23			31 Dec 22		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of financial liabilities	15.6	-	15.6	-	(0.6)	(0.6)

Sensitivity Analysis - Financial operations

Assuming an instant change of 10% in the euro/yen exchange rate, given the same interest rates, the potential decrease in fair value of the derivative financial instruments in place at 31 December 2023 would amount to approximately 12 million euro. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 14.7 million euro. Given that exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be offset by a movement in the opposite direction of the hedged liability. The assumptions on interest rate changes would have no significant effect on the fair value of outstanding derivative financial instruments on interest and exchange rates. Furthermore, these changes in fair value of financial instruments accounted for as cash flow hedges would have no effect on the income statement if it were not for their potential ineffective portion, which moreover is not significant. In the event of an increase or decrease in fair value, there would be a non-significant increase or decrease in net equity. As to derivatives designated as fair value hedges, any change in fair value would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be essentially offset by a movement in the opposite direction of the hedged liability.

Commodity derivatives

Commercial portfolio

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

Operations management

Type	Fair value hierarchy	31 Dec 23			31 Dec 22		
		Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Gas formulas	3	13,984,372 MWh	210.0		19,827,928 MWh	974.7	
Electricity formulas	2	2,690,293 MWh	199.2		5,293,822 MWh	556.3	
Other commodities	3	7,649 Ton	0.3				
Exchange	2	935,000 USD	0.0				
Gas formulas	3	13,108,766 MWh		189.2	18,691,234 MWh		901.6
Electricity formulas	2	3,186,649 MWh		147.4	3,165,429 MWh		341.1
Exchange	2	19,620,000 USD		0.3	62,353,000 USD		1.5
Total fair value			409.5	336.9		1,531.0	1,244.2
Type		31 Dec 23			31 Dec 22		
		Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives		0.2	-	0.2	24.3	(23.0)	1.3
Realised cash flows		2,372.2	(2,036.1)	336.1	4,564.8	(4,579.5)	(14.7)
Economic effect of derivatives		2,372.4	(2,036.1)	336.3	4,589.1	(4,602.5)	(13.4)

The main objectives of these contracts are to replicate the cash flows of the formulas on sale in the market and to cover the spread between benchmark markets (TTF and PSV). In order to assess the impact that fluctuations in the market price of the underlying asset have on the financial derivatives attributable to the commercial portfolio, the PaR (Profit at Risk) tool is used, that is the change in the value of the portfolio of derivative financial instruments within pre-established probability hypotheses as a result of a shift in market indexes.

The significant decrease in net fair value is due both to a decrease in the price of natural gas during the year and the same trend in the PUN, the latter being closely correlated to the trend in gas prices, and to the decrease in notional amounts outstanding at year-end.

Effects on statement of comprehensive income

The overall effect of these instruments on the statement of comprehensive income is broken down as follows:

Commodity derivatives commercial portfolio	31 Dec 23			31 Dec 22		
	Positive components	Negative components	Net effect	Positive components	Negative components	Net effect
Changes to expected cash flows	47.2	-	47.2	214.7	-	214.7
Reserve transferred to the income statement	2,036.1	(2,372.2)	(336.1)	4,579.5	(4,564.8)	14.6
Derivatives effect on statement of comprehensive income cash flow hedge	2,083.3	(2,372.2)	(288.9)	4,794.2	(4,564.8)	229.3

The amount of the reserve transferred during the year to the income statement also includes the effects of derivatives for which the hedging relation had been discontinued with respect to open items that had not yet reached maturity. The components recognised in the statement of comprehensive income will be transferred back to the income statement at the maturity dates of the corresponding hedged items.

Effects on income statement

The effect on the income statement of the realisation of derivative or similar contracts, whether physical or financial, can be broken down as follows:

Physical contracts treated as derivatives	Financial derivative contracts	Overall effect
Sales revenues	Income	291.3
Purchasing costs	Expenses	(107.7)
Effect of realising derivative cash flow hedges		183.6
		336.1

Sensitivity analysis - Commercial portfolio

Assuming an instant increase of 30 euro/MWh of the TTF, with no change in the national standard price curve, the potential decrease in the fair value of derivative financial instruments held as at 31 December 2023 would amount to approximately 4.5 million euro. On the contrary, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of approximately 4.5 million euro.

Assuming an instant +30 euro/MWh change in the national standard price curve, with no change in the TTF price, the potential increase in the fair value of derivative financial instruments of the commercial portfolio held at 31 December 2023 would amount to approximately 9.7 million euro. On the contrary, an instant change of -30 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 9.7 million euro.

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

Trading portfolio

The trading portfolio includes derivatives or similar instruments that are not intended to cover the Group's needs and are entered into for speculative purpose. These instruments can be broken down into the following types:

Operations management

Type	Fair value hierarchy	31-Dec-23			31-Dec-22		
		Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Electricity formulas	2	3,311,730 MWh	67.6		663,755 MWh	82.7	
Gas formulas	3				204,228 MWh	8.5	
Electricity formulas	2	4,507,848 MWh		99.1	1,274,824 MWh		96.9
Gas formulas	3				67,292 MWh		5.7
Exchanges	2				3,839 Bbl		0.1
Other commodities	2				3,404 Ton		0.7
Totale fair value			67.6	99.1		91.2	103.4
Type		31 Dec 23			31 Dec 22		
		Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives		170.1	(189.4)	(19.3)	163.7	(170.5)	(6.8)
Realised cash flows		36.0	(59.1)	(23.1)	146.4	(51.3)	95.1
Economic effect of derivatives		206.1	(248.5)	(42.4)	310.1	(221.8)	88.3

In order to assess the impact that fluctuations in market prices of the underlying asset have on the derivatives attributable to the trading portfolio, the VaR (Value at Risk) instrument is used, that is the negative change in the value of the portfolio of derivative instruments within pre-established probability hypotheses as a result of an unfavourable shift in market indexes.

The effect on the income statement of exchanges realised on derivative or similar contracts, whether physical or financial, can be broken down as follows:

Contracts treated as derivatives	Financial derivative contracts	Overall effect
Sales revenues	Income	22.9
Purchasing costs	Expenses	1.2
Effect of realising derivatives	24.1	(23.1)

The following table shows the economic results of trading activities at 31 December 2023, including the effects of energy commodity contracts:

Trading portfolio	Fair value 31 Dec 2023	Fair value 31 Dec 2022	Delta Fair value	Realised 2023	Amounts entered in the income statement 31 Dec 23
Gas, crude oil and other commodity formulas	-	2.0	(2.0)	3.1	1.1
Electricity formulas	(31.5)	(14.2)	(17.3)	(26.2)	(43.5)
Total trading portfolio	(31.5)	(12.2)	(19.3)	(23.1)	(42.4)

Sensitivity analysis - Trading portfolio

Assuming an instant +30 euro/MWh change in the national standard price curve, with equal TTF price, the potential increase in the fair value of derivative financial instruments of the trading portfolio held at 31 December 2023 would amount to approximately 7.5 million euro. On the contrary, an instant change of -30 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 7.5 million euro.

2.02.08 Provisions and contingent liabilities

30 Post-employment and other benefits

This entry includes provisions for severance pay and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the employee's matured receivables at the date they will presumably leave the company.

	Opening value	Service cost	Financial expenses	Actuarial profit (losses)	Uses	Changes in the scope of consolidation	Terminal value
31 Dec 22							
Post-employment	93.7	1.4	0.2	(5.1)	(11.3)	0.5	79.4
Other benefits	11.7	-	0.1	2.0	(1.2)	-	12.6
Total	105.4	1.4	0.3	(3.1)	(12.5)	0.5	92.0
31 Dec 23							
Post-employment	79.4	1.0	2.5	1.5	(9.7)	1.1	75.8
Other benefits	12.6	-	0.5	0.5	(1.3)	-	12.3
Total	92.0	1.0	3.0	2.0	(11.0)	1.1	88.1

“Other benefits” mainly comprises the following:

- the item gas discount, which represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs;
- Premungas, a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund, closed with effect from January 1997, undergoes changes on a quarterly basis solely to settle payments made to eligible retirees;
- the item tariff reduction, set up to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The item “Service Cost” regards companies with a small number of employees for whom the employee severance indemnity fund continues to represent a defined benefit plan.

“Financial charges” are calculated by applying a specific discount rate for each company, determined on the basis of the average financial life of the bond. The significant increase in expenses is due to the increased interest rate used for actuarial valuations due to the changed economic scenario.

“Actuarial profit (losses)” reflects the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These effects are recorded directly in the other items of the comprehensive income statement.

“Changes in scope of consolidation” includes the post-employment provision acquired following the business combinations carried out during the period.

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

	Central area	North-east area
Technical actuarial yearly rate	2.95%	2.97%
Overall increase of salary yearly rate	2.00%	2.00%
Yearly frequency of exit from work for reasons other than death	1.70%	2.49%
Yearly average frequency of use of severance pay provision	2.23%	2.43%

In interpreting these 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 2.90% for 2024 and 2% for the following years;
- for probabilities of death, ISTAT 2022 tables were consulted;
- the actuarial valuations took into account the new starting dates for pension treatments provided for by Decree-Law No. 201 of 6 December 2011, converted, with amendments, by Law No. 214 of 22 December 2011, as well as legislation involving adjusting pension system access requirements to increases in life expectancy pursuant to Article 12 of Decree-Law No. 78 of 31 May 2010, converted, with amendments, by Law No. 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 gender did not produce statistically significant results;
- to take into account the phenomenon of an early end of employment, 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 2023.

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 2023, all other actuarial assumptions being equal, the potential decrease of the present value of the obligations of the existing defined-benefit plans (DBO) would amount to approximately 1.8 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 approximately 1.9 million euro.

Assuming a 50 bps increase in the rate of inflation compared to that actually applied to value the liabilities at 31 December 2023, all other actuarial assumptions being equal, the potential increase of the present value of the obligations of the existing defined-benefit plans (DBO) would amount to approximately 1.1 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 approximately 1.1 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.

31 Provisions for risks and charges

	Opening value	Provisions	Financial expenses	Uses	Other movements	Changes in the scope of consolidation	Terminal value
31 Dec 22							
Provision for third-party asset restoration	207.5	6.3	4.1	-	-	-	217.9
Provision for closure and post-closure landfill expenses	182.6	6.0	8.0	(13.5)	3.2	-	186.3
Provision for personnel legal cases and disputes	10.7	2.4	-	(1.3)	(1.0)	0.1	10.9
Provisions for waste disposal	8.1	9.3	-	(7.6)	(0.1)	-	9.7
Provision for plants dismantling	6.0	-	0.1	-	-	-	6.1
Other provisions for risks and charges	113.1	44.0	-	(5.6)	(16.8)	-	134.7
Total	528.0	68.0	12.2	(28.0)	(14.7)	0.1	565.6
31 Dec 23							
Provision for third-party asset restoration	217.9	6.4	4.4	-	0.1	-	228.8
Provision for closure and post-closure landfill expenses	186.3	6.6	0.3	(12.0)	3.9	-	185.1
Provision for personnel legal cases and disputes	10.9	8.1	-	(3.0)	(1.0)	-	15.0
Provisions for waste disposal	9.7	8.3	-	(9.4)	(0.1)	-	8.5
Provision for plants dismantling	6.1	0.1	0.1	-	-	-	6.3
Other provisions for risks and charges	134.7	59.0	-	(3.3)	(16.5)	0.2	174.1
Total	565.6	88.5	4.8	(27.7)	(13.6)	0.2	617.8

The “Provision for third-party asset restoration” includes provisions made in relation to legal 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. In the event that the concession system is not yet undergoing an extension, pending the setting of tenders for the area, this provision reflects the present value of the disbursements that will be determined in future periods (generally at the expiry of the agreements signed with the area authorities, in the case of the water service, and at the end of the transitional period provided for by current legislation, in the case of gas distribution). The increases in this 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. Note that since most of the concessions are undergoing an extension, the discounting process and the resulting financial charges only refer to concessions that are still fully in force.

The “Provision for closure and post-closure landfill 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. 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.

Financial expenses decreased significantly compared to the previous year, mainly due to updates in the parameters used to reflect current market conditions (in particular, the reference WACC increased by more than 1%) and to a lesser extent due to the revised assumptions on the distribution over time of future disbursements.

Uses are made up of actual disbursements that occurred during the year, while "Other movements" mainly includes estimated closure and post-closure costs in relation to newly constructed landfills and the changes in the estimated closure and post-closure costs of active landfills, which required the recording of an adjustment having the same amount as the value of tangible assets (landfill asset), totalling 3.7 million euro for 2023.

The "Provision for personnel legal cases and disputes" reflects the outcomes of lawsuits and disputes brought by employees.

The "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 2023 not yet processed at the end of the financial period, while the uses represent the costs incurred over the period for processing waste that was residual at 31 December 2022.

"Provision for plants dismantling" includes the amounts allocated for the future dismantling of the plants for cases in which this is mandatory.

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

Liabilities	Type	Amount (mn€)
Risks arising from the activity of energy efficiency upgrading of buildings carried out on behalf of end customers, particularly apartment blocks	Likely	23.8
The amount of the WTE and cogeneration plants' green certificates, calculated according to the difference between auxiliary services resulting from total self-consumption and services estimated on the basis of the benchmark percentage, was not recognised;	Likely	14.0
Outstanding bonds (guarantee on financial exposure given by AcegasApsAmga Spa) in case of abandonment of the operations run by the foreign subsidiary AresGas (Bulgaria).	Contingent	11.3
The higher cost of the electricity used in the water service provision was not recognised, due to the volatility of the energy market, which resulted in price values for 2022 that were higher than the allowed maximum limit provided for by the tariff system.	Likely	9.3
Risk of non-reimbursement by some provincial offices of the Customs Agency, relating to surcharges on electricity reimbursed to end users following the ruling of the Court of Cassation in line with European Directive 2008/118/EC.	Likely	9.0
Reimbursement of a portion of the sewerage and purification tariffs for the water service	Likely	6.1
Higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill	Contingent	5.0
Potential litigations arising from the risk of disputes in relation to the gas distribution unit of the Veneto and Friuli Venezia-Giulia regions, sold at the end of 2019	Likely	3.5

The liabilities classified as contingent were recognised as part of the business combination in the year in which it occurred.

Provisions amounted to 59 million euro, increasing from the previous year mainly for regulatory and contractual execution risks.

Out of the amount of "Other movements", coming to 16.5 million euro, 14.7 million euro is due to the release from provisions recorded in previous years, whose valuation proved to be in excess of the actual liability.

The "Change in the scope of consolidation" include the provisions of the companies acquired during 2023.

For detailed information on risk provisions for tax litigations, see Note 12 "Taxes".

2.02.09 Operating working capital

	notes	31 Dec 23	31 Dec 22	Change
Inventories	32	631.6	995.1	(363.5)
Trade receivables	33	3,586.8	3,875.0	(288.2)
Trade payables	34	(2,637.2)	(3,093.1)	455.9
Current tax assets	13	11.4	46.0	(34.6)
Current tax liabilities	13	(110.2)	(17.1)	(93.1)
Other current assets	35	509.3	642.5	(133.2)
Other current liabilities	36	(1,866.8)	(1,720.0)	(146.8)
Operating working capital		124.9	728.4	(603.5)

Operating working capital consists of the same components as net working capital, as defined by the alternative performance indicators in Section 1.04 “Overview of operating and financial trends and definition of alternative performance measures,” with the exception of current portions of assets and liabilities for commodity derivatives.

The change that occurred 2023 compared to 2022 was mainly due to the improved energy scenario, which led to a decrease in the prices of gas and electricity commodities and lesser use of natural gas storage at year-end, which had a positive influence on the management of the Group's financial resources.

32 Inventories

	31 Dec 23	31 Dec 22	Change
Contract work in progress	433.1	449.4	(16.3)
Gas stocks	114.6	468.6	(354.0)
Raw materials and stocks	70.2	57.6	12.6
Materials earmarked for sale and finished products	13.7	19.5	(5.8)
Total	631.6	995.1	(363.5)

The item “Contract work in progress” includes long-term contracts for plant construction work, mainly in relation to the following businesses:

	31 Dec 23	31 Dec 22	Change
Energy services and building upgrading	364.1	386.6	(22.5)
Treatment and disposal	23.7	4.4	19.3
Water services	22.5	27.3	(4.8)
Public lighting	21.1	23.7	(2.6)
Other minor items	1.7	7.4	(5.7)
Total	433.1	449.4	(16.3)

The item Energy services and building upgrading mainly includes activities for increasing the energy efficiency of buildings, especially apartment blocks.

The increase in works related to the treatment and disposal sector is due to orders for the reclamation of industrial sites, handling and civil works done by A.C.R Spa, which became part of the scope of consolidation in 2023.

“Gas stocks”, already shown net of the relative depreciation provision, represent the stocks of natural gas held for sale. The change compared to the end of the previous year is mainly due to:

- the decrease in wholesale prices recorded in 2023, which led to a lower average book cost;
- the lower volumes in storage at the end of the period, due to the lower storage capacity purchased for the 2023-2024 autumn-winter season.

As illustrated in the Director's report, in paragraph 1.04 "Overview of operating and financial performance and definition of alternative performance measures", in determining the average cost of inventories, all purchases of natural gas made during the storage injection period are taken into consideration, without distinction as to their end purpose, unlike what is done managerially, in order to monitor this business more precisely. The sharp decrease in prices and the criterion of a mass valuation of contracts led to a book value of the stock that is higher than what can be identified as its net sales value, in light of the forward sales contracts already signed by the Group at date referred to by the statements. For these reasons, the value of these inventories was reduced by a 27.4 million euro write-down. In particular, the risk management approach adopted by the Group calls for appropriate hedging transactions, such as forward sales, on the value of gas in storage. Following changes in forecasts of disbursement flows, these transactions can be redefined in order to ensure the effectiveness of the hedge itself. This redefinition was taken into account in defining the net sales value, thus taking into account the value of forward prices at the expected stages of disbursement, which occurred not only in the first quarter of 2024 but are also expected for the last quarter of the same year.

"Raw materials and stocks", already presented net of an associated obsolescence provision, mainly include:

	31 Dec 23	31 Dec 22	Change
Spare materials and equipment	61.3	49.8	11.5
Plastic materials	8.8	7.4	1.4
Other fuels	0.1	0.4	(0.3)
Total	70.2	57.6	12.6

"Materials earmarked for sale and finished products", already shown net of the respective provision for depreciation, mainly consist of:

	31 Dec 23	31 Dec 22	Change
Plastic products	8.4	12.2	(3.8)
Material for photovoltaic systems	4.9	6.7	(1.8)
Telecommunications equipment	0.4	0.6	(0.2)
Total	13.7	19.5	(5.8)

33 Trade receivables

	31 Dec 23	31 Dec 22	Change
Receivables from customers	3,066.5	2,051.1	1,015.4
Receivables from customers for bills and invoices not yet issued	1,147.0	2,375.9	(1,228.9)
Provision for bad debts	(626.7)	(552.0)	(74.7)
Total	3,586.8	3,875.0	(288.2)

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2023, 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 respective Authority.

The change in the stock of receivables managed compared to the previous year is due to various phenomena that had opposing effects:

- the decrease in market prices of gas and electricity commodities, which led to a corresponding decrease in the value of sales to end customers and the resulting receivables still to be collected at the date of the financial statement;
- a decrease in the value of trading transactions on wholesale markets carried out at the end of the year that are expected to be settled in the first few months of 2024;
- a decrease in sales yet to be invoiced at year-end due to weather conditions, since late 2023 saw milder temperatures than the previous year;
- an increase in invoices issued involving energy efficiency services provided to apartment buildings. At year-end, in particular, the Group proceeded to invoice the progress of the works, almost entirely completed, for the works falling under the 110% super-bonus, in order to guarantee, as required by tax regulations, the benefit consisting in a deduction of the works at the rate originally envisaged. These trade receivables, measured at fair value at the time of their initial recognition, will be recognized as tax credits once the submission of the necessary documentation to the Revenue Agency is completed in early 2024, since the mechanism that included discounts directly in invoices was used in the contractual relationship with the customer.

The value of trade receivables reported in the financial statements at 31 December 2023 represents the Group's maximum exposure to credit risk. Changes in the provision for bad debts is as follows:

	Opening balance	Provisions	Changes in the scope of consolidation	Uses and other movements	Closing balance
2022 financial year	444.6	133.9	1.8	(28.3)	552.0
2023 financial year	552.0	158.0	1.7	(85.0)	626.7

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by assessments 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 "Risk management" in paragraph 2.02.01 "Introduction". The change in the provision compared to the previous year is mainly due to the credits relating to environmental services and the energy sector. In particular, specific analyses were carried out with reference to receivables due from customers impacted by the flooding events, municipal hygiene customers and energy customers acquired in areas not previously served, which show, based on the first available final data, lower levels of reliability and payment regularity compared to those of the Group's historical customers.

The higher utilisations and other movements for the period are mainly due the disposals of non-performing receivables made during the year, which led to the complete derecognition of their value through the use of the provision created in previous years.

Analysis of overdue receivables The following table shows receivables from all customer clusters on the basis of bills issued, organized by degree of past-due:

	31 Dec 23	% inc.	31 Dec 22	% inc.	Change
Not yet due	1,231.2	40%	824.2	40%	407.0
Due 0-30 days	424.7	14%	179.5	9%	245.2
Due 31-180 days	395.1	13%	287.3	14%	107.8
Due 181-360 days	233.6	8%	151.2	7%	82.4
Due beyond 360 days	781.8	25%	608.9	30%	172.9
Total	3,066.5		2,051.1		1,015.4

34 Trade payables

	31 Dec 23	31 Dec 22	Change
Payables to suppliers	935.2	890.3	44.9
Payables to suppliers for invoices not yet received	1,702.0	2,202.8	(500.8)
Total	2,637.2	3,093.1	(455.9)

Changes in trade payables compared to the previous year mainly involve the following factors:

- a decrease in the wholesale prices of gas and electricity commodities, which led to a decrease in costs for purchasing raw materials and an ensuing lower exposure to suppliers, particularly with regard to the trading transactions on wholesale markets carried out at year-end;
- the increase in the volume of energy efficiency upgrading of buildings carried out on behalf of end customers, particularly apartment buildings, which led to a subsequent increase in payables to suppliers and professionals carrying out the works.

35 Other current assets

	31 Dec 23	31 Dec 22	Change
Tax credits and benefits	97.3	79.8	17.5
Fund for energy and waste management services for equalisation and continuity income	85.3	119.6	(34.3)
VAT, excise and additional taxes	75.7	86.6	(10.9)
Energy efficiency certificates and emissions trading	64.3	40.9	23.4
Security deposits	39.8	59.8	(20.0)
Prepaid costs	34.7	29.5	5.2
Receivables from electricity and gas sector companies	-	76.1	(76.1)
Other receivables	112.2	150.2	(38.2)
Total	509.3	642.5	(133.2)

“Tax credits and benefits” mainly include:

- tax credits arising from the application of the invoice discount to end customers, stated at their market value, in relation to subsidised energy efficiency measures, amounting to 88.3 million euro (44.1 million euro at 31 December 2022). These measures are mainly related to building renovation activities on apartment buildings;
- credits for investments in capital goods, including those related to Industry 4.0, totalling 9 million euro (5.8 million euro at 31 December 2022), which will be used to offset taxes and contributions in subsequent years on the basis of the annual limits provided for.

At 31 December 2022, this item also included receivables arising from the government's regulatory interventions relating to electricity and gas costs, amounting to roughly 23 million euro, which were used as compensation during 2023.

“Fund for energy and waste management services for equalisation and continuity income” consisted of continuity income amounting to 30.3 million euro (83.3 million euro at 31 December 2022) and equalisation credits amounting to 55 million euro (36.3 million euro at 31 December 2022).

Continuity income decreased by 53 million euro compared to the previous year, mainly due to two factors:

- collection of 34.5 million euro related to the recognition of costs incurred for operating in the default and last resort gas supply markets, based on ARERA's resolution 44/2022/R/Gas and subsequent amendments and supplements;
- a decrease in receivables for system charges and gas and electricity social bonuses. This trend was mainly due to the regulatory changes introduced by the government that reduced the concessions to users established for previous years to deal with the rise in bills, reintroducing the distribution components, albeit with lower amounts per unit than in years prior to 2022, and lower prices per unit

for social bonuses. Also note the reduced time gap for collection from the Cassa per i Servizi Energetici e Ambientali compared to the previous year.

Equalisation receivables increased by 18.7 million euro compared to the previous year, with a diversified trend among the various regulated sectors, in particular due to the volumes distributed by the gas business (down compared to the previous year) and the increase in regulated revenues pertaining to the Group, factors that led to a greater use of the equalisation mechanism for 2023.

“VAT, excise and additional taxes” includes payables for VAT amounting to 10.6 million euro (18 million euro at 31 December 2022), and excise and additional taxes in the amount of 65.1 million euro (68.6 million euro at 31 December 2022). With regard to excise duties and additional taxes, the procedures governing 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, while the actual debt is generated on the volumes sold in the period. These methods can generate credit or debit positions with differences that may be significant even between one period and another.

The change compared to 31 December 2022 is due to a 7.4 million euro decrease in receivables for value added tax and a 3.5 million euro increase in receivables for excise and additional taxes. For a better understanding of the Group’s net exposure to value added tax, see the comments to Note 36 “Other current liabilities”.

The reduction in credits for excise duties and surcharges was, instead, caused by two opposing effects:

- on the one hand, the account paid in 2023 for excise duties and gas surcharges was based, as required by current legislation, on the volumes invoiced during the previous year. The corresponding accrued liability, instead, was caused by the volumes invoiced in 2023, which were lower than in 2022, resulting in an increase in the credit for excises and additional taxes amounting to 27.6 million euro;
- on the other, the trend in volumes of electricity sold in 2023, higher than in 2022, led to a debit in net exposure, resulting in a 31.1 million euro decrease in the electricity excise tax receivable.

“Energy efficiency certificates and emissions trading”, includes the following:

	31 Dec 23	31 Dec 22	Change
White certificates	51.5	15.0	36.5
Grey certificate	7.6	20.8	(13.2)
Green certificates	5.1	5.1	-
Total	64.3	40.9	23.4

- The portfolio of white certificates includes the valuation of both the certificates calculated on the basis of the energy efficiency targets set by the GSE for gas and electricity distribution companies, net of the disposals that took place in the period, amounting to 49.7 million euro (13.1 million euro at 31 December 2022), and the certificates originating from the energy efficiency measures implemented by the Group, amounting to 1.8 million euro (1.9 million euro at 31 December 2022). The increase, with essentially the same valuation of the contribution compared to the previous year, is attributable to the different ways in which obligations were fulfilled in 2023, the lower amount of disposals realised at the end of the period and to the higher targets assigned to the Group for the obligation year in question;
- The portfolio of grey certificates reflects the valuation of both securities held by the Group for 6.3 million euro (10.1 million euro at 31 December 2022) and the exposure for forward contracts to buy and sell greenhouse gas emission allowances for 1.3 million euro (10.7 million euro at 31 December 2022). The decrease compared to the previous year was mainly related to an effect involving volume due to fewer securities in the portfolio;
- At 31 December 2023, the green certificate portfolio included securities recognised on an accrual basis prior to 2016 in relation to the electricity production of the waste-to-energy plant in Ferrara. These securities are the subject of a complaint by the GSE concerning the methodology for calculating the self-consumption of auxiliary services.

“Security deposits” mainly include deposits paid to guarantee participation in foreign platforms for trading commodity contracts and auctions in the electricity market, as well as to guarantee operations in the

wholesale electricity and gas markets, amounting to 29.2 million euro. The decrease with respect to the previous year is due to the lower prices and less volatility in energy commodities, to which the amount of deposits required to operate in these markets is directly related.

“Prepaid costs” mainly comprise future accruals in respect of:

	31 Dec 23	31 Dec 22	Change
Outsourced services and processing	14.5	14.6	(0.1)
Insurance, bank sureties and commissions	5.4	5.0	0.4
Rents payables and concession fees for network services	3.0	2.7	0.3
Other minor items	11.8	7.2	4.6
Total	34.7	29.5	5.2

“Receivables from electricity and gas sector companies” in the previous year included receivables from distribution companies that arose following the credits recognised to end customers for social bonuses and the Ug2c component, which was negative, resulting in a reversal of the typical trade balance. These items, which at 31 December 2022 resulted from the government’s interventions against the rise in bills, were completely offset during 2023 by the significant reduction in the subsidies introduced in previous years.

The item “Other receivables” includes:

	31 Dec 23	31 Dec 22	Change
Nonrecurring subsidies	22.6	22.6	-
Commission payments to agents	13.8	12.0	1.8
Receivables from asset companies	6.2	6.0	0.2
Incentives from renewable sources	0.7	10.6	(9.9)
Other minor items	68.9	99.0	(30.1)
Total	112.2	150.2	(38.0)

- nonrecurring subsidies include the amount certain Group companies paid, yet deemed not due, during 2022 in respect of the “Nonrecurring extra-profits subsidy”, established for 2022 by Article 37 of Legislative Decree no. 21/2022. These amounts were paid to the State Treasury on the due dates, despite significant doubts as to their application, in order to avoid penalties and interest. The subsequent 2023 Budget Law, which in paragraphs 120 and 121 of Article 1 changed the subjective scope and the taxable base of the contribution for 2022, made it possible to exclude one Group company from the scope of application, however failed to clear the application doubts in respect of a second impacted company. In both cases, the Group has already initiated procedures with the tax authorities to recover the amounts, as illustrated in paragraph 2.02.03 “Taxation”;
- commission payments to agents, whose increase is linked to the rise in commercial activities for acquiring new customers in the free market energy sector;
- receivables from asset companies include receivables from companies that own the networks and related assets used by the Group to provide utility services.
- incentives from renewable sources consist of receivables from the GSE arising from the incentive mechanism for electricity generation, which replaced the certificate system as of 2016. Receivables pertaining to the year in question, against the collection of the majority of the amounts open as of 31 December 2022, are practically null, since there was a reduction in the price of incentives (GRIN), which is inversely proportional to the previous year’s energy price (PUN).

36 Other current liabilities

	31 Dec 23	31 Dec 22	Change
Payables for advances to the fund for energy and waste management services	422.8	441.8	(19.0)
Advances for works	365.1	106.7	258.4
Plant investment grants	262.5	239.5	23.0
Security deposits from customers	199.9	383.3	(183.4)
Fund for energy and waste management service components and equalisation	119.0	99.5	19.5
VAT, excise and additional taxes	118.4	83.0	35.4
Personnel and employee withholding	89.8	82.8	7.0
Payables to social security institutions	78.9	69.4	9.5
Energy efficiency certificates and emissions trading	49.5	51.6	(2.1)
Prepaid revenues and other expenses	29.7	32.4	(2.7)
Payables to electricity and gas sector companies	-	34.7	(34.7)
Other payables	131.2	95.3	35.9
Total	1,866.8	1,720.0	146.8

"Payables for advances to the fund for energy and waste management services" comprises non-interest-bearing advances granted by the fund for energy and waste management services, as follows:

- 236.7 million euro (243.3 million euro at 31 December 2022) for advances in compliance with the integration mechanism set forth by resolution 370/2012/R/Eel and 456/2013/R/Eel by ARERA, for overdue and unpaid receivables from customers managed under the safeguarded system. The most recent data reaches the end of the 2021 thermal year;
- 153.3 million euro (182.2 million euro at 31 December 2022) in compliance with the reintegration mechanisms provided for by Law 239 of 23 August 2004 and ARERA's TIVG, against the charges for arrears in last resort services in the natural gas sector (FUI, FTD and FDD), incurred up to the 2021-2022 thermal year;
- 14 million euro (12.9 million euro at 31 December 2022) in compliance with Resolution 32/2021/R/Eel (formerly Resolution 445/2020/R/Eel), relating to the procedures for accessing the reimbursement mechanism for general system charges not collected from end customers and already paid to distribution companies for 2016-2022. The scope of application is limited to the sale of electricity on the free market, the safeguarded market (disconnectable) and the gradual protection service (disconnectable).
- 11 million euro in compliance with Resolution 44/2022/R/Gas, supplemented by the subsequent Resolution 372/2022, which introduced a revenue equalisation, reported by the Group in January 2023, aimed at offsetting part of the unforeseeable costs incurred in supplying the default last resort and FUI markets, especially due to the entry of a larger number of customers than expected.

"Advances for works" includes advances received from municipalities and apartment buildings for works in progress relating to public lighting and energy efficiency upgrades of buildings, respectively, which will be completed in the following years. The significant increase is in line with the higher energy efficiency works carried out by the Group during the year, which were invoiced on a work-progress billing basis and were nearing completion as at 31 December.

“Plant investment grants” 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. This item includes specifically, the following grants received by the Group:

	31 Dec 23	31 Dec 22	Change
New water system investment fund	102.6	87.1	15.5
Purification and sewerage systems	40.7	32.0	8.7
Purification plant in Servola (Trieste)	30.7	33.0	(2.3)
Construction of rolling basins e underwater pipes in the area of Rimini.	18.4	20.6	(2.2)
Other minor items	70.1	66.8	3.3
Total	262.5	239.5	23.0

“Security deposits from customers” reflect the amounts requested from customers for gas, water and electricity provision contracts. The decrease seen during the year is due to both the repayment of part of the security deposits for the 2022-2023 winter season and lower energy commodity prices, which led to a reduction in the nominal value of the deposits for supplies.

“Fund for energy and waste management service components and equalisation”, reflects the payables towards the Cassa per i Servizi Energetici e Ambientali for certain system components of the gas, electricity and water services, amounting to 111.3 million euro (84.1 million euro at 31 December 2022) and for equalisation of the electricity sales service amounting to 7.7 million euro (15.4 million euro at 31 December 2022). The increase compared to the previous year in payables for system components reflects both the gradual reduction in concessions in favour of end users introduced by the government starting in late 2021 to deal with the rise in utility bills, thus bringing the end-of-period exposure back to amounts closer to those seen in years prior to 2022, and the increase in the debit position for specific components concerning the last resort markets served by the Group.

Equalisation payables decreased by 7.7 million euro compared to the previous year and refer mainly to the electricity sales business.

“VAT, excise and additional taxes” includes payables for VAT in the amount of 71.7 million euro (0.9 million euro at 31 December 2022), and excise and additional taxes in the amount of 46.7 million euro (82.1 million euro at 31 December 2022). As outlined in Note 35, “Other current assets”, this increase must be understood taking into account the factors that regulate financial relations with the Inland Revenue Office, which can generate credit/debit positions with differences that can be significant even between one financial period and another.

With regard to value added tax, during the previous year an advance payment of 90.3 million euro was made at the end of the period, related to Group VAT, while for 2023, based on the previous years’ calculation, no advance payment was due. The significant payable balance for VAT was also affected by high end-of-period invoicing for energy efficiency works for apartment building customers, especially in relation to interventions benefitting from the 110% super-bonus incentive.

With regard to excise and additional taxes, the advance payment in 2022 was made, as required by the regulations in force, on the basis of the volumes invoiced in the previous year. The advance payment, instead, was made on the basis of the volumes invoiced in 2023. This resulted, as detailed in Note 35 “Other current assets”, in a credit position for the natural gas sales business and a debit position for the electricity sales business.

“Personnel and employee withholding” includes for the most part the vacation time accrued and not used, as well as the productivity bonuses accounted for by department, plus withholding taxes to be paid to the State treasury as tax substitute for employees.

“Payables to social security institutions” relate to contributions owed to these institutions for the December salaries, performance bonuses and additional monthly payments under national collective agreements.

“Energy efficiency certificates and emissions trading” includes:

	31 Dec 23	31 Dec 22	Change
White certificates	27.1	17.9	9.2
Guarantee of origin certificates	12.7	11.2	1.5
Grey certificate	9.7	22.5	(12.8)
Total	49.5	51.6	(2.1)

- White certificates include the valuation of the exposure in relation to the redelivery obligations towards the respective Authorities for energy efficiency certificates not yet in the portfolio. The change with respect to 31 December 2022, in a market context that showed a drop in market prices, is mainly due to the higher number of certificates still to be annulled and referring to the years for which the Group has not yet completely fulfilled its assigned obligation.
- Guarantee of origin (GO) certificates relate to the obligation to certify electricity generated from renewable energy sources against sales made to customers whose contracts require this type of procurement. The increase in the liability is mainly a consequence of the increase in reference prices.
- Grey certificates reflect the valuation of both the obligation to redeliver certificates calculated on the basis of current regulations, amounting to 8.7 million euro (10.7 million euro at 31 December 2022) and the forward sales contracts for greenhouse gas emission quotas, amounting to 1 million euro (11.8 million euro at 31 December 2022). The change compared to the previous year was mainly due to lower volumes of forward contracts and a slight decrease in market prices.

The item “Anticipated revenues and other expenses” mainly comprises portions of revenues due in the following financial period. This item includes in particular portions of tax credits for investments in new capital goods accruing in future financial years, amounting to 10.1 million euro.

“Payables to electricity and gas sector companies” in the previous financial year included the payable items recorded by the Group’s distribution companies towards third party sales companies. These positions, created at 31 December 2022 by the government’s interventions to deal with the rise in utility bills, were completely offset during 2023 due to the significant reduction of the concessions introduced in previous years.

The item “Other payables” mainly comprises the following:

	31 Dec 23	31 Dec 22	Change
Arrears payments for electricity gas and other sectors	27.4	9.5	17.9
Environmental damage contributions	14.1	11.3	2.8
Flood contributions	10.0	-	10.0
Insurance deductibles	8.7	9.8	(1.1)
Tariff concessions to users	3.5	11.5	(8.0)
Other minor items	67.5	53.2	14.3
Total	131.2	95.3	35.9

Specifically:

- Arrears payables in the electricity, gas and other sectors mainly represent the amounts, charged to end users who were in arrears for the last three monthly payments, prior to their transition to the Hera Group. These amounts must be retroceded to previous suppliers. The indemnity is applied only to certain specific categories of users, identified by ARERA Resolution no. 593/2017/R and its subsequent amendments and additions. The rise compared to the previous year was mainly due to the increased customer base, concerning in particular the expanded scope of operations in the safeguarded market and the lot awarded in tenders for gradual protection services for micro-businesses, as well as more careful monitoring by outgoing sellers in requesting the fee when due to them;

- environmental damage contributions represent 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 municipal territories. The amount of these contributions is related to the amount of waste disposed of annually;
- flood contributions represent the amounts received to cover the costs that will be incurred by the Group in the following year concerning the restoration of the damage caused by the May 2023 flood emergency that affected certain areas in which the Group provides public utility services;
- insurance deductibles include amounts that the Group must repay directly to damaged third parties or insurance companies;

37 Cash flows of operating activities

Changes in net working capital

The following is a breakdown of information on changes in financial liabilities during the 2023 financial year, differentiating between cash flows and non-cash flows.

Type	31 Dec 23	31 Dec 22	Change (a)	Non-cash flows			Cash flows (f)=[(b)+(c)+(d)+(e)]-(a)
				Acquisitions divestitures (b)	Economic valuation components (c)	Changes in fair value (d)	
Inventories	631.6	995.1	(363.5)	53.0	(28.1)		6.7 395.1
Trade receivables	3,586.8	3,875.0	(288.2)	37.5	(146.5)	(49.0)	(212.1) (81.9)
Trade payables	(2,637.2)	(3,093.1)	455.9	(57.6)			(0.2) (513.7)
Other current assets/liabilities	(1,357.5)	(1,077.5)	(280.0)	(0.8)	(2.8)	(9.3)	162.6 429.7
Changes in working capital	223.7	699.5	(475.8)	32.1	(177.4)	(58.3)	(43.0) 229.2

“Acquisitions divestitures” include the effects arising from acquisitions of control during 2023, as illustrated in paragraph 2.02.10 “Other information”.

“Economic valuation components” mainly includes:

- the provision for bad debts for a negative 154 million euro;
- the write-down of natural gas inventories amounting to a negative 27.4 million euro, as reported in Note 32 “Inventories”;
- income related to the discounting process for receivables pertaining to discounts included directly in invoices, whose cashflows will be seen in subsequent years, amounting to a positive 7.8 million euro, as reported in Note 10 “Financial income”;
- the portions pertaining to the period of plan related grants, the total amount of which was collected in previous years, totalling a positive amount of 13.3 million euro, as stated in Note 2 “Other operating revenues”.

“Changes in fair value” includes:

- the fair value assessment of receivables related to the application of the discount included in invoices linked to energy efficiency measures for end customers amounting to a negative 56.4 million euro, as reported in Note 11 “Financial expenses”;
- the valuation of environmental certificates and greenhouse gas emission obligations assigned to the Group, as well as the valuation of forward contracts for the purchase and sale of greenhouse gas emission allowances, for a total negative 1.9 million euro, as illustrated in Note 35 “Other current assets” and 36 “Other current liabilities”.

“Other changes” mainly comprises offsets within net working capital of transactions involving the gross recognition of assets and liabilities. Also note, as reported above in Note 28 “Cashflows from investing activities”, the reinstatement of the value of cashflows for tax credits amounting to 43.6 million euro, whose transfer took place in January 2024, but was finalised in December 2023.

Dividends collected

In 2023, dividends for 8.7 million euro were received from companies consolidated according to the equity method and 6.4 million euro from shareholdings held in other companies. For further details, see Note 10 "Financial income" and 26 "Shareholdings".

Net interest paid

The following is a reconciliation of the balance sheet values of financial income and expenses and the related net cash flows for the year.

Type	Non-cash components			Other changes (d)	Cash components (e)=(a)-[(b)+(c)+(d)]
	2023 (a)	Economic valuation components (b)	Changes in fair value (c)		
Financial income	157.1	14.1	51.0	14.2	77.8
Financial expenses	(345.0)	(59.0)	(77.7)	(14.9)	(193.4)
Total	(187.9)	(44.9)	(26.7)	(0.7)	(115.6)

"Economic valuation components" includes income and expenses arising from both the assessment at amortised cost and the discounting of receivables and liabilities characterised by monetary outlays to be carried out in the medium to long term, as illustrated in Note 10 "Financial income" and Note 11 "Financial expenses".

"Changes in fair value" include assessments at current market value of financial assets and liabilities, mainly related to:

- receivables related to the application of the discount included in invoices linked to subsidised energy efficiency interventions carried out on behalf of end customers amounting to a negative 56.4 million euro, as reported in Note 11 "Financial expenses";
- a fair value assessment of put options and contingent consideration for a total net effect amounting to a positive 31.1 million euro.
- an adjustment made to the book value of a bond issued in foreign currency as a result of the fair value hedge, which led to the recognition of income amounting to a positive 15.6 million euro;
- hedging derivatives that resulted in the recognition of net valuation losses amounting to a negative 14.8 million euro.

"Other changes" include effects mainly due to:

- the adjustment of interest income and expenses recognised on an accrual basis in order to show the actual cash flows realised in 2023, amounting to 12.9 million euro;
- dividends paid by other minor holdings, whose cashflow for the period is shown in a specific item in the cash flow statement, amounting to 6.4 million euro.

Taxes paid

The breakdown of flows by tax type is as follows:

	31 Dec 23	31 Dec 22
Income taxes	92.9	131.9
Substitute tax	3.7	9.1
Nonrecurring taxes	-	24.9
Taxes paid	96.6	165.9

Income taxes include the amount paid by the Group during 2023 in relation to the 2022 IRES and IRAP balances and the advance payments due for 2023.

For 2022, nonrecurring taxes represented the amount paid during the year in relation to the nonrecurring extra-profits tax.

At 31 December 2023, the substitute tax included the amount paid linked to the redemption of the controlling interest in the acquisition of Con Energia Spa. At 31 December 2022, this item included the amount paid linked to the redemption of similar transactions involving the companies Eco Gas Srl and Vallortigara Servizi Ambientali Spa.

2.02.10 Other information

Business combinations (supplementary information)

Business combinations have been accounted for on the basis of assessments conducted by management in respect of analyses of the fair value of assets and liabilities and contingent liabilities, in line with information concerning facts and events available at the date of acquisition. The evaluation process of all operations ended on 31 December 2023.

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

	A.C.R. Spa	Asco TLC Spa	F.Ili Franchini Srl	“Pagnanini” business unit	Total business combinations
Non-current assets					
Tangible assets	11.0	10.5	0.2	0.3	22.0
Rights of use	6.4	0.3	0.3		7.0
Intangible assets	57.2	9.8	3.5		70.5
Deferred tax assets		0.2			0.2
Current assets					
Inventory and work in progress	33.6	1.2	18.2		53.0
Trade receivables	31.6	1.8	4.1		37.5
Financial assets			0.1		0.1
Current tax assets		0.1			0.1
Other current assets	6.8	1.1	1.3		9.2
Cash	15.3	2.3	3.0		20.6
Non-current liabilities					
Financial liabilities			(1.9)		(1.9)
Lease liabilities	(5.7)	(0.2)	(0.2)		(6.1)
Post-employment	(0.3)	(0.6)	(0.2)		(1.1)
Provisions for risks and charges	(0.1)		(0.1)		(0.2)
Deferred tax liabilities	(16.0)	(2.8)	(1.0)		(19.8)
Current liabilities					
Financial liabilities	(11.8)		(0.9)		(12.7)
Lease liabilities	(0.7)	(0.1)	(0.1)		(0.9)
Trade payables	(36.1)	(0.9)	(20.6)		(57.6)
Current tax liabilities	(1.9)		(0.3)		(2.2)
Other current liabilities	(7.6)	(1.8)	(0.6)		(10.0)
Total net assets acquired	81.7	20.9	4.8	0.3	107.7
Equivalent fair value and stake held	76.1	14.9	9.5	0.3	100.8

Non-controlling interests	32.7	24.1		56.8
Minority shareholders' put option			10.7	10.7
Total value of the combination	108.8	39.0	20.2	0.3
(Goodwill) / Profit	(27.1)	(18.1)	(15.4)	-
				(60.6)

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:

	A.C.R. Spa	Asco TLC Spa	F.Ili Franchini Srl	“Pagnanini” business unit	Total business combination
Book value of net assets acquired	40.5	14.3	2.3	0.3	57.4
Adjustments for fair value valuation					
Intangible assets	57.1	9.3	3.5		69.9
Deferred tax assets (liabilities)	(15.9)	(2.7)	(1.0)		(19.6)
Fair value of net assets acquired	81.7	20.9	4.8	0.3	107.7
Cash outlay	72.6	14.9	9.0	0.3	96.8
Non-controlling interests	32.7	24.1			56.8
Deferred/contingent consideration	3.5		11.2		14.7
Equivalent fair value	108.8	39.0	20.2	0.3	168.3

Adjustments for fair value assessment

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

- A.C.R. Spa – a customer list of 57.1 million euro was recorded, established on the basis of both the characteristics of the reference context and using the incremental cash flow method (MEEM). The depreciation period, set at 23 years, was determined on the basis of the churn rate established by analysing the historical series of the turnover of the clients;
- Asco TLC – a customer list of 9.3 million euro was recorded, established on the basis of both the characteristics of the reference context and using the incremental cash flow method (MEEM). The depreciation period, set at ten years, was determined on the basis of the churn rate established by analysing the historical series of the turnover of the clients;
- F.Ili Franchini srl – the following were recorded:
 - a trademark of 1.5 million euro, established on the basis of the characteristics of the reference context, using the relief from royalties method. The amortisation period, set at five years, was determined on the basis of the expected commercial use of the trademark;
 - an order portfolio of 1.2 million euro, established on the basis of orders already contracted at the date control was acquired, discounting cash flows net of taxes. The two-year amortisation period was determined on the basis of the expected completion of the orders at the date of the transaction;
 - a customer list of 0.8 million euro, established on the basis of both the characteristics of the reference context and using the incremental cash flow method (MEEM). The depreciation period, set at four years, was determined on the basis of the average duration of the contracts under assessment.

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

Concerning the A.C.R. Spa transaction, at the date of acquisition, “Minority interests”, corresponding to third-party shareholdings (40% of the share capital), were recognised under equity. The valuation of the interests was carried out in proportion to the fair value portion of the assets and liabilities acquired in the

business combination. The goodwill recognised in the consolidated financial statements is thus recognised only for the difference between the acquisition sum and the fair value of the net assets acquired. In addition, based on the contractual agreements between the parties, a potential payment (earn-out) to be made to the sellers upon the occurrence of certain conditions, estimated at a total of 3.5 million euro, was recognised.

The acquisition of Asco TLC Spa was a business combination achieved in several stages. In fact, on 14 March 2023, the Group acquired, through its subsidiary Acantho Spa, 36.8% of the share capital of Asco TLC Spa. On 1 October 2023, based on pre-existing agreements, the deed of merger by incorporation of Asco TLC Spa into Acantho Spa was signed, with legal effects as of the same date. This transaction entailed the acquisition of control of the business by the Hera Group. The value of the equity investment previously held by the Group was aligned with the book value recorded and consequently no effects were recognised in the income statement for the year. Minority interests at the date of acquisition were measured at fair value and therefore the goodwill recognised also includes the portion attributable to minority shareholders.

Concerning the acquisition of F.Ili Franchini Srl, a reciprocal option to buy and sell the minority shareholding was negotiated with the counterparty. The existence of such rights held by the minority shareholders led to the need to classify the options in the consolidated financial statements under financial liabilities, as illustrated in Note 19 "Financial liabilities". In accordance with its own accounting policies, the Group did not include the minority shares in the consolidated financial statements, considering the shareholding to be fully owned. The valuation of the options identified at the time of acquisition, therefore, totalled 10.7 million euro. In addition, a potential consideration (earn-out) to be paid upon the occurrence of certain conditions, estimated at a total of 0.5 million euro, was recognised on the basis of contractual agreements between the parties.

See note 28 "Cashflows from investing activities" for an analysis of the cashflows associated with the combination operations described above.

Changes to the accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2023

With reference to the areas pertaining to the Group, the following accounting standards and amendments to accounting standards issued by the International Accounting Standards Board (IASB) and transposed by the European Union through an EU Regulation are mandatory as of 1 January 2023:

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

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

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

Amendments to IAS 12 – Income taxes: International tax reform – Pillar 2 Model Rules. Document issued by the IASB on 23 May 2023, immediate application of the temporary exception and application of the disclosure requirements from 1 January 2023. This document introduces:

- a temporary exception in recording deferred assets and liabilities related to the application of the Pillar 2 indications;
- specific disclosure requirements with respect to the Group's estimated exposure to Pillar 2 taxes, if any, as of the 2023 financial statements.

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

With reference to the application of these amendments, there were no observable effects on the Group's financial statements. Where required, especially with reference to Pillar 2, the disclosure was adjusted by consistently updating the explanatory notes.

Following the introduction of the amendments to IAS 1, appropriate simplifications were made in the presentation of the accounting principles and policies adopted by the Group.

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

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

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 2024 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 16 – Lease Liabilities in a Sale and Leaseback Transaction. Document issued by IASB on 22 September 2022, applicable from 1 January 2024 with early application allowed. The amendments provide that in the valuation of lease liabilities in a sale and leaseback transaction, the seller-lessee shall determine the lease payments in such a way as not to recognise any amount of gain or loss related to the right of use retained by the lessee.

Amendments to IAS 1 – Presentation of financial statements: non-current liabilities subject to covenant. Document issued by IASB on 31 October 2022, applicable from 1 January 2024 with early application allowed. The amendments aim to improve the information disclosed by an entity when the right to defer settlement of a liability is subject to compliance with covenants within 12 months after the reporting period.

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

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

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

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

Amendments to IAS 7 – Statement of cashflows and IFRS 7 – Financial instruments: Financing arrangements with suppliers and disclosures in the explanatory notes. Document issued by IASB on 25 May 2023, applicable from 1 January 2024 with early application permitted. The amendments require an entity to provide additional disclosures on reverse factoring arrangements that enable users of financial

statements to evaluate how financing arrangements with suppliers may affect the entity's liabilities and cash flows and to understand the effect of those arrangements on the entity's exposure to liquidity risk.

Amendments to IAS 21 – Effects of changes in foreign exchange rates: Lack of convertibility. Document issued by the IASB on 15 May 2023, applicable from 1 January 2025 with early application allowed. The amendments require an entity to apply a methodology consistently over time to determine whether one currency can be converted into another and, when this is not possible, to define the method of determining the exchange rate to be used and the disclosures to be made in the explanatory notes.

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

Classification of financial assets and liabilities pursuant to IFRS 7

The table below illustrates the composition of the Group's assets, using the current and non-current distinction. The fair value of other investments and derivative financial instruments is discussed in Notes 26 and 29, respectively.

31 Dec 23	Hierarchy	Fair value to Fair value income statements	Fair value to statement of comprehensive income	Depreciated cost	Total
Non-current financial assets	2		2.0	160.8	162.8
Non-current assets		-	2.0	160.8	162.8
Trade receivables	3		1.2	3,585.6	3,586.8
Current financial assets				90.9	90.9
Other assets	2	9.4	12.2	499.1	520.7
Current assets		9.4	13.4	4,175.6	4,198.4

31 Dec 22	Hierarchy	Fair value to Fair value income statements	Fair value to statement of comprehensive income	Depreciated cost	Total
Non-current financial assets	2		2.0	149.8	151.8
Non-current assets		-	2.0	149.8	151.8
Trade receivables	3		168.6	3,706.4	3,875.0
Current financial assets	2			77.7	77.7
Other assets	2	22.6	8.3	657.6	688.5
Current assets		22.6	176.9	4,441.7	4,641.2

With respect to "Non-current financial assets" reference should be made to Note 18.

With respect to "Current assets" reference should be made to Notes 13, 18, 33 and 35.

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 29.

31 Dec 23	Hierarchy Fair value income statements	Fair value to income statements	Hedged elements (fair value hedge)	Depreciated cost	Total
Non-current financial liabilities	2/3	330.5	128.6	3,962.6	4,421.7
Non-current lease liabilities				56.8	56.8
Non-current liabilities		330.5	128.6	4,019.4	4,478.5
Trade payables				2,637.2	2,637.2
Current financial liabilities	3	13.7		877.1	890.8
Current lease liabilities				24.5	24.5
Other liabilities	2	22.5		1,954.5	1,977.0
Current liabilities		36.2	-	5,493.3	5,529.5

31 Dec 22	Hierarchy Fair value income statements	Fair value to income statements	Hedged elements (fair value hedge)	Depreciated cost	Total
Non-current financial liabilities	2/3	499.5	144.4	5,046.0	5,689.9
Non-current lease liabilities				55.1	55.1
Non-current liabilities		499.5	144.4	5,101.1	5,745.0
Trade payables				3,093.1	3,093.1
Current financial liabilities	3	13.9		636.2	650.1
Current lease liabilities				21.3	21.3
Other liabilities	2	33.7		1,703.4	1,737.1
Current liabilities		47.6	-	5,454.0	5,501.6

With regard to "Non-current financial liabilities", the fair value hierarchy for hedged items is Level 2, while for items measured at fair value through profit or loss it is Level 3.

With respect to "Non-current liabilities" reference is made to Notes 19 and 22.

With respect to "Non-current liabilities" reference is made to Notes 13, 19, 22, 34 and 36.

Reporting by operating sector

Reporting by operational sectors is based on the approach management uses to monitor the performance of the Group by homogeneous business areas. The net costs and assets for business support functions, in keeping with the internal control model, are entirely associated to operational businesses.

At 31 December 2023, the Hera Group was organized into the following business lines:

- **Gas:** includes services in distributing and selling methane gas as well as district heating and energy services;
- **Electricity:** includes generating, distributing and selling electricity;
- **Water Cycle:** includes aqueduct, purification and sewage services;
- **Waste management:** includes waste collection, treatment, recycling and disposal services;
- **Other services:** includes public lighting, telecommunications and other minor services.

The following are assets and liabilities by business line for the 2022 and 2023 financial years:

31 Dec 23	Gas	Electricity	Water cycle	Waste management	Other services	Total
Current year						
Assets (tangible and intangible)	2,043.2	753.0	2,466.6	1,464.7	142.1	6,869.6
Goodwill	493.5	88.9	42.7	260.6	23.0	908.7
Shareholdings	96.6	42.4	16.0	40.5	-	195.5
Not attributed fixed assets						145.3
Net non-current assets	2,633.3	884.3	2,525.3	1,765.8	165.1	8,119.1
Attributed net working capital	460.9	(177.8)	(56.4)	14.7	(17.7)	223.7
Non attributed net working capital						(57.7)
Net working capital	460.9	(177.8)	(56.4)	14.7	(17.7)	166.0
Other provisions	(216.7)	(41.2)	(153.3)	(289.1)	(5.6)	(705.9)
Net invested capital	2,877.5	665.3	2,315.6	1,491.4	141.8	7,579.2
 31 Dec 22						
Previous year						
Assets (tangible and intangible)	2,038.8	655.4	2,320.2	1,348.5	123.1	6,486.0
Goodwill	493.5	73.5	42.7	233.5	4.9	848.1
Shareholdings	99.6	29.8	18.7	42.2	-	190.3
Not attributed fixed assets						24.7
Net non-current assets	2,631.9	758.7	2,381.6	1,624.2	128.0	7,549.1
Attributed net working capital	804.8	80.3	(247.8)	59.3	2.9	699.5
Non attributed net working capital						303.5
Net working capital	804.8	80.3	(247.8)	59.3	2.9	1,003.0
Other provisions	(191.4)	(35.8)	(148.1)	(278.5)	(3.8)	(657.6)
Net invested capital	3,245.3	803.2	1,985.7	1,405.0	127.1	7,894.5

The following are the main result measures by business line for the 2022 and 2023 financial years:

2023	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total
Current year							
Direct revenues	8,421.2	4,483.3	999.2	1,555.3	139.5	(33.5)	15,565.1
Infra-cycle revenues	120.0	234.4	5.4	137.3	51.9	165.0	714.2
Total direct revenues	8,541.3	4,717.7	1,004.6	1,692.6	191.5	131.6	16,279.3
Indirect revenues	15.8	6.2	63.3	45.3	0.9	(131.6)	-
Total revenues	8,557.1	4,724.0	1,067.9	1,737.9	192.4	-	16,279.3
Ebitda	609.9	309.2	271.4	353.4	43.8	-	1,587.7
Direct amortisations and provisions	211.3	119.1	109.4	200.2	24.2	89.4	753.7
Indirect amortisations and provisions	10.0	4.8	41.4	32.6	0.6	(89.4)	-
Total amortisations and provisions	221.3	123.9	150.8	232.9	24.8	-	753.7
Operating results	388.6	185.3	120.6	120.6	19.0	-	834.0
2022	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total
Previous year							
Direct revenues	13,282.8	4,720.7	996.5	1,433.3	145.4	51.5	20,630.2
Infra-cycle revenues	181.9	316.3	4.5	108.0	50.1	63.0	723.7
Total direct revenues	13,464.7	5,037.1	1,000.9	1,541.2	195.5	114.5	21,354.0
Indirect revenues	18.9	5.7	51.7	37.5	0.7	(114.5)	-
Total revenues	13,483.6	5,042.7	1,052.6	1,578.8	196.2	-	21,354.0
Ebitda	491.1	71.6	261.9	338.0	38.4	-	1,200.9
Direct amortisations and provisions	205.5	87.7	125.6	149.2	22.2	76.9	667.1
Indirect amortisations and provisions	8.8	3.1	34.5	30.1	0.5	(76.9)	-
Total amortisations and provisions	214.3	90.8	160.1	179.3	22.6	-	667.1
Operating results	276.8	(19.2)	101.8	158.7	15.7	-	533.8

As extensively described in the Directors' Report, Ebitda for the gas segment was adjusted for managerial purposes to comment on its performance for the period. The value containing the adjustment on gas inventory valuation is shown in chapter 1.07, "Analysis by Business Area," which provides a reference for understanding business dynamics.

2.03 FINANCIAL STATEMENT FORMATS AS PER CONSOB RESOLUTION 15519/2006

In accordance with the relevant Group policies, the economic, equity and financial reports in effect at 31 December 2023 and the associated period of comparison with related parties are as follows.

Procedure for the operations with related parties is available on the website of the Hera Group at the following link:

<https://www.gruppohera.it/gruppo/governance/sistema-di-governance/politiche-e-procedure>

Note that during the 2023 financial year, there were no transactions with related parties for which it was necessary to include in the financial statements the disclosures required by the regulation adopted on the matter by Consob Resolution No. 17221 of 12 March 2010 and subsequent amendments and supplements.

2.03.01 Income statement as per Consob resolution 15519/ 2006

notes	2023	of which related parties						2022	of which related parties						
		A	B	C	D	Total	%		A	B	C	D	Total	%	
Revenues	1	14,897.3	-	78.0	319.5	15.0	412.5	2.8%	20,082.0	-	129.1	315.6	23.6	468.3	2.3%
Other operating revenues	2	667.8	-	0.3	8.2	-	8.5	1.3%	548.2	-	0.3	3.2	-	3.5	0.6%
Raw and other materials	3	(9,672.2)	-	(54.5)	-	(46.0)	(100.5)	1.0%	(16,730.0)	-	(100.2)	-	(45.0)	(145.2)	0.9%
Service costs	4	(3,655.9)	-	(13.9)	(25.2)	(35.0)	(74.1)	2.0%	(2,105.8)	-	(11.9)	(23.3)	(33.2)	(68.4)	3.2%
Personnel costs	5	(641.1)	-	-	-	-	-		(601.1)	-	-	-	-	-	
Other operating expenses	6	(90.3)	-	(0.1)	(2.4)	(0.9)	(3.4)	3.8%	(74.9)	-	-	(2.3)	(0.9)	(3.2)	4.3%
Capitalised costs	7	82.1	-	-	-	-	-		82.5	-	-	-	-	-	
Amortisation, provisions and depreciation	8	(753.7)	-	-	-	-	-		(667.1)	-	-	-	-	-	
Operating profit		834.0	-	9.8	300.1	(66.9)	243.0		533.8	-	17.3	293.2	(55.5)	255.0	
Share of profits (losses) pertaining to joint ventures and associated companies	9	10.3	-	10.3	-	-	10.3	100.0%	10.0	-	10.0	-	-	10.0	100.0%
Financial income	10	157.1	-	7.8	0.5	0.4	8.7	5.5%	82.2	-	1.6	0.6	0.4	2.6	3.2%
Financial expenses	11	(345.0)	-	(5.9)	(0.2)	-	(6.1)	1.8%	(217.2)	-	-	(0.3)	-	(0.3)	0.1%
Financial operations		(177.6)	-	12.2	0.3	0.4	12.9		(125.0)	-	11.6	0.3	0.4	12.3	
Earnings before taxes		656.4	-	22.0	300.4	(66.5)	255.9		408.8	-	28.9	293.5	(55.1)	267.3	
Taxes	12	(173.2)	-	-	-	-	-		(103.5)	-	-	-	-	-	
Net profit for the period		483.2	-	22.0	300.4	(66.5)	255.9		305.3	-	28.9	293.5	(55.1)	267.3	
Attributable to:															
Parent company shareholders		441.4							255.2						
Non-controlling interests		41.8							50.1						
Earnings per share															
basic	17	0.305							0.175						
diluted	17	0.305							0.175						

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

2.03.02 Statement of financial position as per Consob resolution 15519/ 2006

	notes	31 Dec 23	of which related parties						31 Dec 22	of which related parties							
			A	B	C	D	Total	%		A	B	C	D	Total	%		
ASSETS																	
Non-current assets																	
Tangible assets	21,25	2,059.3	-	-	-	-	-	-	1,984.4	-	-	-	-	-	-		
Rights of use	22,25	90.6	-	-	-	-	-	-	84.2	-	-	-	-	-	-		
Intangible assets	23,25	4,719.6	-	-	-	-	-	-	4,417.4	-	-	-	-	-	-		
Goodwill	24,25	908.7	-	-	-	-	-	-	848.1	-	-	-	-	-	-		
Shareholdings	26,27	195.6	-	150.7	-	14.7	165.4	84.6%	190.3	-	156.3	-	2.0	158.3	83.2%		
Non-current financial assets	18	162.8	-	11.0	10.6	21.2	42.8	26.3%	151.8	-	14.3	12.1	25.3	51.7	34.1%		
Deferred tax assets	14	302.3	-	-	-	-	-	-	240.4	-	-	-	-	-	-		
Derivative financial instruments	29	0.3	-	-	-	-	-	-	1.0	-	-	-	-	-	-		
Total non-current assets		8,439.2	-	161.7	10.6	35.9	208.2		7,917.6	-	170.6	12.1	27.3	210.0			
Current assets																	
Inventories	32	631.6	-	-	-	-	-	-	995.1	-	-	-	-	-	-		
Trade receivables	33	3,586.8	-	10.3	81.8	18.9	111.0	3.1%	3,875.0	-	24.9	85.3	24.8	135.0	3.5%		
Current financial assets	18	90.9	-	7.0	3.7	1.3	12.0	13.2%	77.7	-	9.2	3.7	1.4	14.3	18.4%		
Current tax assets	13	11.4	-	-	-	-	-	-	46.0	-	-	-	-	-	-		
Other current assets	35	509.3	-	3.1	(3.9)	4.0	3.2	0.6%	642.5	-	2.9	(2.3)	3.9	4.5	0.7%		
Derivative financial instruments	29	478.0	-	-	-	-	-	-	1,622.2	-	-	-	-	-	-		
Cash and cash equivalents	18	1,332.8	-	-	-	-	-	-	1,942.4	-	-	-	-	-	-		
Total current assets		6,640.8	-	20.4	81.6	24.2	126.2		9,200.9	-	37.0	86.7	30.1	153.8			
TOTAL ASSETS		15,080.0	-	182.1	92.2	60.1	334.4		17,118.5	-	207.6	98.8	57.4	363.8			

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 23	of which related parties						31 Dec 22	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
NET EQUITY AND LIABILITIES															
Share capital and reserves															
Share capital	15	1,443.0	-	-	-	-	-	-	1,450.3	-	-	-	-	-	
Reserves	15	1,553.8	-	-	-	-	-	-	1,692.8	-	-	-	-	-	
Profit (loss) for the period	15	441.4	-	-	-	-	-	-	255.2	-	-	-	-	-	
Group net equity		3,438.2	-	-	-	-	-	-	3,398.4	-	-	-	-	-	
Non-controlling interests	16	313.4	-	-	-	-	-	-	246.3	-	-	-	-	-	
Total net equity		3,751.6	-	-	-	-	-	-	3,644.7	-	-	-	-	-	
Non-current liabilities															
Non-current financial liabilities	19	4,421.7	-	-	1.2	-	1.2	0.0%	5,689.9	-	-	1.5	-	1.5	0.0%
Non-current lease liabilities	22	56.8	-	-	2.7	0.2	2.9	5.1%	55.1	-	-	3.7	0.3	4.0	7.3%
Post-employment and other benefits	30	88.1	-	-	-	-	-	-	92.0	-	-	-	-	-	
Provisions for risks and charges	31	617.8	-	1.0	-	-	1.0	0.2%	565.6	-	3.8	-	-	3.8	0.7%
Deferred tax liabilities	14	156.9	-	-	-	-	-	-	215.7	-	-	-	-	-	
Derivative financial instruments	29	-	-	-	-	-	-	-	6.3	-	-	-	-	-	
Total non-current liabilities		5,341.3	-	1.0	3.9	0.2	5.1	-	6,624.6	-	3.8	5.2	0.3	9.3	
Current liabilities															
Current financial liabilities	19	890.8	-	0.1	0.8	-	0.9	0.1%	650.1	-	5.2	0.5	-	5.7	0.9%
Current lease liabilities	22	24.5	-	0.0	1.3	0.1	1.4	5.9%	21.3	-	0.0	1.4	0.1	1.5	7.2%
Trade payables	34	2,637.2	-	12.9	18.6	23.4	54.9	2.1%	3,093.1	-	33.8	22.8	33.3	89.9	2.9%
Current tax liabilities	13	110.2	-	-	-	-	-	-	17.1	-	-	-	-	-	
Other current liabilities	36	1,866.8	-	0.3	6.3	0.6	7.2	0.4%	1,720.0	-	1.5	6.5	0.1	8.1	0.5%
Derivative financial instruments	29	457.6	-	-	-	-	-	-	1,347.6	-	-	-	-	-	
Total current liabilities		5,987.1	-	13.3	27.0	24.1	64.4	-	6,849.2	-	40.5	31.2	33.5	105.2	
TOTAL LIABILITIES		11,328.4	-	14.3	30.9	24.3	69.5	-	13,473.8	-	44.3	36.4	33.8	114.5	
TOTAL NET EQUITY AND LIABILITIES		15,080.0	-	14.3	30.9	24.3	69.5	-	17,118.5	-	44.3	36.4	33.8	114.5	

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

2.03.03 Cash flow statement as per Consob resolution 15519/2006

	31 Dec 23	of which related parties
Earnings before taxes	656.4	
Adjustments to reconcile net profit to the cashflow from operating activities		
Amortisation and impairment of assets	526.2	
Allocation to provisions	227.5	
Effects from valuation using the net equity method	(10.3)	
Financial (income) expenses	187.9	
(Capital gains) losses and other non-monetary elements	(8.4)	
Change in provision for risks and charges	(27.7)	
Change in provision for employee and post-employment benefits	(11.0)	
Total cash flow before changes in net working capital	1,540.6	
(Increase) decrease in inventories	395.1	
(Increase) decrease in trade receivables	(81.9)	24.0
Increase (decrease) in trade payables	(513.7)	(35.0)
Increase/decrease in other current assets/liabilities	429.7	0.4
Changes in working capital	229.2	
Dividends collected	15.1	8.8
Interest income and other financial income collected	77.8	2.2
Interest expenses, net charges on derivatives and other paid financial charges	(193.4)	(0.2)
Taxes paid	(96.6)	
Cash flow from operating activities (a)	1,572.7	
Investments in tangible assets	(242.7)	
Investments in intangible assets	(573.1)	
Investments in subsidiary companies and business units net of cash holdings	(76.2)	
Sale price of tangible and intangible assets	2.6	
(Increase) decrease in other investment activities	30.1	14.8
Cash flow from (for) investing activities (b)	(859.3)	
New issue of long-term bonds	614.9	
Repayments of non-current financial liabilities	(750.0)	
Repayments and other net changes in financial liabilities	(908.5)	(5.1)
Repayments of leasing liabilities	(22.4)	(1.4)
Acquisition of Interests in consolidated companies	(0.1)	
Increase minority shareholding	1.9	
Dividends paid out to Hera shareholders and non-controlling interests	(239.1)	(71.0)
Changes in treasury shares	(19.7)	
Cash flow from (for) financing activities (c)	(1,323.0)	
Increase (decrease) in cash holdings (a+b+c)	(609.6)	
Cash and cash equivalents at the beginning of the period	1,942.4	
Cash and cash equivalents at the end of the period	1,332.8	

2.03.04 Net financial debt pursuant to Consob notice DEM/6064293 of 2006

		31 Dec 23				31 Dec 22			
		A		B		C		D	
		A	B	C	D	A	B	C	D
A	Cash	1,332.8	-	-	-	1,942.4	-	-	-
B	Cash equivalents	-	-	-	-	-	-	-	-
C	Other current financial assets	90.9	-	7.0	3.7	1.3	77.7	-	9.2
D	Liquidity (A+B+C)	1,423.7					2,020.1		
	of which related parties	-	7.0	3.7	1.3		-	9.2	3.7
E	Current financial debt	(411.9)	-	(0.1)	(0.7)	-	(563.0)	-	(0.5)
F	Current portion of non-current financial debt	(524.1)	-	-	(1.4)	(0.1)	(108.4)	-	(5.2)
G	Current financial indebtedness (E+F)	(936.0)					(671.4)		
	of which related parties	-	(0.1)	(2.1)	(0.1)		-	(5.2)	(1.9)
H	Net current financial indebtedness (G+D)	487.7					1,348.7		
	of which related parties	-	6.9	1.6	1.2		-	4.0	1.8
I	Non-current financial debt	(1,087.0)	-	-	(3.9)	(0.2)	(2,553.0)	-	(5.2)
J	Debt instruments	(3,391.2)	-	-	-	-	(3,197.3)	-	-
K	Non-current trade and other payables	-	-	-	-	-	-	-	-
L	Non-current financial indebtedness (I+J+K)	(4,478.2)					(5,750.3)		
	of which related parties	-	-	(3.9)	(0.2)		-	-	(5.2)
M	Total financial indebtedness (H+L) ESMA guidelines 32 - 382 - 1138	(3,990.5)					(4,401.6)		
	of which related parties	-	6.9	(2.3)	1.0		-	4.0	(3.4)
	Non-current financial receivables	162.8					151.8		
	of which related parties	-	11.0	10.6	21.2		-	14.3	12.1
	Net financial debt	(3,827.7)					(4,249.8)		
	of which related parties	-	17.9	8.3	22.2		-	18.3	8.7
									26.3

2.03.05 List of related parties

The values reported in the table at 31 December 2023 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries -

Group B- Affiliated and jointly controlled companies

Adria Link Srl
Aimag Spa
ASM SET Srl
Aurora Srl
Enomondo Srl
H.E.P.T. Co. Ltd
Natura Srl in liquidation
Oikotheren Scarl in liquidation
SEA - Servizi Ecologici Ambientali Srl
Set Spa
Sgr Servizi Spa
Sinergie Italiane Srl in liquidation (ceased)
Tamarate Energia Srl
Tre Monti Srl

Group C - Related parties with significant 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
Ferrara Tua Spa
Ravenna Holding Spa
Rimini Holding Spa

Group D - Other related parties

Acosea Impianti Srl
Dragone Impianti Spa Acqeduct
Aloe Spa
Amir Spa - Asset
Aspes Spa
Calenia Energia Spa
Fiorano Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
Maranello Patrimonio Srl
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Serramazzoni Patrimonio Srl
Società Italiana Servizi Spa - Sis Spa asset

Te.Am Società Teramo Ambiente Srl
Team Srl - Assets
Unica Reti Spa - Asset

Statutory auditors, strategic managers, family members of strategic managers and entities linked to strategic managers

2.03.06 Explanatory notes to relations with related parties

Service management

In most of the areas it serves and in almost all shareholding municipalities in 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, recovery and disposal). The electricity distribution service is carried out in the areas of Modena and Imola, and in the municipalities of Trieste and Gorizia. Other public utilities (including urban district heating, energy services and public lighting) are carried out in a free market regime or through specific agreements with the local authorities concerned. Through specific relations with the local authorities and/or local agencies, the Hera Group is also responsible for waste treatment and disposal services, not included in urban hygiene activities.

Water sector

The water services managed by the Hera Group are carried out in the areas served in the Emilia-Romagna, Veneto, Friuli-Venezia Giulia and Marche regions. It is carried out on the basis of conventions with the relevant local agencies, with a variable duration, which is usually twenty years.

The Hera Group's mandate for managing integrated water services refers to activities of water collection and drinking water treatment and distribution for civil and industrial applications as well as sewerage and sewage treatment. The agreements signed with the local area authorities also require the operator to carry out the planning and construction of new networks and plants aimed at providing the service. The conventions regulate the economic aspects of the contractual agreement, as well as the modes of managing the service, and the performance and quality standards.

Responsibility for tariff matters is delegated to the national Authority ARERA; the current 2020-2023 regulatory system is the third tariff period.

Regulations for the 2020-2023 period are in continuity with the previous 2016-2019 period, with the introduction of some new elements such as the incentivisation of energy and environmental sustainability actions, as well as contractual and technical quality standard levels. Each operator is granted a revenue (VRG) independently of the trends in volumes distributed, which is established on the basis of operating costs (efficient and exogenous) and capital costs in relation to the investments made, as well as, for the Rimini area, the outcome of the tender procedure that led to the new concession contract signed for the period 2022 -2039.

For the purpose of carrying out the service, the operator uses networks, facilities and other equipment owned by the company itself, municipalities and asset companies. These assets, part of the inaccessible water stores, or granted or leased to the provider, must be returned to the municipalities, asset companies or local area authorities at the end of the concession to be made available to the incoming provider. Any work carried out by the Hera Group for the water service must be returned to the above mentioned entities following payment or the residual value of the assets in question.

Hera's relations with users are regulated by provisioning regulations as well as Service Charters drafted on the basis of templates approved by local area authorities in compliance with provisions set out by ARERA regarding the quality of the service and the resource.

Waste management sector

The municipal waste service managed by the Hera Group in the area it serves is provided on the basis of agreements with local authorities and comprises the exclusive management of the collection, transportation, sweeping and cleaning of streets, preparations for waste recovery or disposal and other minor services. The agreements entered into with the relevant local 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. Starting from 2020, responsibility for the regulation of the municipal waste service was given to ARERA, which defined an initial regulatory two-year period 2020-2021 concerning integrated waste management only (ARERA Resolution 443/2019) and a subsequent update for the period 2022-2025 starting from which the fees for access to treatment plants qualified as minimum plants by the regional authority was also regulated (ARERA Resolution 363/2021). Therefore, the annual fee for the management of this service was determined with reference to the aforementioned national regulation, taking into account, to supplement the results, the competitive procedures concluded for the recently assigned areas (Ravenna and Cesena, Bologna, Modena and Saccolongo).

Following the recent rulings of the State Council on administrative disputes concerning minimum plants, the beginning of national regulation for this type of plant was postponed from 2022 to 2024 (ARERA Resolution 7/2024). For 2022-2023, the tariff assumptions already made by the local authorities, as included in the economic and financial plans, were confirmed.

The municipal waste management service is billed by the Hera Group to the individual municipalities in the case of the Tari regime or to the individual users in the case of the application of the punctual correspondent tariff.

In order to operate municipal waste treatment plants, the Hera Group is required to obtain provincial authorisations.

In accordance with the principle of continuity in public services, pursuant to the existing agreements, operators are required to continue providing the service even in those areas where the concession has already expired, until the start of the new assignments.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (so-called Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market. Inrete Distribution Energy Spa, an Hera Group company that took over natural gas and electricity distribution from Hera Spa, takes advantage of longer residual terms established for operators that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions issued by the agency in charge of this sector (Arera).

The area in which Inrete Distribuzione Energia Spa provides gas distribution services is divided into rate zones in which a uniform distribution rate is applied to different categories of customers. The tariff regulations in force at the time these annual financial statements were approved are ARERA resolution 736/2022/R/gas of 29 December 2022 (update of tariffs for gas distribution and metering services, for 2023), which replaced the 620/2021/R/gas of 28 December 2021 and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2023.

The tariff rates valid as from 1 January 2023 are shown in Table 1 attached to the aforementioned resolution. The tariffs for the 2023 financial year are part of the so-called 2020-2025 tariff period. As of 1 January 2020, in fact, the Regulation of gas distribution and metering service tariffs for the period 2020-2025 (Rtdg 2020-2025), approved by resolution 570/2019/R/gas and updated by resolution 737/2022/R/gas, came into force.

Pursuant to Article 43 of the RTDG 2020-2025, the mandatory natural gas distribution and metering tariffs are broken down into different rate areas:

- northwest area, which includes the regions of Valle d'Aosta, Piedmont and Liguria;
- northeast area, including the regions of Lombardy, Trentino - Alto Adige, Veneto, Friuli - Venezia Giulia, and Emilia - Romagna;
- central area, comprising the regions of Tuscany, Umbria and the Marche;
- central-south-eastern area, including the regions of Abruzzo, Molise, Apulia and Basilicata;
- central-southwestern area, including the Lazio and Campania regions;
- southern area, including the regions of Calabria and Sicily;
- Sardinia area, including the region of Sardinia.

The value of the tariff components GS, RE, RS and UG1 referred to in paragraph 42.3, sections c), d), e), f) of the Rtdg 2020-2025 is subject to quarterly updating.

For 2023, as of 1 January 2023, the values already valid in Q4 2021 were confirmed - resolution 735/2022/R/com and Table 8 attached thereto and Table 7 attached to resolution 396/2021/R/com; as of 1 April 2023, these values were amended in accordance with resolution 134/2023/R/com; as of 1 July 2023, Resolution 297/2023/R/com was applied and as of 1 October, resolution 429/2023/R/com came into force.

Beginning on 1 October 2021, the values are those of Table 7 attached to resolution 396/2021/R/com.

With regard to electricity, the contracts (lasting thirty years and renewable pursuant to the current regulations) govern power distribution activities comprising, *inter alia*, the management of distribution networks and the operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development projects, and metering. The contract may be suspended or terminated, on the judgement of the national Authority, if defaults and violations occur on the part of the concessionary company that seriously affect the performance of the distribution and metering of electricity. The distribution company is obliged to apply to its customers (so called Distribution Users) the rates set by current regulations and resolutions adopted by the sector Authority. The rate regulations in effect at the time the annual financial statements were approved is that of the Authority's resolution 654/2015/R/Eel of 23 December 2015 (Rate regulations for electricity transmission, distribution and metering, for the regulatory period 2016-2023), which replaced the previous Authority resolution Arg/elt no. 199/2011 and subsequent amendments and additions (Official directives for the provision of electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions on economic conditions for the provision of connection services), in force until 31 December 2015. With this resolution, the Authority issued the provisions on the tariff regulation of electricity transmission, distribution and measurement services for the 2016-2023 regulatory period, defining an eight-year regulatory period made up of two four-year semi-periods, also providing for an intra-period update between the first and second semi-periods.

The mandatory rate for distribution services covers the costs of transporting electricity along distribution networks. It is applied to all end customers, with the exception of low-voltage household customers. The rate has a trinomial structure and is expressed in hundredths of a euro per sampling point per year (fixed component), euro cents per KW per year (power component) and euro cents per kWh consumed (energy component).

The compulsory tariff for the distribution service is periodically updated by the national Authority Arera by means of an appropriate provision, therefore, on 27 December 2019, resolution 568/2019/R/Eel was issued, approving the tariff regulation of electricity transmission, distribution and measurement services for the 2020-2023 regulatory semi-period.

For household customers in 2023, the update of tariffs for the delivery of electricity transmission, distribution and metering services has been established by resolution 721/2022/R/eel of 27 December 2022.

For non-household customers, the tariff update for 2023 for the distribution and metering services as well as the economic conditions for the provision of the connection service was established by resolution 720/2022/R/eel of 27 December 2022.

2.04 SHAREHOLDINGS

2.04.01 List of consolidated companies

Subsidiaries

Registered name	Registered office	Share capital (euro) (*)	Consolidated percentage		Total interest
			direct	indirect	
A.C.R. di Reggiani Albertino Spa	Mirandola (MO)	390,000		60.00%	60.00%
Acantho Spa	Imola (BO)	23,573,079	70.16%		70.16%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sas	La Wantzenau (France)	1,025,000		75.00%	75.00%
Aliplast Iberia Slu	Calle Castilla -Leon (Spain)	815,000		75.00%	75.00%
Aliplast Polska Spzoo	Zgierz (Poland)	1,200,000 PLN		75.00%	75.00%
Aresenergy Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
AresGas Ead	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
Ares Trading Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
Asa Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Atlas Utilities Ead	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
Biorg Srl	Bologna	10,000,000		75.00%	75.00%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		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%
F.Ili Franchini Srl	Rimini	1,100,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	100,000		75.00%	75.00%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Green Factory Srl	Pesaro	500,000		46.70%	46.70%
Herambiente Spa	Bologna	271,648,000	75.00%		75.00%
Herambiente Servizi Industriali Srl	Bologna	5,000,000		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		100.00%	100.00%
Hera Luce Srl	Cesena	1,000,000		100.00%	100.00%
Hera Servizi Energia Spa	Udine	13,216,899		84.50%	84.50%
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%
Horowatt Srl	Cesena	50,000	50.00%		50.00%
Inrete Distribuzione Energia Spa	Bologna	10,091,815	100.00%		100.00%
Macero Maceratese Srl	Macerata (MC)	1,032,912		46.70%	46.70%
Marche Multiservizi Spa	Pesaro	16,388,535	46.70%		46.70%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		46.70%	46.70%
Primagas Ad	Varna (Bulgaria)	1,149,860 Lev		97.34%	97.34%

Recycla Spa	Maniago (PN)	90,000	75.00%	75.00%
Tiepolo Srl	Bologna	1,305,000	100.00%	100.00%
Tri-Generazione Scarl	Padua	100,000	71.83%	71.83%
Uniflotte Srl	Bologna	2,254,177	97.00%	97.00%
Vallortigara Servizi Ambientali Spa	Torrebelvicino (VI)	330,000	75.00%	75.00%
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%
Hera Spa	Bologna	50,000		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 Servizi Energetici e Tecnologici-ASM SET Srl	Rovigo	200,000		49.00%	49.00%
SEA - Servizi Ecologici Ambientali Srl	Camerata Picena (AN)	100,000		23.25%	23.25%
Set Spa	Milan	120,000	39.00%		39.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

*The share capital of these companies consists of 67,577,681 euro of ordinary shares and 10,450,000 euro of related shares.

2.04.02 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.

thousand euro	A.C.R. Spa	Acantho Spa	AcegasApsAmga Spa*	Aliplast Spa	Aliplast France Recyclage Sas
ASSETS					
Fixed assets	33,932	81,259	1,109,019	71,396	3,282
Circulating assets	96,874	36,059	195,482	70,507	2,610
Total assets	130,805	117,318	1,304,501	141,903	5,892
LIABILITIES					
Share capital	390	27,094	284,677	5,000	1,025
Reserves	37,963	13,750	274,643	34,236	903
Net profit / (loss)	12,420	6,601	24,769	10,118	404
Provisions	124	117	34,070	698	-
Severance pay provision	619	1,217	10,363	613	-
Payables	79,289	68,539	675,979	91,238	3,560
Total liabilities	130,805	117,318	1,304,501	141,903	5,892
INCOME STATEMENT					
Production value	159,838	91,383	399,176	155,147	6,684
Production costs	(142,485)	(80,693)	(368,529)	(141,024)	(6,103)
Financial income / (expenses)	(510)	(962)	(977)	(1,563)	(44)
Extraordinary income / (expenses)	-	-	-	-	-
Taxes for the year	(4,422)	(3,127)	(4,901)	(2,442)	(133)
Net profit / (loss)	12,420	6,601	24,769	10,118	404

thousand euro	Aliplast Iberia Slu	Aliplast Polska Spzoo	Ares Trading Eood	Aresenergy Eood	AresGas Ead
ASSETS					
Fixed assets	694	321	-	8	83,687
Circulating assets	944	1,472	726	637	5,155
Total assets	1,638	1,793	726	645	88,842
LIABILITIES					
Share capital	815	277	26	26	11,541
Reserves	176	924	457	(152)	18,076
Net profit / (loss)	86	173	180	60	1,465
Provisions	-	-	-	-	265
Severance pay provision	-	-	-	-	25
Payables	561	419	63	711	57,470
Total liabilities	1,638	1,793	726	645	88,842
INCOME STATEMENT					
Production value	2,397	4,900	1,642	1,912	46,375
Production costs	(2,282)	(4,677)	(1,437)	(1,836)	(43,256)
Financial income / (expenses)	-	(5)	(5)	(16)	(1,503)
Extraordinary income / (expenses)	-	-	-	-	-
Taxes for the year	(29)	(45)	(20)	-	(151)
Net profit / (loss)	86	173	180	60	1,465
thousand euro	Asa Scpa	Atlas Utilities Ead	Biorg Srl	Black Sea Gas Company Eood	EstEnergy SpA*
ASSETS					
Fixed assets	2,734	-	30,944	1,255	513,087
Circulating assets	16,366	37	3,862	4,656	325,002
Total assets	19,100	37	34,806	5,911	838,089
LIABILITIES					
Share capital	1,820	26	10,000	3	299,926
Reserves	622	(2,388)	(1,433)	4,152	205,374
Net profit / (loss)	-	2,399	(2,938)	662	11,323
Provisions	15,382	-	363	-	6,532
Severance pay provision	97	-	34	-	2,107
Payables	1,179	-	28,780	1,094	312,827
Total liabilities	19,100	37	34,806	5,911	838,089
INCOME STATEMENT					
Production value	5,537	8	5,481	5,450	1,139,635
Production costs	(5,828)	(10)	(8,585)	(4,693)	(1,114,772)
Financial income / (expenses)	305	2,401	(709)	(23)	(7,077)
Extraordinary income / (expenses)	-	-	-	-	-
Taxes for the year	(14)	-	875	(72)	(6,463)
Net profit / (loss)	-	2,399	(2,938)	662	11,323

thousand euro	Etra Energia Srl*	F.lli Franchini Srl	Feronia Srl	Frullo Energia Ambiente Srl*	Green Factory Srl
ASSETS					
Fixed assets	154	318	9,574	45,788	3,876
Circulating assets	4,506	35,730	3,218	33,104	383
Total assets	4,660	36,047	12,792	78,891	4,259
LIABILITIES					
Share capital	100	1,100	100	17,139	500
Reserves	1,570	1,205	2,648	29,953	(55)
Net profit / (loss)	663	1,673	(601)	16,410	(8)
Provisions	-	108	4,141	3,110	-
Severance pay provision	58	333	-	1,500	-
Payables	2,269	31,629	6,504	10,779	3,822
Total liabilities	4,660	36,047	12,792	78,891	4,259
INCOME STATEMENT					
Production value	10,518	22,627	386	44,935	4
Production costs	(9,567)	(20,232)	(1,206)	(22,639)	(12)
Financial income / (expenses)	(33)	(87)	(9)	116	-
Extraordinary income / (expenses)	-	-	-	-	-
Taxes for the year	(255)	(635)	228	(6,001)	-
Net profit / (loss)	663	1,673	(601)	16,410	(8)
thousand euro	Hera Comm Marche Srl*	Hera Comm Spa*	Hera Luce Srl*	Hera Servizi Energia Spa	Hera Trading Srl*
ASSETS					
Fixed assets	16,586	208,512	131,789	122,161	114
Circulating assets	17,938	2,168,888	59,471	1,614,454	1,984,453
Total assets	34,525	2,377,400	191,260	1,736,615	1,984,568
LIABILITIES					
Share capital	1,977	53,596	1,000	13,217	22,600
Reserves	6,760	272,086	60,772	75,407	65,397
Net profit / (loss)	5,396	127,814	9,644	2,195	118,300
Provisions	-	17,599	1,112	24,016	-
Severance pay provision	661	3,566	647	1,752	689
Payables	19,729	1,902,739	118,085	1,620,028	1,777,581
Total liabilities	34,525	2,377,400	191,260	1,736,615	1,984,568
INCOME STATEMENT					
Production value	106,404	5,794,258	96,426	1,070,626	9,802,633
Production costs	(97,937)	(5,647,725)	(88,668)	(985,124)	(9,641,366)
Financial income / (expenses)	(1,106)	23,255	2,526	(81,910)	4,195
Extraordinary income / (expenses)	-	-	-	-	-
Taxes for the year	(1,965)	(41,974)	(640)	(1,397)	(47,162)
Net profit / (loss)	5,396	127,814	9,644	2,195	118,300

thousand euro	Herambiente Servizi Industriali Srl*	Herambiente Spa*	Heratech Srl*	HestAmbiente Srl*	Horowatt Srl
ASSETS					
Fixed assets	229,466	1,029,349	72	101,989	7
Circulating assets	59,856	498,890	72,036	33,282	47
Total assets	289,321	1,528,239	72,108	135,271	54
LIABILITIES					
Share capital	5,000	271,600	1,981	1,010	50
Reserves	20,223	92,789	6,448	25,497	
Net profit / (loss)	23,416	73,234	(5,115)	21,570	(9)
Provisions	4,673	177,008	383	6,159	
Severance pay provision	2,460	5,983	3,759	481	
Payables	233,549	907,625	64,651	80,554	13
Total liabilities	289,321	1,528,239	72,108	135,271	54
INCOME STATEMENT					
Production value	159,655	556,294	137,834	92,398	-
Production costs	(159,857)	(506,213)	(144,043)	(60,907)	(9)
Financial income/ (expenses)	6,017	33,299	(609)	(1,977)	-
Extraordinary income/ (expenses)	16,146	-	-	-	-
Taxes for the year	1,455	(10,146)	1,704	(7,944)	-
Net profit / (loss)	23,416	73,234	(5,115)	21,570	(9)

Thousand euro	Inrete Distribuzione Energia Spa	Macero Maceratese Srl	Marche Multiservizi Spa	Marche Multiservizi Falconara Srl	Primagas Ad
ASSETS					
Fixed assets	1,387,510	5,820	267,087	2,668	2,717
Circulating assets	210,113	7,892	74,113	2,637	361
Total assets	1,597,624	13,712	341,200	5,305	3,078
LIABILITIES					
Share capital	9,901	1,033	16,389	100	588
Reserves	563,983	5,815	112,706	695	800
Net profit / (loss)	34,117	811	12,066	267	349
Provisions	137,235	232	36,602	206	35
Severance pay provision	7,732	507	4,880	711	-
Payables	844,655	5,313	158,558	3,326	1,306
Total liabilities	1,597,624	13,712	341,200	5,305	3,078
INCOME STATEMENT					
Production value	393,937	16,350	139,621	8,386	4,329
Production costs	(329,353)	(15,193)	(121,986)	(7,978)	(3,914)
Financial income / (expenses)	(18,588)	(43)	(1,505)	(25)	8
Extraordinary income / (expenses)	-	-	-	-	(31)
Taxes of the year	(11,879)	(302)	(4,064)	(116)	(43)
Net profit / (loss)	34,117	811	12,066	267	349

thousand euro	Recycla SpA	Tiepolo Srl	Tri-Generazione Scarl*	Uniflotte Srl*	Vallortigara Servizi Ambientali SpA
ASSETS					
Fixed assets	15,397	600	-	141,271	13,847
Circulating assets	7,022	1,986	657	32,927	14,137
Total assets	22,419	2,586	657	174,198	27,984
LIABILITIES					
Share capital	90	1,305	100	2,254	330
Reserves	6,483	7	289	28,014	13,592
Net profit / (loss)	3,153	(28)	-	5,066	2,256
Provisions	776	-	-	690	380
Severance pay provision	1,146	-	-	1,503	809
Payables	10,771	1,302	268	136,671	10,617
Total liabilities	22,419	2,586	657	174,198	27,984
INCOME STATEMENT					
Production value	23,716	1	810	113,337	27,680
Production costs	(19,363)	(42)	(815)	(103,772)	(24,675)
Financial income / (expenses)	(101)	-	5	(3,057)	(56)
Extraordinary income / (expenses)	-	-	-	-	-
Taxes for the year	(1,100)	13	-	(1,442)	(693)
Net profit / (loss)	3,153	(28)	-	5,066	2,256

thousand euro	Wolmann SpA
ASSETS	
Fixed assets	87
Circulating assets	12,185
Total assets	12,272
LIABILITIES	
Share capital	145
Reserves	443
Net profit / (loss)	611
Provisions	61
Severance pay provision	144
Payables	10,868
Total liabilities	12,272
INCOME STATEMENT	
Production value	22,180
Production costs	(20,250)
Financial income / (expenses)	(1,011)
Extraordinary income / (expenses)	-
Taxes for the year	(307)
Net profit / (loss)	611

*The company applies the international accounting standards, therefore the values stated comply with them.

Summary of key figures of the financial statements of joint ventures pursuant to Article 2429, last paragraph, of the Civil Code.

thousand euro	Enomondo Srl
ASSETS	
<hr/>	
Fixed assets	36,893
Circulating assets	24,894
Total assets	61,788
LIABILITIES	
<hr/>	
Share capital	14,000
Reserves	23,611
Net profit / (loss)	2,952
Provisions	229
Severance pay provision	28
Payables	20,969
Total liabilities	61,788
INCOME STATEMENT	
<hr/>	
Production value	29,614
Production costs	(25,378)
Financial income / (expenses)	(243)
Extraordinary income / (expenses)	(1.042)
Taxes for the year	(1.042)
Net profit / (loss)	2,952

Summary of key figures of the financial statements of associated companies pursuant to Article 2429, last paragraph, of the Civil code.

thousand euro	Aimag Spa	ASM SET Srl	SEA - Servizi Ecologici Ambientali Srl	Set Spa	Sgr Servizi Spa	Tamarete Energia Srl
ASSETS						
Fixed assets	389,816	154	13,307	100,246	1,378	46,727
Circulating assets	277,870	11,558	14,116	68,551	116,138	14,947
Total assets	667,686	11,712	27,423	168,797	117,516	61,674
LIABILITIES						
Share capital	78,028	200	100	120	5,982	3,600
Reserves	140,805	367	10,274	71,385	46,510	1,993
Net profit / (loss)	10,898	2,955	4,370	1,432	10,588	477
Provisions	33,532	2	1,406	-	227	4,110
Severance pay provision	3,446	297	548	308	1,595	
Payables	400,977	7,891	10,724	95,551	52,614	51,494
Total liabilities	667,686	11,712	27,423	168,797	117,516	61,674
INCOME STATEMENT						
Production value	559,638	33,282	19,102	134,107	172,682	18,984
Production costs	(542,130)	(29,120)	(12,843)	(131,219)	(158,100)	(16,410)
Financial income / (expenses)	(2,514)	(16)	212	(395)	257	(1,913)
Extraordinary income / (expenses)	425			(476)		
Taxes for the year	(4,521)	(1,191)	(2,102)	(584)	(4,250)	(185)
Net profit / (loss)	10,898	2,955	4,370	1,432	10,588	477

2.05 INFORMATION REQUIRED BY LAW 124 OF 4 AUGUST 2017 ART. 1 PARAGRAPHS 125-129 AND FOLLOWING AMENDMENTS

Law 124/2017, Art. 1, paragraphs 125-129 and following amendments established that companies must disclose in the explanatory notes to the financial statements the "subsidies, grants, benefits, contributions or aid, in cash or in kind, without consideration, remuneration or compensation" received from the Public Administration, above the threshold of 10,000 euro and on a cash basis.

The following table shows the cases present within the Group:

Operating grants

Issuing entity	Description	Amount received (euro)
National Emergency Fund	Contributions for the May 2023 flood in the Emilia-Romagna, Tuscany and Marche Regions	40,199,797
Atersir	Support for the circular economy and the reduction of urban waste production	1,003,923
Emilia Romagna Region	Interventions for continuity in the drinking water service	535,014
CNR-Institute of Photonics and Nanotechnologies	Initiatives to develop innovative sensors for gas network monitoring	104,062
European Commission - Capofila Snam Spa	Development of validated tests and requirements for instruments to measure mixtures of natural gas and hydrogen	88,705
Ministry of Education and Merit	Realisation of a prototype system for monitoring seismic risk in an urban environment (Clara Project)	84,936
Arpae Emilia-Romagna	Systematic surveillance system for Sars-CoV-2 in wastewater	82,705
European Commission - Capofila Sintef AS	Project on the impacts of H2 blending in non-metallic network materials	74,528
Municipality of Cesena	Fund for mobility management initiatives	72,254
Ministry of Culture - Friuli-Venezia Giulia Region	Reorganisation and inventorying of the AcegasApsAmga Spa Archives, at the Municipality of Muggia	49,300
Ministry of Infrastructures and Transport	Ordinary maintenance works on networks	45,251
Municipality of Bologna	Fund for mobility management initiatives	32,982
Alma Mater Studiorum University of Bologna	Design of the professional module GrEnFin - Greening energy market and finance	13,511

Plant investment grants

Issuing entity	Description	Amount received (euro)
Municipality of Ravenna	Realisation of the sewerage network at the dock of the Municipality of Ravenna	4,721,223
Emilia Romagna Region	Reinforcement of water and sewerage networks and waste collection	3,332,456
ATO - Bacino di Bacchiglione Council	NRRP funds for water networks	1,250,000
Pesaro optimal local authority	Mari 4 and 10 project	1,145,773
Single authority for water services - Friuli-Venezia Giulia Region	Servola (Trieste) purification plant - Regional funds	742,803
Cafc Spa	NRRP Smart Water Management Project	610,905
Cafc Spa	Aqueduct Masterplan (Trieste)	311,514
Ministry of Infrastructures and Transport	Water and sewer network upgrading works	237,252
Aps Holding Spa	Sir 3 line works Padua	95,388
Municipality of Pesaro	Interventions to upgrade gas networks	60,000
Single authority for water services - Friuli-Venezia Giulia Region	Zaule purifier – UV lamps	46,500
RAEE Coordination Centre	Interventions for the implementation of the WEEE system	33,927
Marche Region	Braccone purifier in Urbino	23,091
Cafc Spa	Network interconnection masterplan	13,856

2.06 OUTLINE OF ARTICLE 149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

thousand euro	2023
Services provided to certify the financial statements	1,200
Provision of other services for the issue of an attestation by the independent auditor company	468
Provision of other services by the independent auditor	63
Total	1,731

2.07 DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENT PURSUANT TO ART. 154-BIS OF LEGISLATIVE DECREE 58/98

1 – The undersigned Orazio Iacono, who holds the office of CEO, and Massimo Vai, acting as Manager responsible for preparing Hera Spa's corporate accounting documents, certify, taking into account the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998:

- the appropriateness with regard to the characteristics of the company and
- the effective application

of the administrative and accounting procedures used in preparing the consolidated financial statements for the financial year 2023.

2 - They additionally certify that:

2.1 - the consolidated financial statements:

- a. have been prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b. correspond to the results of the accounting books and records;
- c. give a true and fair view of the financial position, results of operations and cash flows of the issuer and the group of consolidated companies.

2.2 – The report on operations includes a reliable analysis of trends and results of operations, as well as the situation of the issuer and the group of consolidated companies, along with a description of the main risks and uncertainties to which they are exposed.

The Chief Executive Officer



Orazio Iacono

Bologna, 26 March 2024

The Manager responsible for preparing
the corporate accounting documents

Massimo Vai



2.08 REPORT BY THE INDEPENDENT AUDITOR



Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39
OF JANUARY 27TH, 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 S.p.A. and its subsidiaries (the "Group" or "Hera Group"), which comprise the statement of financial position as of December 31st, 2023, the income statement, statement of comprehensive income, statement of changes in net equity, cash flows statement for the year then ended, and explanatory notes to the consolidated financial statements, including material accounting policy information.

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, 2023, 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. 38/2005.

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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona
Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10328.220,00i.v.
Codice Fiscale/Registro delle Imprese di Milano/Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT03049560166
Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informatica completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

© Deloitte & Touche S.p.A.



Revenue recognition – revenue earned but not yet billed

Description of the key audit matter	<p>As disclosed in the explanatory notes to the consolidated financial statements in the paragraph addressing "<i>Accounting policies and consolidation principles - Revenue and cost recognition</i>", 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, 2023 amounted to Euro 885 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").</p> <p>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, 2023 in view of: <i>i</i>) the discretionary component inherent in the estimated nature of the accrual; <i>ii</i>) the materiality of its total amount; <i>iii</i>) the high number of the Group's users; <i>iv</i>) 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.</p>
Audit procedures performed	<p>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:</p> <ul style="list-style-type: none"> • 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 consumed quantities 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;

Deloitte.

3

- verification of the correct determination of the guaranteed revenue using the regulated reference tariff;
- 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	<p>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 explanatory notes to the consolidated financial statements addressing "<i>Accounting policies and consolidation principles - Derivative instruments</i>", 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.</p> <p>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 29 to the consolidated financial statements, the following are recognised in the consolidated financial statements for the year ended December 31st, 2023: i) in the statement of financial position, assets and liabilities arising from the measurement of derivatives of Euro 478 million and Euro 458 million, respectively, and cash flow hedge reserve recognized in equity for an amount of Euro 45 million; ii) in the income statement, net operating costs and net financial costs arising from the measurement of derivatives of Euro 19 million and Euro 15 million, respectively, as well as net operating income and net financial costs realised during the year with reference to derivatives of Euro 313 million and Euro 4 million, respectively.</p> <p>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, 2023.</p>
Audit procedures performed	<p>The audit procedures that we carried out on the recognition and measurement of derivatives, performed also through the involvement of specialists from our network, included, among others, the following:</p> <ul style="list-style-type: none"> • 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



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 instruments;
- 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. 38/2005 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.

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.

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.

Deloitte.

6

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, actions taken to eliminate threats or safeguards applied.

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 23rd, 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 on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of Hera S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements as of December 31st, 2023, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) no. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements as of December 31st, 2023 have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Due to certain technical limitations, some information contained in the explanatory notes to the consolidated financial statements, when extracted from XHTML format in an XBRL instance, may not be reproduced in the same way as the corresponding information displayed in the consolidated financial statements in XHTML format.



Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/2010 and art. 123-bis, paragraph 4, of Legislative Decree 58/1998

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, 2023, 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) no. 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, no. 4 of Legislative Decree 58/1998, with the consolidated financial statements of Hera Group as of December 31st, 2023 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, 2023 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/2010, 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 December 30th 2016, no. 254

The Directors of Hera S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree December 30th, 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree December 30th, 2016, no. 254, this statement is subject of a separate attestation issued by other auditor.

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Masetti
Partner

Bologna, Italy
April 5th, 2024

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Consolidated financial statements at 31 December 2023, approved by Hera Spa's Board of Directors on 26 March 2024.

Design: Koan multimedia

Subjects portrayed in the photos at the beginning of each chapter:

Introduction: Wastewater purification plant (IDAR), Bologna

Directors' report: Waste-to-energy plant, Ferrara

Consolidated financial statements: Biomethane and composting production plant, Spilamberto (Mo)

Responsibility for the editorial project:

Hera Spa Group Management for External Relations

Giuseppe Gagliano, Cecilia Bondioli, Elena Marchetti

Hera Spa Group Management for Administration, Finance and Control

Massimo Vai, Dario Farina, Matteo Capponcelli

Translation: SpeakEasyGroup.it

Hera supports the following associations or programmes for the promotion of sustainability and the circular economy:



Hera Spa

Registered office: Viale C. Berti Pichat 2/4 - 40127
Bologna tel.: +39.051.28.71.11 fax: +39.051.28.75.25

www.gruppohera.it

Share capital i.v. € 1.489.538.745,00
C.F. / Reg. Imp. 04245520376
Gruppo Iva "Gruppo Hera" P. IVA 03819031208