Consolidate half-year financial report

as at
30 June 2020

GRUPPO HERA

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Introduction

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 by 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;

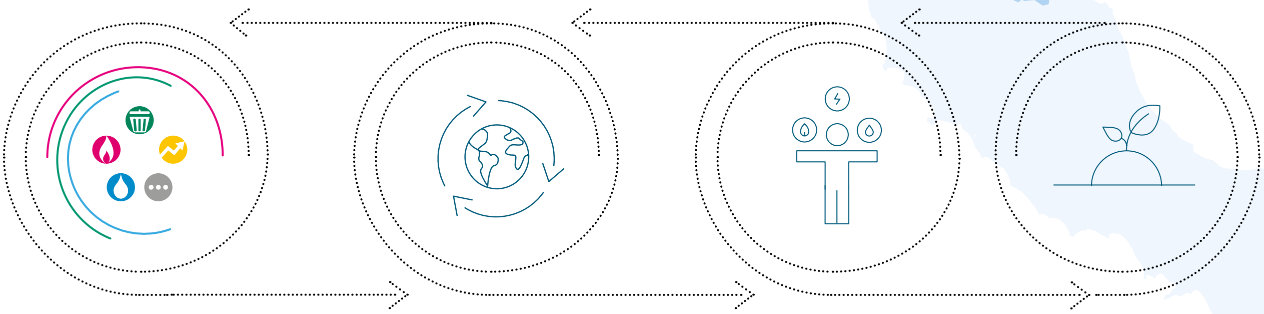
our employees, because the women and men who work for the company, with their skills, engagement and passion, are the foundation of its success;

our shareholders, confident that the economic value of the company will continue to be generated in full respect of the principles of social responsibility;

the local areas served, because economic, social and environmental wealth represents the promise of a sustainable future;

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

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, and that lays the foundations for a path of steady growth.

The Group is distinguished by its search for excellent management models that embody the principles of a **circular economy**, making the most of emerging technological innovations.

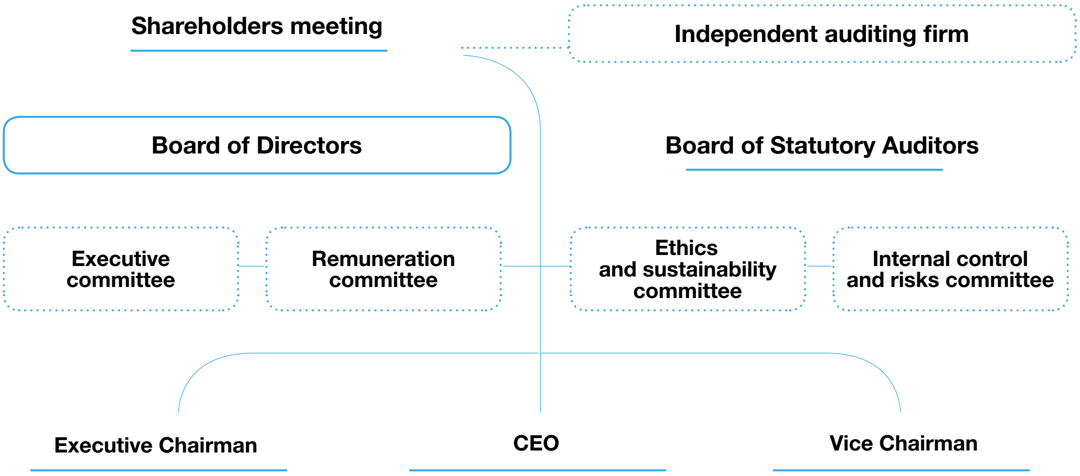
Effective long-term risk management is another characteristic of the Group’s strategy, as it is required to guarantee the **fundamental services** it provides to all, even in extreme or extraordinary circumstances.

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

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.

Governance system

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



Shareholders meeting

Board of Directors

Member	Office	Executive committee	Remuneration committee	Internal control and risks committee	Ethics and sustainability committee*
Tomaso Tommasi di Vignano	Executive Chairman	C			
Stefano Venier	CEO	M			
Gabriele Giacobazzi	Vice Chairman	M	C	C	
Fabio Bacchilega	Member		M		
Danilo Manfredi	Member				
Alessandro Melcarne	Member	M			
Lorenzo Minganti	Member			M	
Monica Mondardini	Member		M		
Erwin Paul Walter Rauhe	Member			M	
Manuela Cecilia Rescazzi	Member				
Paola Gina Maria Schwizer	Member			M	
Federica Seganti	Member				C
Bruno Tani	Member				
Alice Vatta	Member		M		M
Marina Vignola	Member				

Board of Statutory Auditors

Chairman: Myriam Amato
Standing auditors:
Antonio Gaiani
Marianna Girolomini

Independent auditing firm

Deloitte & Touche Spa

Key

C Chairman of the Committee

M Member of the Committee

* The other members of the Ethics and sustainability committee are Filippo Maria Bocchi and Cristiana Rogate

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Directors' Report

1.01
Trends and contexts

Hera makes ongoing efforts to interpret the signs coming from the contexts in which it operates, in an attempt to obtain an overall view of what lies ahead for the Group and its stakeholders. In order to anticipate future developments, and thus base its operations on an original business model, able to continually innovate and maintain its strong local roots and respect for the environment, the main elements indicating updates in the macro-trends of its reference contexts are identified below. The main drivers of change and the Group's strategic approach are illustrated in greater detail in the 2019 year-end financial report.

1.01.01 Macroeconomy and finance

Global economic and financial trends and projections

The early months of 2020 were strongly influenced by the Covid-19 health emergency. The epidemic, after an initial outbreak in China, rapidly spread across the world and caused serious effects on economic growth in all continents. The economic impact recorded in the early months of the year led the International Monetary Fund (IMF) to project a -4.9% decrease in global GDP for 2020, compared to 2019.
The world's advanced economies will be the ones worst hit by the economic crisis: the fall in GDP affecting the United States, the Euro Area and the United Kingdom is expected to reach somewhere between -8% and -10% on an annual basis. For developing economies, instead, the decrease should settle at around -3%.
To face this emergency, national and international institutions have deployed a range of expansionist measures, including reduced interest rates, public bond purchasing programs and instruments sustaining credit for businesses and consumers.

Focus on the Euro Area

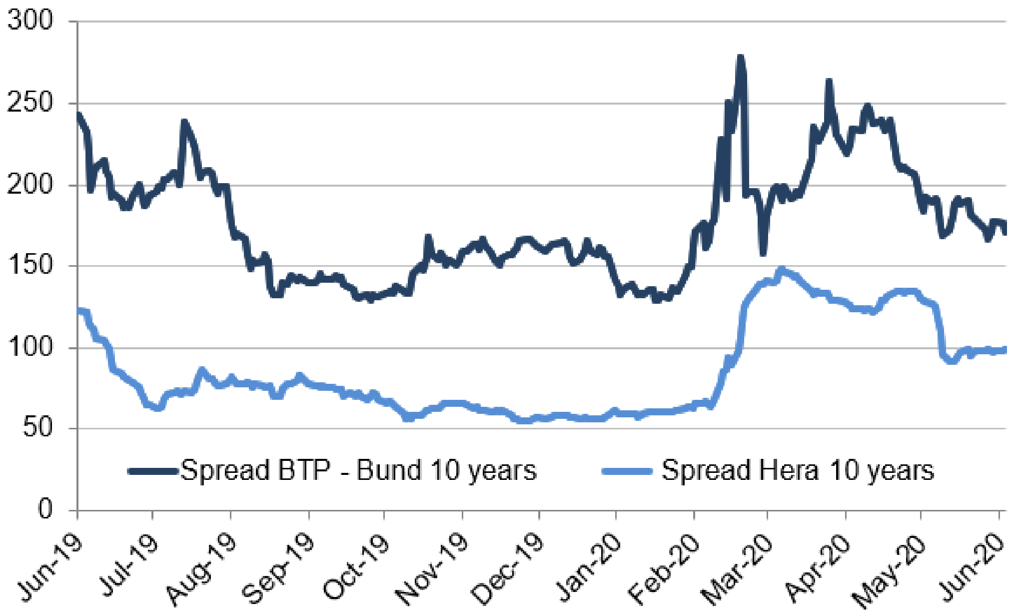
In the last quarter of 2019, the euro area showed slight growth (+0.1% over the previous quarter). This represents the initial condition impacted by the pandemic, which drove the IMF to lower its January estimates by 11 percentage points, projecting for 2020 a decrease in GDP coming to -10.2% compared to 2019. European institutions intervened in order to support the area's economy through efforts made by the European Central Bank and activated the general escape clause contained in the stability and growth pact, which allows for temporary deviation from medium-term goals in public finances. The effects on the real economy remain to be fully assessed, but these interventions immediately mitigated the reaction seen on financial markets which, in mid-March, had penalised the government bonds issued by peripheral European countries. In the latest statements made by members of the ECB, the risk of deflation in the European economy has once again become a central issue. In order to sustain the conditions for financing businesses and households, the ECB therefore intervened with various instruments in monetary policy, including the Pandemic Emergency Purchase Programme (PEPP) and the Public Sector Purchase Programme (PSPP). The latter represents an essential tool for influencing economic activity and inflation, since it is aimed at reducing interest rates and thus supporting the real economy. The governing council furthermore decided to increase the amount of PEPP available for bond purchases and to extend is duration until at least the end of June 2021, confirming its intention to reach the target levels in inflation. The ECB furthermore introduced the Eurosystem repo facility for central banks (EUREP), which makes it possible to lend liquidity to central banks against collateral consisting of euro-denominated debt securities issued by euro area governments and supranational institutions. The EUREP can now be counted alongside the swap and repo lines previously existing between the ECB and central banks outside the euro area and will remain active until the end of June 2021.

The current situation and the nation's economic prospects

In Italy, the last quarter of 2019 saw signs of economic stagnation (-0.3% compared to the previous quarter) owing to the negative trend in internal demand and a strong reduction in reserves. In the early months of 2020, industrial production and the volume of exports showed positive trends, later nullified by the health emergency, the ensuing measures in social distancing and the stall in economic activity. Until then, employment, thanks to the extraordinary measures introduced to sustain it, had only partially felt the effects of the economic situation, with a loss of almost 400 thousand jobs, equivalent to -1 percentage point in the employment rate at the beginning of the lockdown. The confidence shown by consumers and businesses recorded a sharp drop, more significant in the services and retail sectors due to the complications in the national and international economic situation seen at the end of the lockdown. For households, worsening conditions in the economic conditions of families is the strongest concern, and the expected postponements in purchasing durable goods will have repercussions on internal demand and prices.
In the early months of 2020, a constantly negative trend was recorded in inflation, which dropped below zero in the month of May. The collapse in the price of energy goods played a fundamental role in this trend, only partially offset by an increase in the price of food, treatment, housing and personal goods.

The IMF has forecast a strong decrease in Italy's GDP for 2020 (-12.8%), but these estimates are highly volatile by way of the exceptional context currently seen. The Bank of Italy has recently released more optimistic predictions, with a per un fall in GDP of up to -9.5%, based on improvements in the manufacturing index and the level of confidence seen in the country. These estimates are based on the possibility that a second lockdown will not be required in the second half of the year.
Recovery will be linked to various factors, including businesses' ability to stay on the market and conserve employment, along with an upturn in household consumption. In this context, the expansive measures introduced both nationally and at European level will be fundamental in creating a path of growth for our country, on which to base economic development in upcoming years.

On financial markets, the interest rate curve remained negative, concerning long-term maturities (10 to 12 years) as well. The ECB expects these rates to stay at their current level or to drop, until prospects for inflation reach a level that is sufficiently close to 2%, even without reaching this level.
The 10-year Btp-Bund spread, taken as a benchmark to measure the cost of new long-term funding, increased sharply in March, owing to the Covid-19 health emergency, but settled in late June at under 200 bps, thanks to the ECB's interventions. Hera's 10-year spread, thanks to the consolidated trust shown by investors and the Group's positive credit rating, after reaching a high of 148 bps in March, remained roughly 70 bps lower than the Btp-Bund spread for the same period of time.



1.01.02 Businesses, Environment, Regulation, Human Capital and Technology

Energy sector and waste: prices and consumption

Energy prices reflected the economic fragility and unfavourable weather conditions, which led to a drop in consumption. In the first half of 2020, the day-ahead energy market (MGP) saw prices fall by 42% compared to the same period in 2019. According to the data analysed by the company responsible for the national transmission grid (Terna), in the first six months of the year electricity consumption showed, as mentioned above, a sharp decrease compared ot the same period in the previous year (-9.0%), going from 157.5 TWh to 143.4 TWh. During the same period, 91.3% of the demand was met by national production, which fell compared to the same period in 2019 to 130.9 TWh, while imports amounted to 12.5 TWh.
In the first six months of 2020, net national generation from renewable sources came to 38.3% of total generation, with overall volume amounting to 50.2 TWh, higher than the 48 TWh generated during the same period in 2019. The amount of consumption satisfied by renewables came to 35.0%, increasing over the 30.5% seen in 2019. Wind power dropped by 0.7 TWh, but was more than offset by a increase in photovoltaic production and a 1.8 TWh rise in hydroelectric production. Lastly, a significant decrease was seen in thermoelectric production, coming to 10.7 TWh.

The price index for natural gas at the Dutch hub (TTF), considered as representing European short-term spot markets, showed a 51% decrease in the first half of 2020, compared to the same period in 2019. The information provided by the company managing the national gas pipeline network (Snam Rete Gas) for the same half-year furthermore indicates a 10.8% drop in natural gas consumption compared to the same period one year earlier, going from 39.9 billion m^3 to 35.6 billion m^3. The most significant reductions in consumption, in absolute terms, were seen in household consumption, which settled at 17.4 billion m^3, down -9.3% compared to the previous half-year, and electricity generation, whose volumes came to 10.9 billion m^3, with a 12% reduction. The drop in industrial consumption, lastly, amounted to 12.7%. As regards the amount injected into the network over the half-year, 94.0% of the demand was met by gas imports, 5.5% by national production and the remainder by drawing on national reserves.

As regards the waste management business in the areas served by the Group, the measures that introduced restrictions on personal movement and saw many small businesses and large companies close created a significant decrease in waste production, currently estimated at roughly 20% for municipal waste and 40%, varying according to the geographic area, for special waste. This situation led to increased plant availability nationwide, and thus a drop in prices for treatment.
In the plastic waste recovery and recycling market, the months concerned by the lockdown saw a decrease in the demand for recycled plastic materials. Prices for the unused raw materials in question fell rapidly, owing to the sharp drop in the price of oil and the excess offer of raw material, leading prices for recycled products to decrease as well.

The environment and changes in the context of European policies: the Green Deal

As regards European policies in the energy context, the most significant new features are expected to appear in the European Green Deal, the strategy adopted by the European Commission to orient growth in the EU and define a path allowing climate neutrality to be met by 2050. The Green Deal is a fundamental element in European industrial strategy and economic recovery, and it will include numerous policy measures intended to make a transition to sustainability concrete.
In early 2020, the Commission presented its Climate law, which aims at setting more ambitious targets in reducing climate-changing emissions by 2030 (-50 / 55% compared to the figures recorded in 1990). It will also affect goals in energy efficiency and renewable source energy production. In this sense, the objectives defined in the 2019 Clean Energy Package will be revised upwards.
Within the Green Deal, the 2020 policies concerning the energy sector include the Smart Sector Integration Strategy. This initiative, in combination with a hydrogen development Strategy, presupposes a change in the community's approach to the energy system, with the objective of maximising the use of all renewable sources and making the most, where possible, of currently existing infrastructures.

An additional strategic component of the Green Deal is the new **Circular Economy Action Plan** (CEAP), presented in March 2020, which offers a renewed strategic framework for structuring circularity in the European Union's economic development.
The following initiatives included in the CEAP are particularly interesting:

- elaborating a strategic framework for sustainable production and consumption models, with legislation to apply the ecodesign and principles of circularity (product reuse and recyclability);
- sector initiatives (regulatory and economic tools) concerning the key value chains with high potential for improvement in circularity, including plastics, packaging and the textiles sector;
- bringing sorted waste systems into line across the European Union, considering the most effective combinations in collection models, technical and digital enablers, and economic tools;
- policies and economic measures to create an efficient internal market for recycled materials and ensure high-quality recycling, reducing exports of waste outside the European Union as much as possible.

The most relevant new national legislation

As regards national policies, in early 2020 the Ministry for economic development approved the definitive version of the Energy and Climate Integrated National Plan (Pniec), which defines goals for 2030 in terms of renewable energy production (30%), energy efficiency (-40% vs. 2007) and emission reduction (-40% vs. 1990). These figures will in all likelihood be revised in light of the new features of the Green Deal.

The process for implementing for the "Circular Economy Package" is reaching its conclusion, which implies a considerable restyling of legislation for waste. In particular, the innovative elements introduced include a new definition of municipal waste and ensuing changes in the concept of assimilation – no longer based on quantitative criteria – as well as a reform of the system of extended producer responsibility, with repercussions on the consortium system as well.

The National Program for Waste Management will also be introduced, creating a central manager to coordinate regional plans and flows of waste, complete the number of plants required by the country and allow new targets in recycling and municipal waste disposal to be reached.

As regards regulatory aspects, instead, the most significant for the Hera Group that emerged in the first six months of 2020 include:

- the legislative and regulatory measures adopted to face the Covid-19 emergency;
- the measures introduced by the 2020 Budget law and adopted in Arera's regulations;
- a redefinition of the steps involved in eliminating protected electricity contracts, adopted by the so-called Milleproroghe decree, with Arera's related proposals for "gradual protection services" intended for small businesses.

Covid-19 emergency: measures for energy services

In the context of the Covid-19 emergency, and the situation created by the nationwide lockdown in particular, Arera stepped in first with measures favouring end customers of the energy and water network services, introducing, for the period from 10 March to 3 May 2020, a temporary suspension of the procedures halting supply in case of arrears for all customers/final users and, for the period from 4 to 17 May 2020, only for household customers/users (resolution 60/2020/R/com and following amendments). In the energy chains, Arera then intervened with measures aimed at mitigating the effects on sellers following the reduced protection towards customers in arrears, due to the measures mentioned above. In particular, the Authority granted sellers the possibility of partially paying the invoices received from distributors with due dates in the months from April to June (within limits set at 70% and 80% respectively for electricity and gas) avoiding breach of contract procedures initiated by distributors (resolution 116/2020/R/com). Lastly, with resolution 248/2020/R/com, Arera established the procedures and terms under which sellers pay the balance, to distributors, of all economic items not paid on time.
With resolution 190/2020/R/eel, Arera, implementing the "Relaunch" legislative decree, provided for a reduction in electricity bills for non-household customers with low-voltage connections (small businesses, tradesmen, bars, restaurants, laboratories, independent contractors and services) with more than 3 kW of power, and temporarily redefined fees and unitary tariff components in order to reduce the expenses to be paid by these parties for services provided in the months of May, June and July 2020. This measure has no direct economic impact on distributors, in whose favour, with an upcoming resolution, Arera will also regulate the procedures for mitigating the financial effects of lower income.

Covid-19 emergency: measures for the integrated water service

As regards the integrated water service, resolution 235/2020/R/idr introduced a few waivers concerning current regulations on both tariffs and service quality, in order to safeguard operators' operating and financial balance. As regards regulating service quality, in particular, the objectives in technical and contract quality will be considered on an accumulative basis for the two-year period covering 2020 and 2021. In the area of tariffs, reducing the recognised financial charges for assets under construction applied to non-strategic works was postponed to 2022, maintaining the same coverage as the one foreseen for strategic works during the 2020 and 2021 tariff years. For 2020, furthermore, specific components were introduced to cover costs linked to the emergency, including costs related to deferments and instalment plans for payments granted during the period of emergency. As an effort towards higher tariffary sustainability for 2020, the government body in question may postpone to a year following 2020 (but in any case no later than 2023), recovery of the portion of the expenses eligible for the 2020 tariff recognition, with the correlated possibility of financial advances paid by the Equalization fund for energy and environmental services (Csea).

Covid-19 emergency: measures for the integrated waste service

Much like other regulated sectors, the integrated waste service also saw, owing in particular to tariff regulations (resolution 443/2019/R/rif), Arera introduce amendments and integrations intended to face the health emergency. In particular, the Authority introduced a series of levers aimed at guaranteeing social and economic sustainability for the tariff system, as part of ensuring continuity in waste management services. The delayed deadline for tariff procedures (previously set at 30 April), initially conceded by Arera, was later formalised by the government. The latter, with legislative decree no. 18/2020, so-called "Cure Italy" (converted into Law 24 April 2020, n. 27), postponed the deadline for defining tariffs and the Tari to 30 June 2020 (further postponed to 31 July by legislative decree no. 34/2020, so-called "Relaunch"), furthermore introducing, as a waiver, the possibility of approving, for 2020 as well, the tariffs or the Tari previously adopted for 2019. Arera, moreover, later introduced measures in tariff relief for all non-household final users penalised by the closure of their economic activity, providing for a different treatment of the variable portion for environmental services, in addition to further forms of protection for household users undergoing economic difficulty (resolution no. 158/2020/R/rif). With resolution no. 238/2020/R/rif, intended to ensure operating and financial balance for operators, Arera completed the framework of emergency regulations, introducing temporary modifications to the tariff method for waste, guaranteeing mechanisms covering operating and financial charges linked to the measures adopted to protect users, along with the possibility of anticipating the recognition of differential charges within 2020 tariffs, in order to face the emergency. Lastly, locally responsible bodies were given the power to request, from CSEA, a financial advance for the lower amount deriving from the application of facilitations for non-household users.

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

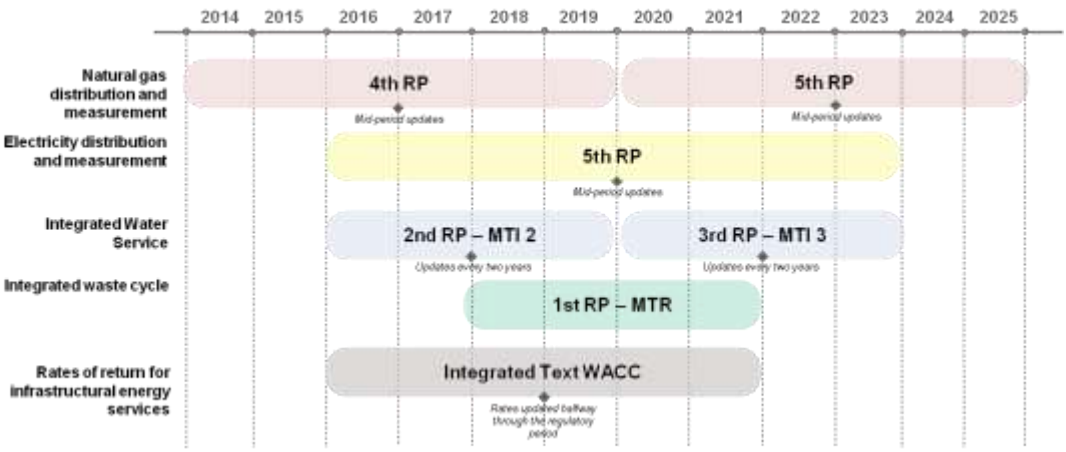
2020 Budget Law

The 2020 Budget Law (Law 27 December 2019, no.160) introduced a few significant measures for energy and water services. Firstly, exclusion from the two-year limitation for credits resulting from adjustments for consumption dating back more than two years in the event of ascertained responsibility of the customer in the failure to provide measurements has been removed. Arera later implemented this legal requirement in its regulations, with resolution 184/2020/R/com for the energy sectors and, with resolution 186/2020/R/idr, for the integrated water service, introducing at the same time specific formal requirements in favour of end users. Furthermore, an increase in advance notice for suspending supply due to arrears was introduced, set at 40 days after the end user receives the notice. This measure was implemented by Arera with resolution 219/2020/R/com for the energy sectors, where enhanced regulations were introduced in the Compensation system, in favour of operators, to contrast "energy tourism", and with resolution 221/2020/R/idr for the water sector, which calls for the effects of this measure to be monitored, in order to verify any need for further regulatory interventions with a view to guaranteeing operating and financial balance for operators. Law no. 160/2019, lastly, called for the introduction of specific penalties in favour of end users in the event of violations concerning the way in which consumption is recorded, balances are established or invoices are sent by sellers or managers.

Legislative decree "Milleproroghe" and Arera consultation document 220/2020: timing and procedures for eliminating protected electricity supply redefined

As far as the structure of the market for energy sales to end customers is concerned, the methods for eliminating protected prices, for the time being, have only been outlined for the electricity sector. With legislative decree 162/2019, so-called "Milleproroghe", converted with Law 8/2020, the timeline for eliminating "protected" electricity has been redefined, postponing this elimination until 1 January 2021 for small businesses and 1 January 2022 for household customers and micro-businesses. Arera intervened, based on this legislative framework, with consultation document 220/2020/R/eel, setting out its own orientations concerning the "gradual protection service", currently being introduced and intended for small businesses, i.e. the group of end customers, whose number comes to roughly 195 thousand, concerned by the first step in the elimination of the protected service. For the structure of the new service, an assignment period of three years has been proposed, with, starting from 1 January 2021, a maximum period of six months of continued management by the current operator with the protected service (provisional assignment), based on economic conditions applied to end customers which are essentially the same as the current ones, and a later "fully operational" assignment to an operator who will be defined through a specific tender procedure. As regards the procedure for assigning this service, operational requirements for participation in the tender have been proposed, in addition to others, defining a minimum amount of customers served coming to 50 thousand customers entitled to the protected service. With regard to the local areas involved in the assignment, two scenarios for nationwide customer distribution have been proposed, into ten and eight portions, the former based on territorial proximity and the latter based on equal levels of arrears. Finally, as regards the tender procedures, a Dutch auction system has been proposed with respect to a price based on a tender with two rounds.

A timeline of the main regulatory periods and the related measures defined by Arera for the sectors of the Group's activity is provided below.


2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
Natural gas distribution and measurement
4th RP
Mid-period updates
5th RP
Mid-period updates
Electricity distribution and measurement
5th RP
Mid-period updates
Integrated Water Service
2nd RP – MTI 2
Updates every two years
3rd RP – MTI 3
Updates every two years
Integrated waste cycle
1st RP – MTR
Rates of return for infrastructural energy services
Integrated Text WACC
Rates updated halfway through the regulatory period

The main factors involved in tariffs for each regulated activity, based on the legislative framework in force in 2020 and expected to last until the end of the current regulatory periods, are shown below
.

	Natural gas distribution and measurement	Electricity distribution and measurement	Integrated water service	Integrated waste cycle
Regulatory period	2014-2019 4th regulatory period (resolution 573/13) 2020-2025 5th regulatory period (resolution 570/19)	2016-2019 1st sub-period of the 5th regulatory period (resolution 654/15) 2020-2023 2st Second sub-period of the 5th regulatory period (resolution 568/19)	2016-2019 2nd regulatory period (resolution 664/15) 2020-2023 3rd regulatory period (resolution 580/19)	2018-2021 1st regulatory period (resolution 443/19) (1)
Regulatory governance	Single level (Arera)	Single level (Arera)	Double level (EGA, Arera)	Double level (Local authority, Arera)
Invested capital recognised for regulatory purposes (RAB)	Previous cost revised (distribution) Average between standard cost and actual cost (measurement) Parametric recognition (centralised capital)	Parametric recognition for assets until 2007 Previous cost revised for assets as of 2008	Previous cost revised	Previous cost revised
Regulatory lag for investment recognition	1 year	1 year	2 years	2 years
Return on invested capital (2) (real, pre-tax)	2019 6.3% Distribution 6.8% Measurement 2020-2021 6.3% Distribution and Measurement	2019-2021 5.9%	2018-2019 5.31% 2020-2021 5.24% +1% for investments as of 2012, covering the regulatory lag	2020-2021 6.3% +1% for investments as of 2018, covering the regulatory lag
Recognised operating costs	Average value of actual costs by company grouping (size/density), based on 2011 (for revenues until 2019) and 2018 (for revenues as of 2020) Sharing efficiencies achieved with respect to recognised costs Update with price-cap	Average value of actual costs by sector, based on 2014 (for revenues until 2019) and 2018 (for revenues as of 2020) Sharing efficiencies achieved with respect to recognised costs Update with price-cap	Efficiency-applicable costs: actual 2011 manager values adj. for inflation Updatable costs: actual value with 2-year lag Added charges for specific purposes (previsional)	Actual costs for managers with 2-year regulatory lag (beginning with 2020 tariffs on 2018 costs) Added costs for quality improvement and changes in manager's scope (previsional) Balances for 2018-2019 based on 2017 costs (gradual)
Annual efficiency factor for operating costs	Annual X-factor 2019: Distribution: 1.7% large businesses 2.5% medium businesses Measurement and marketing: 0% As of 2020: Distribution:	Annual X-factor 2019: Distribution: 1.9% Measurement: 1.3% As of 2020: Distribution: 1.3% Measurement: 0.7%	Efficiency-applicable mechanisms based on: Sharing manager's 2016 efficiencies Level of sharing differentiated for the distance between actual cost and manager's efficient cost	

	3.53% large businesses 4.79% medium businesses Measurement: 0% Marketing: 1.57%			
Incentive mechanisms		Sharing for net revenues deriving from transfer of fibre optics in electricity infrastructures	Sharing for costs of electricity based on energy savings achieved Recognition of 75% of margins from activities aimed at environmental and energy sustainability	Sharing for revenues deriving from sales of materials and energy (range 0.3-0.6) and CONAI incentives
Annual limit for tariff increases			Asymmetric, based on: investment requirements management economy changes in scope Possibility of motion guaranteeing operating and financial balance	Asymmetric, based on the presence of: changes in scope quality improvement (only for 2020) continuity and maintaining service quality following the Covid-19 emergency Possibility of motion guaranteeing operating and financial balance

(1) Resolution 443/19 is applied to operators in the integrated waste cycle, including treatment (disposal or recovery) activities only if they are included in the company's consolidated scope. A specific measure will instead be introduced for tariffary regulation of compensation for plants falling outside this scope. The effective date of this resolution, with validity beginning in the 2020 tariff year, will apply following the approval procedure foreseen in the resolution itself, except for the waivers provided for by legislative decree 18/2020 "Cura Italia", on which a comment is provided in the section with further details.

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

1.02
Areas of risk management and Covid-19 emergency

The organisational structure adopted by the Hera Group allows it to control the risk exposure involved in its various businesses while simultaneously ensuring that its management remains effective and profitable along the entire value chain. The Group has adopted the Enterprise risk management process, in order to provide the Board of Directors with all information required to assess the nature of the company's risks and define its risk profile, especially over the medium-long term. The risk profile is explicitly defined by the Board of Directors itself, which approves the Group's risk management policy and the risk limits defined within it.
The existing and emerging risks that Hera must face fall into various categories: risks deriving from changes in market, macroeconomic and financial, business (regulated and competitive) and technological contexts; risks linked to social and environmental sustainability and climate change; and risks related to human capital. For a precise definition of these risks and the management policies adopted by the Group, see the 2019 year-end financial report. Nevertheless, at present it is appropriate to illustrate the significant event consisting in the health emergency linked to the Covid-19 pandemic and its consequences.

Covid-19 emergency

The Group makes continuing efforts in proactively managing the current context of crisis, constantly updating its operating plans based on the way in which the situation evolves, ensuring that measures intended to support services and safety are respected and guaranteeing a constant flow of information to company personnel and stakeholders, in addition to implementing all containment activities aimed at reducing the economic impact of the crisis.

Worker protection – In March 2020, the Committee for application and control of the rules of the regulatory protocol was established, with the participation of company trade union representatives and worker health representatives. In the following weeks, the Group developed a single regulatory document, implementing the national Protocol signed by the social partner organisations in the presence of the government. This Group Protocol represents the set of prevention and protection measures adopted to stop the virus from spreading. This document was presented to the national trade unions and signed by the latter on 15 May 2020.
As regards the specific and locally defined features of its own productive context, the Group has established criteria for defining risk scenarios caused by the spread of the Covid-19 virus with an Enterprise Risk Management outlook. These criteria, along with the measures defined in the Group Protocol, were adopted by the Hera Group in drafting updates for its risk assessment document. The choice made, to have a single Group-level model for risk assessment and the definition of prevention and protection measures, allowed an integrated and synergic approach to be taken. After the elaboration of the protocol, the measures adopted and their implementation are periodically monitored.
In line with the indications provided by health authorities, and as a method for employee protection, a specific procedure was furthermore defined for managing workers with particularly fragile conditions, i.e. those currently or previously experiencing illnesses that make them vulnerable to particularly serious consequences in the event of infection. This procedure was developed with the collaboration of specialised physicians and full respect for privacy. The measures introduced by the Group as of the beginning of the pandemic led to a limited spread of the virus among employees, as is shown by the fact that the Hera Group's infection rate (number of cases per 1,000 people) is roughly 40% lower than the figure found among the overall population of Northern Italy. Furthermore, the numerous controls carried out by authorities in Group worksites have always led to encouraging results.
Lastly, note that since the emergency is still ongoing, both general protection measures and those specifically introduced by the Group are checked and monitored as to their efficiency and, where necessary, updated or integrated with new measures.

Suppliers and purchases – In order to prevent critical points from arising along the supply chain, the essential categories for the Group's activities have been identified, as have a few monitoring indicators. Suppliers are still invited to follow the same worker protection measures adopted by the Hera Group, and the requirements for gaining access to Hera facilities are still strict. To support small and medium enterprises with credits for supplies or services, and give these companies access to an additional source of financing, the Group is still willing to pay these credits, offering all support needed to complete the related factoring procedures.

Customers – Customers have been invited to give priority to digital channels, for meter readings as well. All help desks across the areas served have been reopened, ensuring full respect for current legislation concerning social distancing. Arera has adopted specific regulatory measures to protect users of electricity, gas and water services (for further details, see paragraph 1.01, "Trends and contexts"). The Group had in any case decided to act ahead of time, allowing all customers receiving unemployment benefits or income support, along with owners of businesses closed due to national or local restriction, to pay by instalments.

Potential impact on business, financial situation and operating performance – The Group, much like the entire utility sector, did not directly undergo an interruption of its activities during the lockdown, but was required to face a drop in consumption due to the crisis situation.
More specifically, a reduction was seen in demand for electricity and gas, above all in the industrial sector, due to the restrictions involved in the lockdown. Lower consumption was mainly located in Northern Italy, owing to its industrial and productive fabric, marked by an intensive use of energy. Alongside the fall in demand, a reduction was also seen in the price of electricity and gas. One must note that the drop in prices was not only caused by the economic impact of the restrictions introduced, which simply accentuated a downward trend linked to the appearance of new players and modifications in the mix of sources of generation.
With specific reference to the Group's operating area, a significant reduction concerned the volume of electricity sold in Northern Italy, which fell by roughly 11%. Furthermore, the slowdown in the construction sector brought about a reduction in the number of new connections and customer account services. As regards the waste management sector, a fall in volumes of both municipal and special waste was seen, once again as a consequence of the standstill in many productive and commercial activities. Form a financial point of view, bearing in mind that a positive trend is underway in cash generation, an increase in requests for instalment payments was seen along with a slight deterioration in punctuality in payments, above all in the business segment.
Faced with this crisis situation, the breakdown of the Group's business portfolio, made up of a balanced mix between free market and regulated activities, was an initial element that reduced the economic impact, given that regulated activities were not influenced over the short term by market phenomena linked to the pandemic. The Group's high degree of resilience, not only in terms of infrastructures but also operationally and organisationally, allowed it to maintain its tend of positive growth, containing the operating and financial impact of the crisis and only producing a slight deviation from its preset goals. The periodic process of revising the current year's budget, carried out in the month of July, updated the reference scenario and the ensuing impact on the Group's profits and financial situation in light of the ongoing crisis. In particular, in line with the content of the 2019 year-end financial report, Group Ebitda is expected to fall by roughly 2% compared to the previous projections of growth for 2020. As regards the Group's net financial position, instead, the previous assessments of the impact of the health emergency have been revised in a positive sense, since the figures are expected to remain consistent with those projected when the annual budget was drafted.
The Group has moreover proven able to grasp a series of opportunities in the context of this crisis, especially as regards the digital transformation of its services and processes. For example, a sharp increase has been seen in customers relations via Apps and web channels, and remote management of assets and internal processes has been enhanced.

Considerations as to financial reporting – The health emergency caused by Covid-19 represents a significant event pursuant to paragraph 15 of IAS 34. As noted above, however, the current and expected future impact on the Hera Group is considered to be marginal, and therefore a revision of the estimates in the financial statements has not been carried out. Based on the current situation and the information available today, moreover, impairment indicators requiring a calculation of the recoverable value of the assets recorded in the statements are not deemed to be present.
What follows represents the considerations made and the analyses carried out, also during the process of revising the current year's budget:

- impairment test – in order to measure the risk exposure for non-recovery of items subject to impairment tests, a sensitivity analysis has been developed for the operating margins of each business area, so as to identify the decrease in percentage at which the value of each Cgu would essentially correspond to the recoverable value. More specifically, only a reduction in Ebitda coming to over 12%, for all years covered by the business plan (that is, without expecting any recovery after 2020) would lead to an equivalence between the book value and the recoverable value of the assets, concerning moreover only one Cgu, the integrated water service;

- value of derivative instruments – the impact of the health emergency on financial and raw material markets have reduced the fair value of these instruments, with an ensuing impact on equity and the income statement. As regards derivative financial instruments on commodities designated in hedge accounting, future transactions are still considered highly probable. Note 20 of paragraph 2.02.04 "Commentary notes to the financial statement formats" contains a sensitivity analysis, in the event of a shock to the underlying variables;
- estimate of losses in credits – at present, no particular critical points can be detected concerning the flow and timing of credit recovery. The Group will closely monitor this situation, in order to evaluate whether to introduce changes in the parameters included in its prognostic approach, whose main features are described in the "Risk management" section of paragraph 2.02.01 "Accounting policies and evaluation principles".

1.03
Overview of operating and financial trends and definition of alternative performance measures

Operating APMs and investments

Operating APMs and investments (mn€)	June 20	June 19	Abs. change	% change
Revenues	**3,402.3**	**3,371.6**	**+30.7**	**+0.9%**
Ebitda	**559.7**	**545.9**	**+13.8**	**+2.5%**
Ebitda/revenues	16.5%	16.2%	+0.3 p.p.	
Ebit	**295.7**	**288.9**	**+6.8**	**+2.4%**
Ebit/revenues	8.7%	8.6%	+0.1 p.p.	
Net profit	**174.9**	**173.9**	**+1.0**	**+0.6%**
Net profit/revenues	5.1%	5.2%	-0.1 p.p.	
Net investments *	**240.6**	**207.0**	**+33.6**	**+16.2%**

* for the data used in calculating investments, see notes 14, 16, 17 and 18 of the explanatory notes and paragraph 1.03.03 of the directors' report.

Financial APMs

Financial APMs (mn€)	June 20	Dec 19	Abs. change	% change
Net non-current assets	6,893.2	6,846.3	+46.9	+0.7%
Net working capital	(172.3)	87.0	-259.3	-298.0%
Provisions	(638.7)	(649.1)	-10.4	-1.6%
Net invested capital	6,082.2	6,284.2	-202.0	-3.2%
Net debt	**(3,083.6)**	**(3,274.2)**	**-190.6**	**-5.8%**

Alternative performance measures (APMs)

The Hera Group uses alternative performance measures (APMs) to convey as effectively as possible information concerning trends in the profitability of the businesses in which it operates, as well as its equity and financial situation. In accordance with the guidelines published on 5 October 2015 by the European securities and markets authority (Esma/2015/1415) and in keeping with the provisions of Consob communication no. 92543 of 3 December 2015, the content of and the criteria used in defining the APMs used in this financial statement are explained below.

Ebitda is a measure of operating performance and is calculated as the sum of "Operating income" and "Depreciation, amortization and write-downs." This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the operating performance of the Group (as a whole, and within each business unit), also allowing for a comparison between operating profits of the reporting period with those of previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Ebit is a measure of operating performance and is calculated by subtracting operating costs from operating revenues. Among operating costs, special operating items, which if present are described in the detailed table at the end of this paragraph, are deducted from amortisations and provisions. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the operating performance of the Group (as a whole, and within each business unit), also allowing for a comparison between operating profits of the reporting period with those of previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

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

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

Ebitda to revenues, Ebit to revenues and Net profit to revenues are used as financial targets in internal documents (business plans) and external presentations (to analysts and investors), and measure the Group's operating performance through a proportion, expressed as a percentage, of Ebitda, Ebit and net income divided by the value of revenues.

Net investments are the sum of investments in tangible fixed assets, intangible assets and equity investments net of capital grants. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating spending capacity for the Group's investments in maintenance and development (as a whole and within each business unit), also allowing for a comparison with previous periods. This measure makes it possible to analyze trends.

Net fixed assets are calculated as the sum of: tangible fixed assets; intangible assets and goodwill; equity investments; deferred tax assets and liabilities. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating the Group's net assets as a whole, also allowing for a comparison with previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Net working capital is made up of the sum of: inventories; trade receivables and payables; current tax receivables and payables; other assets and other current liabilities; the current portion of assets and liabilities for financial derivatives on commodities. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating the Group's ability to generate cash flow through operating activities over a period of 12 months, in addition to comparisons with previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Provisions includes the sum of the items "employee severance indemnities and other benefits" and "provisions for risks and charges". This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the Group's ability to deal with possible future liabilities, also allowing for a comparison with previous periods. This indicator makes it possible to analyse trends and compare the efficiencies achieved in different periods.

Net invested capital is defined by calculating the sum of "net fixed assets", "net working capital" and "provisions". This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating all of the Group's current and non-current operating assets and liabilities, as specified above.

Net financial debt (at times referred to below as Net debt) is a measure of the company's financial structure determined in accordance with Consob communication 15519/2006, adding the value of non-current financial assets. This measure is therefore calculated by adding together the following items: current and non-current financial assets; cash and cash equivalents; current and non-current financial liabilities; current and non-current portions of assets and liabilities for derivative financial instruments on interest and exchange rates. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the Group's financial debt, also allowing for a comparison with prior periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Adjusted net financial debt (at times referred to below as Adjusted net debt) is a measure of the financial structure, calculated as net financial debt minus the portion of the fair value of the put option (held by Ascopiave) consisting in dividends to be paid in the future.

Sources of financing are obtained by adding "net financial debt" and "net equity". This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents the breakdown of sources of financing, distinguishing between the company's own equity and that of third parties. It is a measure of the Group's financial autonomy and solidity.

The Group uses additional operating-financial alternative performance measures, which however only apply to the year-end report, since they are typically related to operating results for the entire year. See the year-end report for a complete list of the measures adopted by the Group and their continuity with previous reporting periods.

1.03.01
Hera – Ascopiave Partnership

Following the agreement signed on 19 December 2019 with Ascopiave Spa, the Hera Group manages, through the newly established EstEnergy Group, over one million energy customers in the Veneto, Friuli-Venezia Giulia and Lombardy regions. Note that EstEnergy Spa, now controlled by the Hera Group, brings together the commercial activities carried out by both the Ascopiave Group (including subsidiaries Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa, Etra Energia Srl and the associated companies Asm Set and Sinergie Italiane Srl, in liquidation) and by the Hera Group through its subsidiary Hera Comm Nord-Est Srl.

Note that in the first half of 2020, within the overall framework of the Ascopiave Group partnership transaction, the Hera Group acquired, in a sequence of transactions agreed upon, shareholdings in Ascopiave Spa amounting to 4.9% of the share capital.

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

Impact on the Group's consolidated financial statement

Acquiring these energy sales activities was an important step in the evolution of the Group's activity portfolio, fully reflecting the lines of development set out in the business plan. Through this transaction, more specifically, the Group now manages roughly 3.3 million customers in energy sales activities.

The following table shows the operating contribution made by the newly established EstEnergy Group to the consolidated values of the Hera Group over the first half of the year:

Inocme statement	
Revenues	396.9
Other operating revenues	1.0
Raw material consumption	(201.3)
Service costs	(147.5)
Personnel costs	(7.6)
Other operating expenses	(0.5)
Amortisation, depreciation and provisions	(12.1)
Operating profit	**28.9**
Financial operations	0.9
Pre-tax profit	**29.8**
Taxes	(7.0)
Net profit for the period	**22.8**

These values include infra-Group transactions with other companies belonging to the Hera Group.

The entry "Depreciation and amortisation" includes depreciation for the customer lists recorded during the acquisition of control of the energy companies transferred by Ascopiave, amounting to 6 million euro.

Note that work began on fiscal optimisation during the first half of the year, as previously planned while the partnership agreement was being negotiated. More specifically, a substitute tax coming to 65.3 million euro overall was paid as a tax redemption for the higher implicit values in the transaction's prices, which required lists of customers and goodwill to be recorded in the consolidated financial statement. Since this operation is closely related to the partnership agreement and, therefore, included within the valuation of the corporate aggregation, the portion of the substitute tax pertaining to the Group amounted to 40.2 million euro. See note 23 "Current tax assets and liabilities" in paragraph 2.02.04 "Commentary notes to the financial statement formats" for a more detailed illustration of the operation in question.

Impact on alternative performance measures

Note that, to ensure a better evaluation of performance and make the data more easily comparable, as of the financial statements at 31 December 2019 it was considered suitable to introduce a new statement entitled "Adjusted net financial debt", containing a higher degree of segregation between items and the alternative performance measure "Net debt adj. put option".

The adoption of this indicator is linked to Ascopiave Spa's irrevocable put option concerning its minority shareholding in EstEnergy Spa (which can be exercised annually, discretionally concerning all or part of the shareholding, within and not beyond 31 December 2026), which is subject to fair value valuation based on the future scenario of its exercise held to be most probable by management. Since the Group's policy, when dealing with this sort of option, calls for minority shareholder interests not to be represented in the period result component, in evaluating the amount of debt for the option any dividends expected to be paid by EstEnergy Spa during the hypothetical life of the option itself were taken into consideration. The fair value recorded in the financial statements as a liability therefore not only represents the current value of the expected price at the date on which the option is exercised, but also contains a discounted estimate of the future dividends paid. This mechanism ensures that the fair value part of the put option that will be extinguished through payment of future

dividends is actually self-liquidating, since the financial resources required (i.e. 48% of the dividends) will be directly generated by the purchased companies, and will thus not create any real additional financial needs during this period of time for the Group. Therefore, in order to express the actual additional financial needs created by the transaction and correlate the latter to the Group's increased profitability, it was considered suitable to also state, among the alternative performance measures, the amount of net financial debt that will include the fair value of the put option, adjusted so as not to consider the dividends expected to be paid in the future (based on the projections contained in the multi-year business plans) for the period covered by the option.
Note that the debt for the put option linked to the minority shareholding in EstEnergy Spa requires, each year, since the amount in question is discounted, notional financial charges to be stated.

Note lastly that the transfer of 3% of the share capital of Hera Comm Spa to Ascopiave Spa is represented, in accounting terms, as the subscription of fixed-rate financing valued according to the criterion of amortised cost (one of the clauses included contains a put option in favour of Ascopiave Spa).

See paragraph 1.03.03 "Analysis of financial structure and investments" for a detailed representation of the amounts used in the adjusted statement.

Based on the accounting methods illustrated above, the following trends were seen in the value of the put options in the first half of 2020:

	Value at 31-12-19	Financial charges	Dividends paid	Value at 30-06-20
Put option (fair value)	396.6	7.0		**403.6**
Put option (future dividends)	156.7	2.7	(17.8)	**141.6**
Financing to Ascopiave	54.0	1.6		**55.6**
Equivalent fair value	**607.3**	**11.3**	**(17.8)**	**600.8**

1.03.02
Operating and financial results

Resilience and growth in results

The Hera Group closed the first half of 2020 with improvement over the same period of the previous year in its main operating results. Ebitda settled at 559.7 million euro, up 2.5%, while Ebit came to 295.7 million euro, up 2.4%, and net profits amounted to 174.9 million euro, up 0.6%. Net debt settled at 3,083.6 million euro, falling by 5.8% compared to 2019, owing to the Group's solid asset structure and a good trend in cash flow.

The Ascopiave partnership, along with other operations in external growth, which will be discussed below, alongside internal growth, were the main factors responsible for the results achieved by the Hera Group in the first half of 2020. These actions allowed the effects of the mild temperatures seen in the first quarter of 2020 and those linked to the Covid-19 emergency to be contained. The Group's multi-business industrial strategy, which balances regulated and free market activities, continues to be a considerable strong point, demonstrating the Group's resilience even at a very difficult moment such as the present.

The main corporate and business operations having an effect on the first half of 2020 are as follows:
- On 17 July 2019, Herambiente Spa acquired the entire shareholding of Pistoia Ambiente Srl, which manages the special waste landfill located in the Municipality of Serravalle Pistoiese. This company was consolidated with operating and financial effects as of 1 July 2019.
- Hera Comm Spa was awarded, through a tender and for the period from 1 October 2019 to September 2020, four portions of the last resort gas service (for customers who offer public services or do not have a supplier) and two portions of the default gas distribution service (for customers in arrears).
- On 19 December 2019, with the finalised closing of the corporate transaction between the Hera Group and the Ascopiave Group, the following transactions were completed: shareholdings in the companies Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa, Etra Energia Srl, Asm Set Srl and Hera Comm NordEst Srl were transferred to Estenergy Spa, a company controlled by Hera Comm Spa; the shareholding in the company Amgas Blu Srl was transferred to Hera Comm Spa; shareholding in the company AP Reti Gas Nord Est Srl was transferred to Ascopiave Spa. Furthermore, AcegasApsAmga Spa's Gas Distribution

branch concerning the Padua 1, Padua 2, Udine 3 and Pordenone Atems, effective as of 31 December 2019, was transferred to AP Reti Gas Nord Est Srl. For further information, see paragraph 1.03.01.

- On 30 March 2020, AcegasApsAmga Servizi Energetici Spa acquired 9.72% of Hera Servizi Energia Srl from a third-party shareholder. The percentage of control held in the latter company went from 57.89% to 67.61%.
- On 31 January 2020, Hera communicated its acquisition from the Amber fund of 2.5% of the share capital of Ascopiave, increased to 2.9% during the following months through purchases on the market. On 18 June 2020, Hera communicated its acquisition from A2A of a further 2% of the share capital of Ascopiave, bringing its overall shareholding to 4.9%.

The acquisitions of Pistoia Ambiente Srl, the Gaggio Montano plant in the waste management area, the companies involved in the Ascopiave transaction and the transfer of the gas distribution branch are considered hereinafter as changes in the scope of operations.

The following table shows operating results at 30 June 2020 and 2019:

Results confirmed

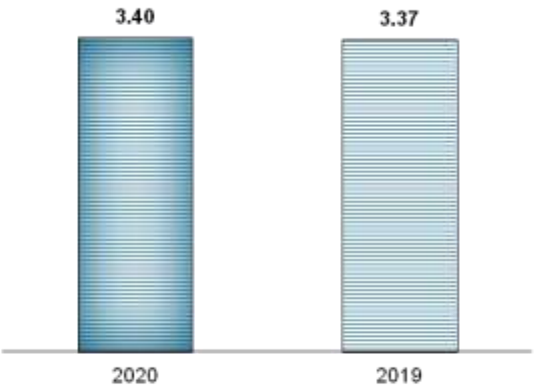
Income statement (mn€)	June 20	% inc.	June 19	% inc.	Abs. change	% change
Revenues	3,402.3		3,371.6		+30.7	+0.9%
Other operating revenues	222.6	6.5%	249.0	7.4%	-26.4	-10.6%
Raw and other materials	(1,605.1)	-47.2%	(1,699.2)	-50.4%	-94.1	-5.5%
Service costs	(1,151.0)	-33.8%	(1,075.1)	-31.9%	+75.9	+7.1%
Other operating expenses	(32.5)	-1.0%	(29.8)	-0.9%	+2.7	+9.1%
Personnel costs	(290.9)	-8.5%	(286.6)	-8.5%	+4.3	+1.5%
Capitalised costs	14.3	0.4%	16.0	0.5%	-1.7	-10.6%
Ebitda	**559.7**	**16.5%**	**545.9**	**16.2%**	**+13.8**	**+2.5%**
Amortisation, depreciation and provisions	(264.0)	-7.8%	(257.0)	-7.6%	+7.0	+2.7%
Ebit	**295.7**	**8.7%**	**288.9**	**8.6%**	**+6.8**	**+2.4%**
Financial operations	(56.2)	-1.7%	(44.9)	-1.3%	+11.3	+25.1%
Pre-tax result	**239.5**	**7.0%**	**244.0**	**7.2%**	**-4.5**	**-1.8%**
Taxes	(64.6)	-1.9%	(70.1)	-2.1%	-5.5	-7.9%
Net profit for the period	**174.9**	**5.1%**	**173.9**	**5.2%**	**+1.0**	**+0.6%**
Attributable to:						
Parent company shareholders	**166.2**	**4.9%**	**166.2**	**4.9%**	**+0.0**	**+0.0%**
Non-controlling interests	8.7	0.3%	7.7	0.2%	+1.0	+13.1%

Revenues stable thanks to changes in the scope of operations, which offset lower prices and volumes

Revenues came to 3,402.3 million euro, up 30.7 million euro or 0.9% over the 3,371.6 million euro seen in the same period of 2019. This growth in revenues was mainly sustained by changes in the scope of operations, amounting to 312 million euro. Revenues from activities in trading, generation and electricity and gas distribution fell by roughly 240 million euro, owing to the lower price of commodities and lower volumes sold. Revenues in the heat management and district heating services also fell by roughly 9 million euro. Revenues in the waste management sector also dropped, owing to lower revenues for energy production, linked to the fall in the unitary national price, and lower amounts of waste treated, by roughly 17 million euro. Lastly, revenues from subcontracted works decreased by roughly 10 million euro, partially offset by revenues for works in public lighting coming to 8.7 million euro, no longer recorded as other operating revenues but as revenues.

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

Revenues (bn€)



3.4 billion euro revenues (+0.9%)

Other operating revenues dropped compared to the same period in the previous year by 26.4 million euro or 10.6%. This trend is mainly due to the different way of recording public lighting works, as mentioned above, coming to 8.7 million euro, operations leaving the scope of operations coming to roughly 5.0 million euro and the loss of the CEC contribution for two Group plants coming to roughly 3 million euro. Furthermore, lower contributions for energy efficiency certificates amounted to roughly 4.0 million euro, and lower contributions and reimbursements came to a further 5.0 million euro.

Fall in costs for raw materials linked to trends in the price of commodities

Costs for raw and other materials fell by 94.1 million euro compared to 30 June 2019, showing a 5.5% drop. This decrease was caused by lower costs due to the price of raw materials and lower volumes of electricity and gas sold, despite the roughly 160 million euro increase in costs owing to changes in the scope of operations.

Other operating costs rose by 78.6 million euro overall (higher costs for services coming to 75.9 million euro and higher operating expenses coming to 2.7 million euro). Not including the changes in scope of operations, which amounted to roughly 110 million euro, note the higher costs for expenses in the ICT area, coming to roughly 6 million euro for the digitalisation and innovation process currently being implemented by the Hera Group. The higher costs mentioned above were more than offset by lower costs for subcontracted works coming to roughly 10.0 million euro, lower costs for volumes transmitted amounting to roughly 6 million euro, lower costs for waste treatment totalling roughly 18 million euro and lower costs for the efficiencies introduced by the Group to counter the ongoing health emergency.

+1.5% increase in the cost of personnel

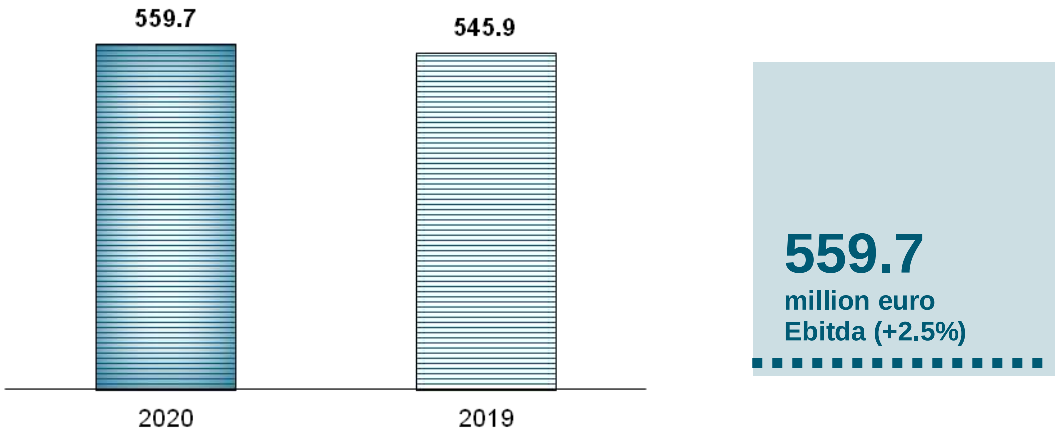
The cost of personnel rose by 4.3 million euro or 1.5%. This increase is due to changes in the scope of operations coming to 5.5 million euro and the increases in remuneration foreseen by the National labour contract, but was contained thanks to the benefit brought by the large-scale plan for holiday leave adopted by the Group due to the health emergency.

Capitalised costs reached 14.3 million euro at 30 June 2020, falling by 10.6% compared to the same date of the previous year owing to a temporary suspension of works following the health emergency.

Ebitda settled at 559.7 million euro, up 13.8 million euro or 2.5% over the first half of 2019. This growth can be traced to the performance seen in the energy areas, which grew by 15.7 million euro overall, mainly due to the entry of the companies belonging to the EstEnergy Group. The other service area rose by 2.0 million euro. The water cycle area remained constant and, lastly, the waste management area fell by 3.9 million euro. The Covid-19 health emergency impacted all areas in the first half of 2020, with a reduction in margins coming to roughly 30 million euro overall, entirely involving non-recurring effects.

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

Ebitda (mn€)

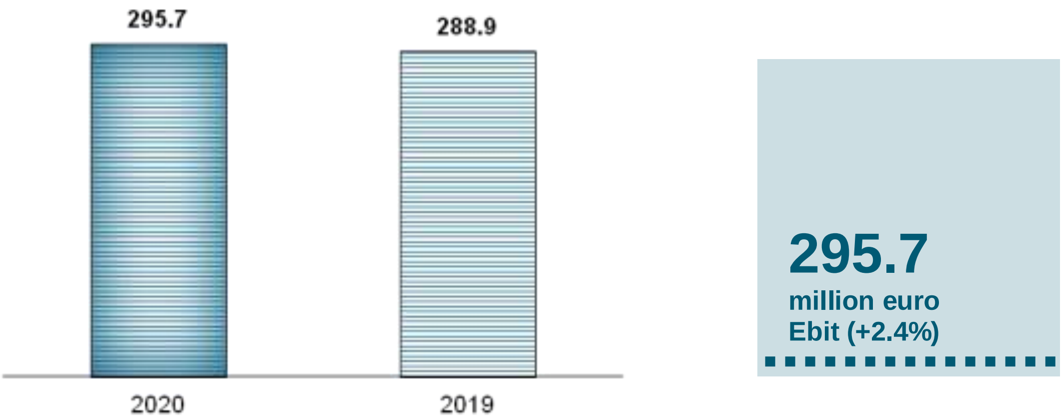


Amortisation, depreciation and provisions rose by 7.0 million euro, going from 257.0 million euro in the first half of the previous year to 264.0 million euro. This higher amortisation was mainly due to changes in the scope of operations and the higher amounts disposed of in landfills, partially offset by an adjustment carried out during the previous year of in the technical-economic useful lives of assets in the integrated water cycle, in an analysis carried out in collaboration with a company working in asset valuation; following this revision, the amount of amortisation in the integrated water cycle was essentially in line with the rates defined by Arera for the 2020–2023 tariff period. Allocations to the doubtful debt provision dropped in sales companies.

Higher amortisation for changes in scope of operations

Ebit for the first half of 2020 came to 295.7 million euro, up 6.8 million euro or 2.4% compared to the 288.9 million euro seen in the same period in 2019.

Ebit (mn€)



At 30 June 2020, the result of financial operations came to 56.2 million euro, up 11.3 million euro or 25.2% compared to 30 June 2019. This increase is entirely due to higher notional financial charges coming to 11.3 million euro caused by the put option held by Ascopiave SpA for its 48% shareholding in EstEnergy (9.7 million euro) and 3% in Hera Comm (1.6 million euro). The 2.8 million euro in lower profits from joint ventures, mainly involving the consolidation of EstEnergy Spa which in 2019 contributed with 2.7 million euro, also had an effect. This result was offset to an equal degree by the improved debt management with a reduction of the medium and medium-long term rate.

Financial operations increase owing to changes in scope of operations

The pre-tax result fell by 4.5 million euro or 1.8%, going from 244.0 million euro at 30 June 2019 to 239.5 million euro for the first six months of 2020.

Tax rate falls

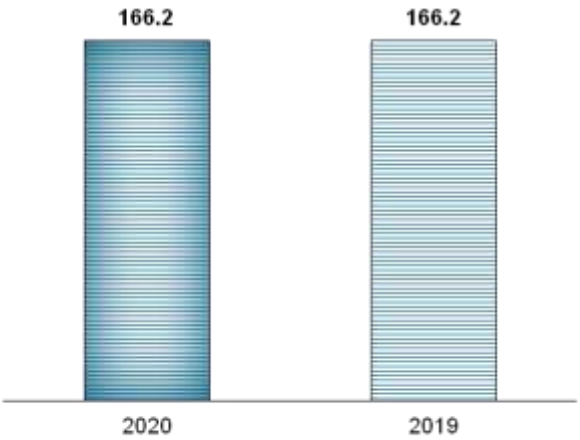
Taxes for the first half of the year went from 70.1 million euro in 2019 to 64.6 in 2020. The tax rate came to 27% and thus improved significantly compared to the 28.7% seen in the first half of 2019. This result was sustained, as in previous years, by the benefits grasped in terms of large and extremely large amortisations, in addition to the tax credit introduced by the 2020 Budget Law, for the significant investments that the Group has continued to make for some time now in moving towards a technological, digital and environmental transformation. To the latter, one must add the "removal" of the balance for 2019 IRAP, in addition to the first deposit for 2020 IRAP, for companies with revenues lower than 250 million euro, introduced by the Relaunch Decree no. 34 of 19 May 2020, later converted into law.

+0.6% Net profit

Net profit thus rose by 0.6% or 1.0 million euro, going from 173.9 million euro in the first half of 2019 to 174.9 million euro for the same period in 2020.

Profits pertaining to the Group amounted to 166.2 million euro, in line with the figure seen at 30 June 2019.

Net profit post minorities (mn€)



166.2
million euro net profit post minorities

1.03.03

Analysis of the Group's financial structure and investments

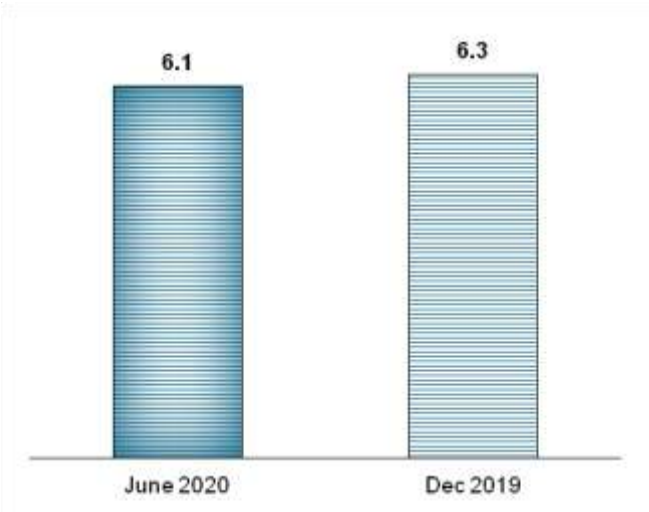
What follows in an analysis of trends in the Group's net invested capital and sources of financing at 30 June 2020.

Group solidity increases

Invested capital and sources of financing (mn€)	June 20	% inc.	Dec 19	% inc.	Abs. change	% change
Net non-current assets	6,893.2	113.3%	6,846.3	108.9%	+46.9	+0.7%
Net working capital	(172.3)	-2.8%	87.0	1.4%	-259.3	-298.0%
(Provisions)	(638.7)	-10.5%	(649.1)	-10.3%	+10.4	+1.6%
Net invested capital	**6,082.2**	**100.0%**	**6,284.2**	**100.0%**	**-202.0**	**-3.2%**
Equity	(2,998.6)	49.3%	(3,010.0)	47.9%	+11.4	+0.4%
Long-term borrowings	(3,370.1)	55.4%	(3,383.4)	53.8%	+13.3	+0.4%
Net current financial debt	286.5	-4.7%	109.2	-1.7%	+177.3	+162.4%
Net debt	(3,083.6)	50.7%	(3,274.2)	52.1%	+190.6	+5.8%
Total sources of financing	**(6,082.2)**	**-100.0%**	**(6,284.2)**	**100.0%**	**+202.0**	**+3.2%**

At 30 June 2020, net invested capital (NIC) came to 6,082.2 million euro, falling by -3.2% compared to the 6,284.2 million euro recorded in December 2019.
The increase in net non-current assets is mainly due to the investments made during the half-year, most importantly the acquisition of 4.9% of the shareholding in Ascopiave Spa which reinforced the partnership initiated in December 2019.
The change in net working capital is mainly due to the increase in debt seen in June for the dividends paid in July 2020 (165.2 million euro), in addition to recurring debts for excise taxes and IVA in line for the reporting period analysed.

Net invested capital (bn€)

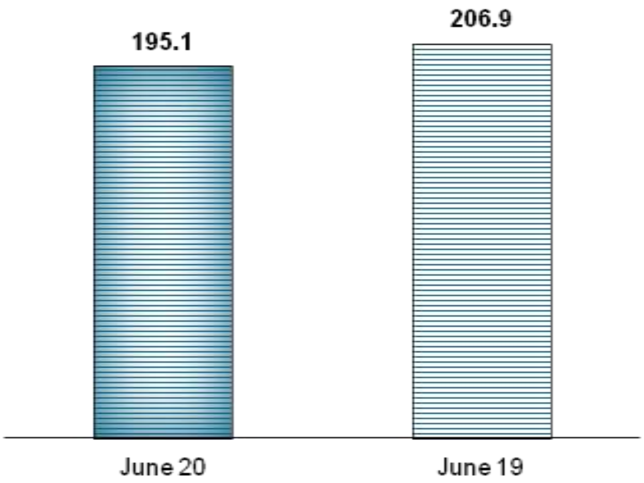


6.1
billion euro
net invested capital

Net investments amount to 240.6 million euro

In the first half of 2020, Group investments amounted to 240.6 million euro, including the 45.5 million euro involved in the acquisition of financial holdings in Ascopiave Spa.
Capital grants totalled 8.1 million euro, of which 6.6 million for FoNI investments, as foreseen by the tariff method for the integrated water service, up 0.4 million euro overall compared to the previous year. Net operating investments came to 195.1 million euro, down 11.8 million euro compared to the previous year.

Total net operating investments (mn€)



195.1
million euro net operating investments (-11.8 million euro)

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

Total investments(mn€)	June 20	June 19	Abs. change	% change
Gas area	53.9	52.2	+1.7	+3.3%
Electricity area	21.5	18.8	+2.7	+14.4%
Integrated water cycle area	75.4	74.6	+0.8	+1.1%
Waste management area	21.7	34.7	-13.0	-37.5%
Other services area	3.9	6.4	-2.5	-39.1%
Headquarters	26.8	28.0	-1.2	-4.3%
Total operating investments gross	**203.3**	**214.6**	**-11.3**	**-5.3%**
Capital grants	8.1	7.7	+0.4	+5.2%
of which FoNI (New Investment Fund)	6.6	6.5	*+0.1*	+1.5%
Total net operating investments	**195.1**	**206.9**	**-11.8**	**-5.7%**
Financial investments	45.5	0.1	+45.4	+100.0%
Total net investments	**240.6**	**207.0**	**+33.6**	**+16.2%**

Strong commitment continues to be seen in operating investments in plants and infrastructures

Including capital grants, the Group's operating investments came to 203.3 million euro, down 11.3 million euro compared to the previous year, and mainly concerned interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale metre substitution, and the purification and sewerage areas.
Remarks on investments in each single area are included in the analyses by business area.
At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures.

Overall, investments in structures dropped by 1.2 million euro compared to the precious year, mainly concerning vehicle fleets and real estate investments, since a few significant interventions on corporate buildings were completed during the previous year.

638.7 million euro provisions

In the first 6 months of 2020, provisions amounted to 638.7 million euro, in line with the figure recorded at the end of the previous year. This result is mainly due to an increase in post-mortem landfill provision adjustments and reinstatements of third party goods, due to the application of accounting standard IAS 37, which offset expenses for usage.

3.0 billion euro equity

Equity fell from 3,010.0 million euro in 2019 to 2,998.6 million euro in June 2020. This change is due to the positive result for the period, coming to 174.9 million euro, offset by the impact of the dividends paid, the use of treasury shares and the decrease in minority interests.

Reconciliation between separate and consolidated financial statements

	Net result	Equity
Balance as per Parent Company's separate balance sheets	**193.0**	**2,421.0**
Excess of equity over the carrying amount in consolidated companies	**(13.0)**	**110.1**
Consolidation adjustments:		
measurement with the equity method of investments reported at cost in the separate financial statement	(1.9)	38.5
difference between purchase price and book value of corresponding portion of equity	(17.4)	262.5
elimination of intercompany transactions	5.5	(20.6)
Total	**166.2**	**2,811.5**
Restoration of third-party assets	8.7	185.3
Balances as per consolidated financial statements	**174.9**	**2,996.8**

1.03.04

Analysis of net cash (net borrowings)

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

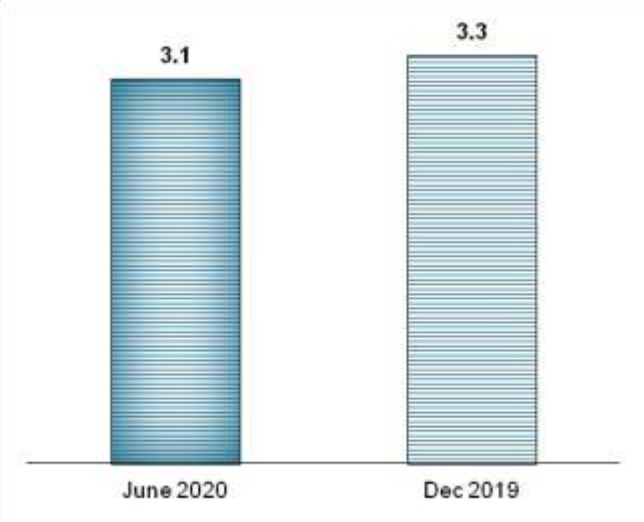
A solid financial position

mn€		June 2020	Dec 2019
a	**Cash and cash equivalents**	**705.5**	**364.0**
b	**Other current financial receivables**	**48.0**	**70.1**
	Current bank debt	(317.0)	(111.5)
	Current part of bank borrowings	(55.6)	(63.1)
	Other current financial liabilities	(75.5)	(130.9)
	Current lease payments	(18.9)	(19.4)
c	**Current financial debt**	**(467.0)**	**(324.9)**
d=a+b+c	**Net current financial debt**	**286.5**	**109.2**
	Non-current bank debt and bonds issued (excluding put option)	(2,809.7)	(2,815.1)
	Other non-current financial liabilities (excluding put option)	(26.2)	(20.2)
	Non-current lease payments	(70.1)	(76.1)
e	**Adjusted non-current financial debt**	**(2,906.0)**	**(2,911.4)**
f=d+e	**Adjusted net financial position**	**(2,619.5)**	**(2,802.2)**
g	**Non-current financial receivables**	**136.7**	**135.3**
h=f+g	**Net financial debt (excluding put option)**	**(2,482.8)**	**(2,666.9)**
	Nominal amount - fair value put option	(459.2)	(450.6)
	Net financial debt with adjusted put option (net debt adj put option)	**(2,942.0)**	**(3,117.5)**
	Portion of future dividends – fair value put option	(141.6)	(156.7)
	Net financial debt	**(3,083.6)**	**(3,274.2)**

The overall amount of net financial debt, coming to 3,083.6 million euro, showed a drop of roughly 190 million euro compared to December 2019. The Group's financial structure at 30 June 2020 shows current debt coming to 467 million euro, of which 55.6 million euro in medium-term bank loans reaching maturity within the year, 75.5 million euro in debts towards other lenders, and 317 million euro in current bank debt. The latter consists mainly of roughly 277.9 million euro in usage of current credit lines and 39.0 million euro in accruals for passive interest on financing. The amount of non-current bank debt and bonds issued remained essentially in line with the previous year. At 30 June 2020, medium- and long-term debt was largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (74% of the total), with repayment at maturity. The value of the put option linked to the 19 December 2019 Ascopiave transaction for the minority shareholding in EstEnergy Spa fell by 6.5 million euro overall, owing to the higher value of the nominal amount, coming to 8.6 million euro, offset by a decrease in the amount of future dividends, coming to 15.1 million euro. See paragraph 1.03.01 "Hera – Ascopiave Partnership" for a reading of the detailed movements concerning the put options in the first half of 2020.
The total debt shows an average time to maturity of over 6 years, with 56.5% maturing after more than five years.

Net financial debt went from 3,247.2 million euro in 2019 to 3,083.6 million euro in June 2020. The first half-year showed a positive cash flow, due not only to the effect of seasonal factors for the period in question but also to the postponement of dividend payments to the month of July. Also note the positive contribution towards financial flows linked to the decreased cost of raw materials and the limited impact on the financial situation in the first half of 2020 coming from the Covid-19 health crisis.

Net financial debt (bn€)



3.08
billion euro
net financial debt

1.04
Share performance and investor relations

The first half of 2020 was deeply affected by the worldwide spread of the Covid-19 virus, which led most governments to introduce unprecedented measures in social distancing, with extraordinarily negative implications for economic activity. Faced with a slowdown in the economy and uncertainty as to a return to normal conditions, in late February volatility increased on financial markets, sparking sharp drops in all world stock markets. The exceptional interventions and support provided by governments to protect national economies, and the virtually unlimited liquidity guaranteed by central banks allowed stock markets to regain confidence and record, beginning in mid-March, recovery in stock prices, which in any case remain negative in comparison with the beginning of the year.

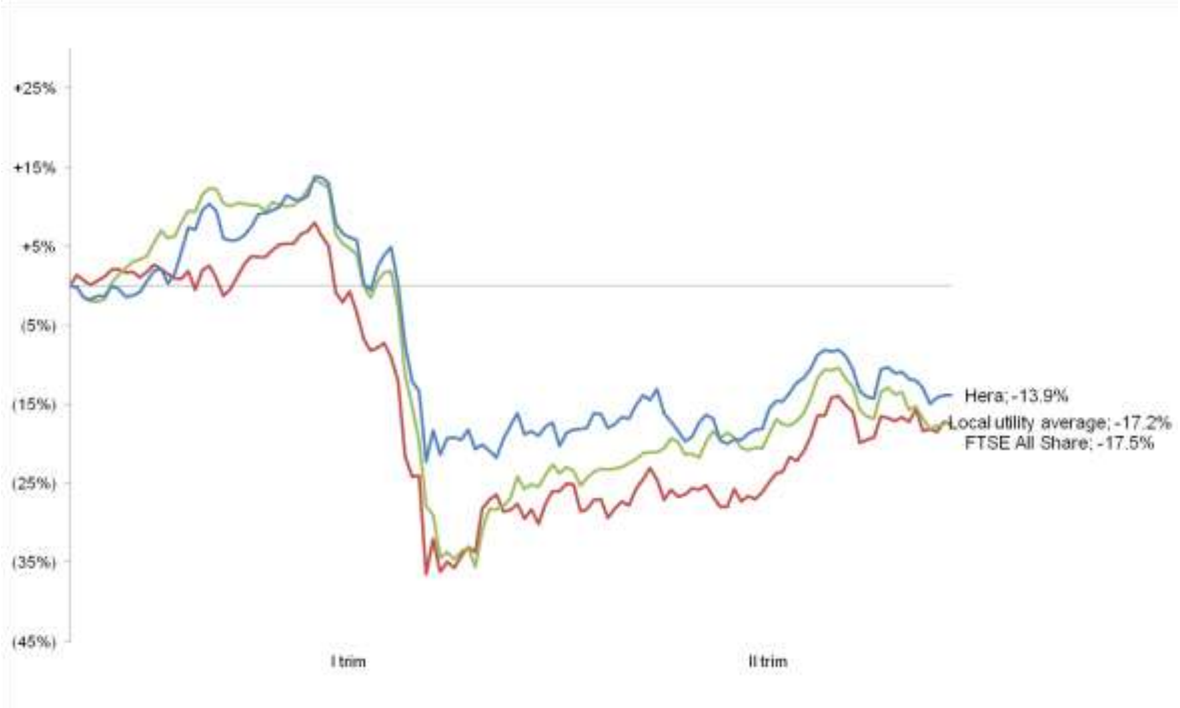
Global stock markets fall in the first quarter of 2020 due to the Covid-19 pandemic

The Italian FTSE All Share index fell by -17.5% over the half-year, after reaching a low of -36.2% in mid-March, in line with the other indices for the main European stock markets.

In this context, Hera stock closed the period with an official price of 3.367 euro, therefore falling less than -13.9% after reaching a record high of 4.494 euro on 20 February 2020, corresponding to a 6.7 billion euro capitalisation, following the roadshow presenting the business plan to 2023 in the main financial hubs in Europe and the United States. From late February to the end of the half-year, even though the context was marked by volatility in share prices, Hera stock showed greater resilience and endurance than other local utilities (-17.2%) and the market as a whole (-17.5%), confirming the Group's low beta (volatility index) and the solidity of its economic fundamentals, as recognised by investors.

Hera outperforms local utilities and the market

1H 2020 Hera stock, utility sector and Italian market performance comparison



On 6 July 2020, following the indications contained in the business plan, Hera paid a dividend coming to 10.0 cents per share, the eighteenth in a series of uninterrupted growth since being listed, owing to the solidity of its operating and financial fundamentals and the continuity of its activities, even during the entire lockdown period.

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

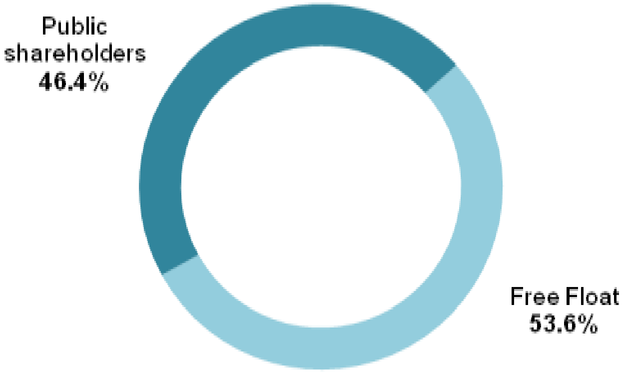
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
Dps	0.035	0.053	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095	0.10	0.10

The joint effect of continuously remunerating shareholders through dividends and a rise in the price of the stock led the total shareholders return accumulated since the IPO to remain consistently positive and to settle, at the end of the half-year, at over +275.6%.

+276%
total shareholders return since the IPO

The financial analysts covering the company (Banca Akros, Banca Imi, Equita Sim, Fidentiis, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) expressed positive or neutral opinions, with no negative opinion. At the end of the quarter, the consensus target price came to 3.99 euro, higher than the 3.87 euro recommended at the end of 2019.

Shareholder breakdown at 30 June 2020



At 30 June 2020, the shareholder breakdown showed its usual stability and balance, with 46.4% of shares belonging to 111 public shareholders located across the areas served and brought together by a stockholders agreement effective from 1 July 2018 to 30 June 2021, and a 53.6% free float. The shareholding structure is highly fragmentary, with a high number of public shareholders (111 municipalities, the largest of which holds shares amounting to less than 10% of the total) and a high number of private institutional and retail shareholders.

46,4%
share capital pertaining to the public stockholders agreement

Since 2006, Hera Spa has adopted a share buyback program, renewed by the Shareholders Meeting held on 29 April 2020 for 18 further months, for an overall maximum amount of 270 million euro. This plan is aimed at financing M&A opportunities involving smaller companies, and smoothing out any anomalous market price fluctuations vis-à-vis those of the main comparable Italian companies. At the end of the first half-year, Hera Spa held 18.2 million treasury shares.

During the half-year, approximately 3.2 million treasury shares were made available for the M&A transaction with the utility company CMV, as indicated in the shareholders meeting mandate, annulling dilution for Hera shareholders.

On 22 June, Hera stock was included in the FTSE4Good index, that brings together companies having a high sustainability profile and showing the best performances in ESG parameters.

After the publication of the new 2019-2023 business plan, Hera's Executive Chairman and CEO took part in a roadshow which visited the main financial centres in Europe and the USA, to illustrate the Group's growth targets to investors. This specific communication initiative met with interest among institutional investors and boosted the share's performance during the period in question.
The intense dedication shown by the Group towards dialoguing with investors contributed to reinforcing its market reputation and represents an intangible asset benefiting Hera stock and stakeholders.

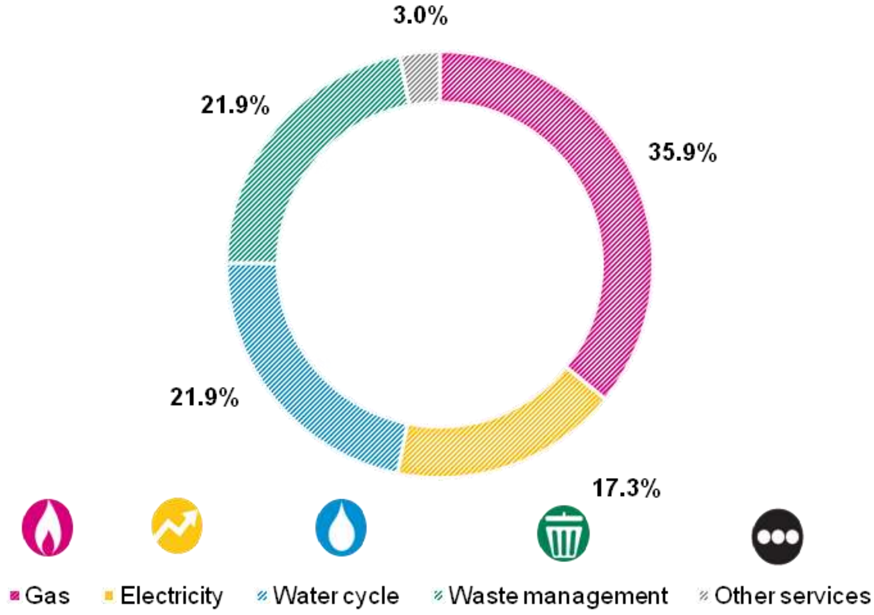
Communication with the market as an intangible asset

1.05
Analysis by business area

A multi-business strategy

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

Ebitda June 2020



Over 50% of the contribution coming from the Group’s various business areas to overall Ebitda involves the energy areas

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.

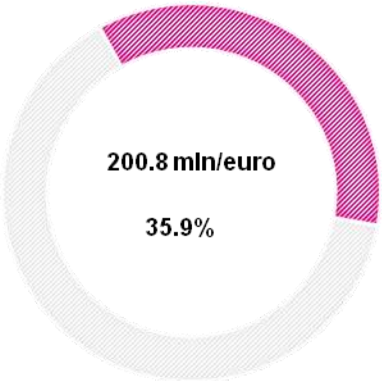
In all business areas, as in the income statements, accounting standard Ifrs 16 on operating leases has been applied, with an equal effect on both reporting periods.

1.05.01
Gas

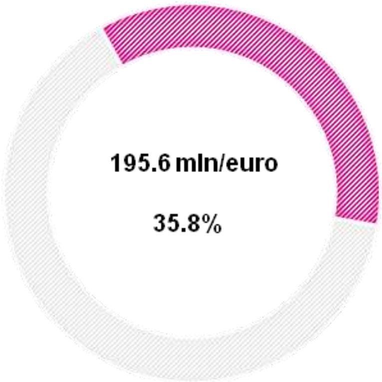
Margins rise

The first half of 2020 showed growth over the same period in the previous year, in terms of both Ebitda and volumes sold. This result was mainly achieved thanks to commercial development linked to the Ascopiave Group partnership transaction, which saw the Hera Group acquire the companies belonging to the EstEnergy Group and AmgasBlu Srl in exchange for a distribution branch in the Veneto region (concerning the PD1, PD2, UD3 and PN Atems) and was able to offset the negative effects of the Covid-19 pandemic. Lastly, in the tender for the period going from 1 October 2019 – 30 September 2020, Hera Comm Spa was awarded four portions of the last resort gas service and two portions of the default gas distribution service.

Ebitda gas area 2020



Ebitda gas area 2019



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

Ebitda up +2.6%

(mn€)	June 20	June 19	Abs. change	% change
Area Ebitda	**200.8**	**195.6**	**+5.2**	**+2.6%**
Group Ebitda	559.7	545.9	+13.8	+2.5%
Percentage weight	35.9%	35.8%	+0.1 p.p.	

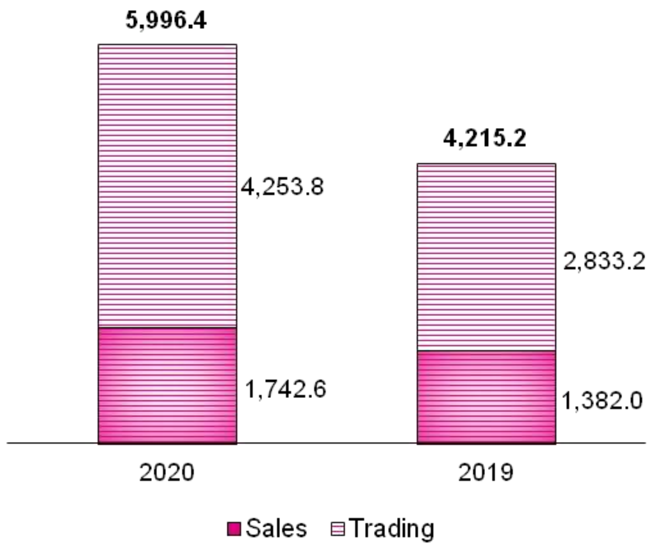
The number of gas customers rose by 558.5 thousand or 38.0% over the first half of 2019. The entry within the Group's consolidated scope of the companies belonging to the EstEnergy Group and AmgasBlu Srl brought 599.5 thousand customers and offset a drop in the customer base, mainly due to the result of the tenders for last resort markets, mentioned above, coming to roughly 30 thousand customers.

Customers (k)

2.0
million gas customers

The overall volume of gas sold increased by 1,781.2 million m^3 or 42.3%, going from 4,215.2 million m^3 in June 2019 to 5,996.4 in June 2020. Trading volumes showed growth coming to 1,420.6 million m^3 (33.4% of total volumes), due to higher foreign trading. Volumes sold to end customers rose by 26.1% or 360.6 million m^3 over June 2019, thanks to the contribution coming from the EstEnergy Group companies and AmgasBlu Srl, and amounted to 456.1 million m^3. This growth was only partially offset by a 63.8 million m^3 drop in traditional markets and a 31.8 million m^3 fall in last resort markets, mainly caused by climatic factors including a very mild winter which saw higher average temperatures than in 2019 and the negative effects of the Covid-19 emergency.

Volumes sold (mn m^3)



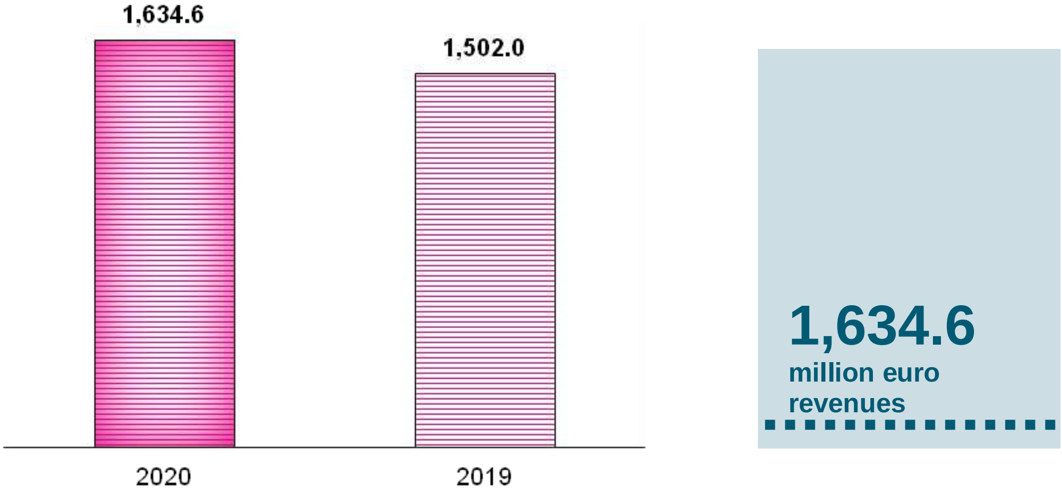
+42.3%
growth in volumes sold

The following table summarises operating results for the gas area:

Income statement (mn€)	June 20	% inc.	June 19	% inc.	Abs. change	% change
Revenues	1,634.6		1,502.0		+132.6	+8.8%
Operating costs	(1,378.9)	-84.4%	(1,251.5)	-83.3%	+127.4	+10.2%
Personnel costs	(59.5)	-3.6%	(60.0)	-4.0%	-0.5	-0.8%
Capitalised costs	4.6	0.3%	5.1	0.3%	-0.5	-9.8%
Ebitda	**200.8**	**12.3%**	**195.6**	**13.0%**	**+5.2**	**+2.6%**

Revenues went from 1,502.0 million in June 2019 to 1,634.6 million euro at 30 June 2020, showing a 132.6 million euro or 8.8% growth. The main reasons underlying this increase are the higher revenues coming from the EstEnergy Group companies and AmgasBlu Srl acquisition, coming to 257.8 million euro, and higher trading activities, amounting to roughly 34.0 million euro. This growth was offset by lower revenues due to the lower price of gas as a raw material, coming to roughly 79 million euro, and lower volumes of gas sold, amounting to roughly 37 million euro. The latter, along with lower revenues in district heating and heat management coming to roughly 17.0 million euro and lower revenues from activities in Bulgaria, totalling 2.0 million euro, confirm the negative effects of the climate and the Covid-19 emergency, as mentioned above.
Energy efficiency certificates also fell by roughly 10.8 million euro, as did revenues for long-term commissions and subcontracted works, by 3.2 million euro, with an equal effect on operating costs. Regulated revenues for gas distribution were down by 10.5 million euro, mainly due to the transfer of local areas managed in the PD1, PD2, UD3 and PN Atems to Ascopiave.
From a regulatory point of view, note furthermore that 2020 is the first year of the 5th regulatory period (approved with resolution 570/2019/R/Gas), which calls for a significant reduction in recognised operating costs, in addition to a reduction in metering Wacc.

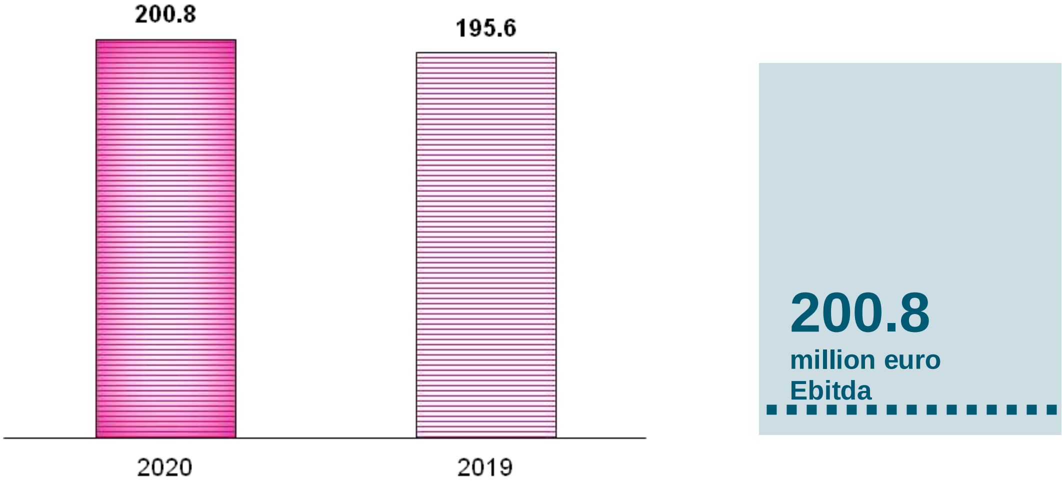
Revenues (mn€)



The increase in revenues was proportionally reflected by rising operating costs, which went from 1,251.5 million euro in June 2019 to 1,378.9 million euro in June 2020, thus showing an overall growth of 127.4 million euro. This trend is mainly due to the higher activity in trading and the companies acquired, as mentioned above.

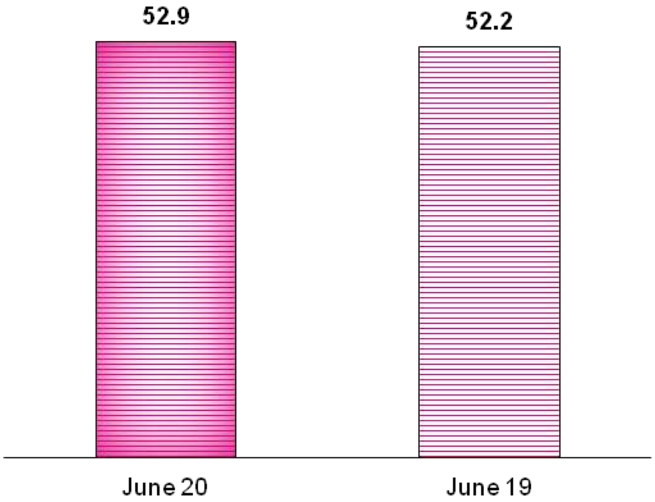
Ebitda rose by 5.2 million euro or 2.6%, going from 195.6 million euro in the first half of 2019 to 200.8 million euro in the first half of 2020, thanks to the entry of the new EstEnergy Group companies and AmgasBlu Srl. Their contribution offset the lower volumes of gas sold and the lower margins coming from district heating and heat management due to the mild winter and the negative effects of the Covid19 emergency, which impacted the reduction in Ebitda by roughly 15.4 million euro.

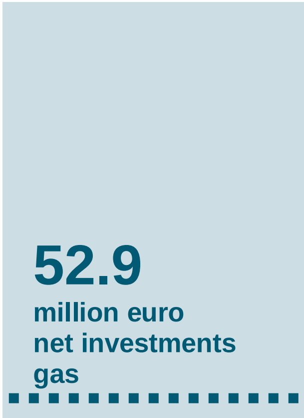
Ebitda (mn€)



In the first half of 2020, net investments in the gas area came to 52.9 million euro, up 0.7 million euro over the first half of the previous year. In gas distribution, an overall decrease coming to 1.2 million euro was seen, owing to 4.5 million euro in lower investments in the AcegasApsAmga Spa gas distribution branch concerning the Padua 1, Padua 2, Udine 3 and Pordenone Atems, transferred on 31 December 2019 as part of the Ascopiave transaction, not entirely offset by increased interventions in the ongoing large-scale meter substitution (resolution 554) and non-recurring maintenance on networks and plants in the other local areas served. In gas sales, investments coming to 4.3 million euro were linked to activities in acquiring new customers. Investments rose by 1.7 million euro in heat management, with the activities of the companies Hera Servizi Energia Srl and AcegasApsAmga Servizi Energetici Spa, and in district heating, where requests for new connections were lower than the same period of the previous year.

Net investments gas (mn€)





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

Gas (mn€)	June 20	June 19	Abs. change	% change
Networks and plants	40.8	42.0	-1.2	-2.9%
Acquisition gas customers	4.3	3.3	+1.0	+30.3%
DH/heat management	8.7	7.0	+1.7	+24.3%
Total gas gross	**53.9**	**52.2**	**+1.7**	**+3.3%**
Capital grants	1.0	0.0	+1.0	+100.0%
Total gas net	**52.9**	**52.2**	**+0.7**	**+1.3%**

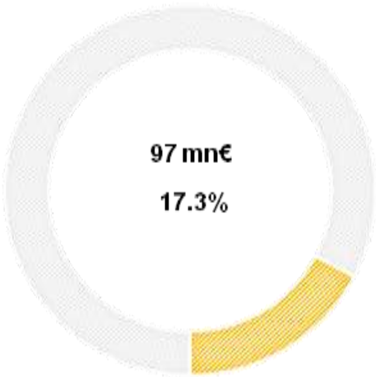
1.05.02

Electricity

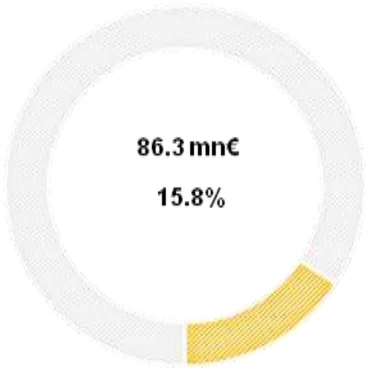
Margins rise

At the end of the first half of 2020, Ebitda in the electricity area rose over the same period in the previous year thanks to the Ascopiave Group partnership transaction, with the acquisition of the companies belonging to the EstEnergy Group and AmgasBlu Srl and margins coming from electricity generation, in spite of the negative effects related to the Covid-19 pandemic.

Ebitda electricity area 2020



Ebitda electricity area 2019



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

(mn€)	June 20	June 19	Abs. change	% change
Area Ebitda	**97.0**	**86.3**	**+10.7**	**+12.3%**
Group Ebitda	559.7	545.9	+13.8	+2.5%
Percentage weight	17.3%	15.8%	+1.5 p.p.	

+12.3%
Growth in Ebitda

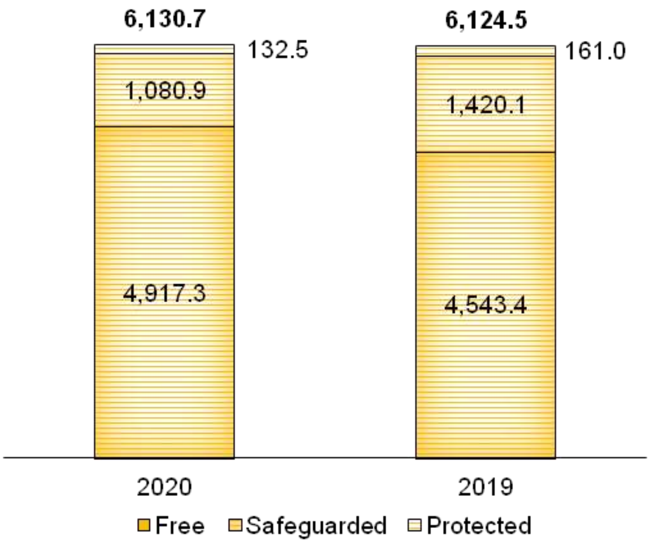
The number of electricity customers settled at 1.3 million supply points, up 14.0% (160.4 thousand customers) over 30 June 2019. This significant growth was seen on the free market, which accounted for 20.0% of the total, mainly due to the entry within the consolidated scope of operations of the companies belonging to the EstEnergy Group and AmgasBlu, which contributed with roughly 109.2 thousand customers, and the reinforced marketing initiatives introduced, coming to roughly 76.8 thousand customers. This growth was able to offset the drop in safeguarded and protected customers.

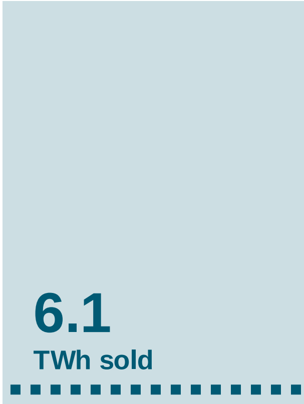
Customers (k)

1.3
million electricity customers

The volumes of electricity sold went from 6,124.5 GWh at 30 June 2019 to 6,130.7 GWh at 30 June 2020, with an overall increase of 0.1% or 6.2 GWh. Volumes sold on the free market rose by 6.1% of the total, thanks to the companies acquired as mentioned above, which contributed with 229.1 GWh, as well as an inertial internal growth coming to 144.8 GWh. This increase was able to offset the drop in safeguard and protected volumes, which came to 367.7 GWh or 6.0% of the total.

Volumes sold (GWh)





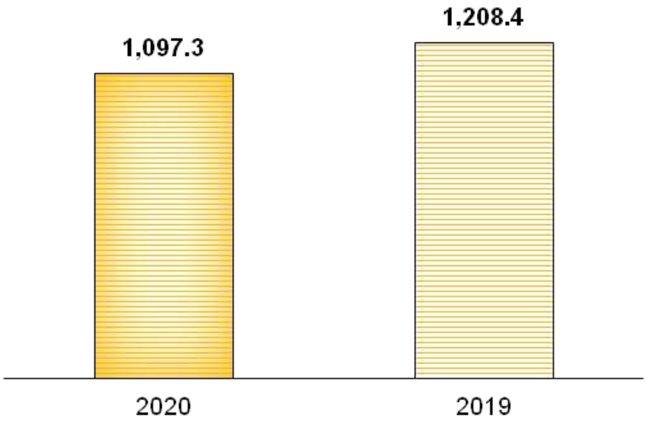
The following table summarises operating results for the area:

Income statement (mn€)	June 20	% inc.	June 19	% inc.	Abs. change	% change
Revenues	**1,097.3**		1,208.4		-111.1	-9.2%
Operating costs	**(979.4)**	-89.3%	(1,103.3)	-91.3%	-123.9	-11.2%
Personnel costs	**(24.9)**	-2.3%	(22.7)	-1.9%	+2.2	+9.7%
Capitalised costs	**4.1**	0.4%	4.0	0.3%	+0.1	+2.5%
Ebitda	**97.0**	**8.8%**	**86.3**	**7.1%**	**+10.7**	**+12.3%**

Ebitda up by 10.7 million euro

Revenues dropped by 111.1 million euro or 9.2%, going from 1,208.4 million euro in June 2019 to 1,097.3 million euro in June 2020. The main causes lie in lower revenues in trading activities coming to 40.6 million euro, linked to the 40% drop in the average single national price for the first six months of 2020, the lower price of raw materials, coming to 70.0 million euro, and lower revenues from generation coming to roughly 17.0 million euro. Furthermore, the negative effects of the Covid-19 emergency confirmed a fall in volumes sold, as mentioned above, which led to lower revenues coming to roughly 25.0 million euro and lower revenues for transmission outside the grid amounting to roughly 10.0 million euro, with no change on costs. This drop was only partially offset by the higher revenues from the acquisition of the EstEnergy Group companies and AmgasBlu Srl, which came to roughly 52.3 million euro.
Regulated revenues rose compared to June 2019 by 0.5 million euro, with Wacc remaining the same in the two periods, at 5.9%. 2020 is the first year of the 2020-2023 regulatory semi-period, regulated by resolution 568/2019.

Revenues (mn€)

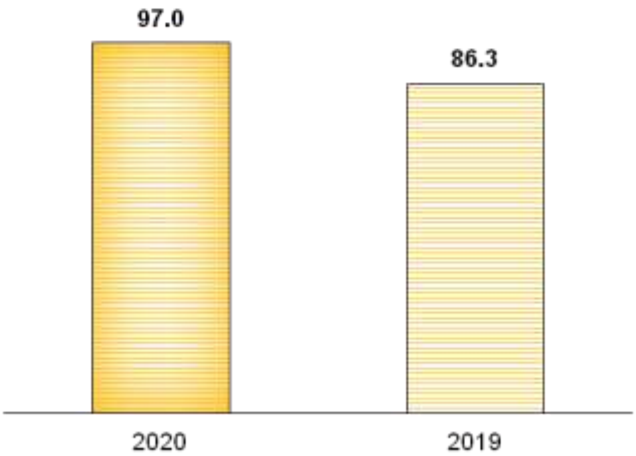


1,097.3
million euro revenues

The fall in revenues was proportionally reflected by operating costs, which went from 1,103.3 million euro in June 2019 to 979.4 million euro in June 2020, thus showing a 123.9 million euro decrease. This trend was mainly due to lower prices for raw materials, in spite of the growth due to the changes in the scope of operations.

At 30 June 2020, Ebitda increased by 10.7 million euro or 12.3%, going from 86.3 million in 2019 to 97.0 million euro in 2020, due to the higher margins produced by the entry of the EstEnergy Group companies and AmgasBlu Srl, and generation activities, which offset the lower volumes and margins due to the Covid-19 emergency, with an overall impact of a 4.1 million euro fall in margins.

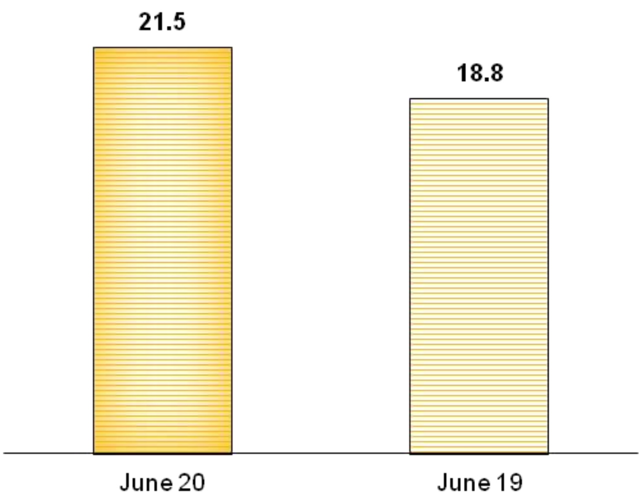
Ebitda (mn€)



97.0
million euro Ebitda

Investments in the electricity area came to 21.5 million euro in the first half of 2020, up 2.7 million euro over the previous year.
The interventions carried out mainly concern non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the first half of the previous year, a 1.8 million euro increase was seen in electricity distribution, and a 0.9 million euro rise was seen in energy sales, linked to activities in acquiring new customers. Requests for new connections fell compared to the previous year.

Net investments electricity (mn€)



21.5
million euro net investments electricity

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

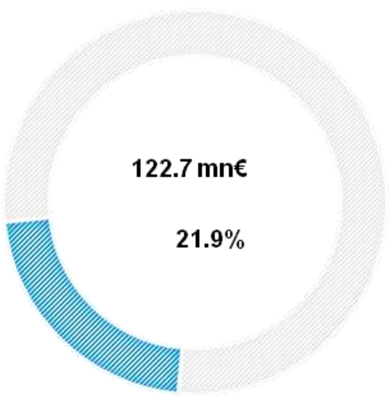
Electricity (mn€)	June 20	June 19	Abs. change	% change
Networks and plants	13.2	11.4	+1.8	+15.8%
Acquisition electricity customers	8.3	7.4	+0.9	+12.2%
Total electricity gross	**21.5**	**18.8**	**+2.7**	**+14.4%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total electricity net	**21.5**	**18.8**	**+2.7**	**+14.4%**

1.05.03
Integrated water cycle

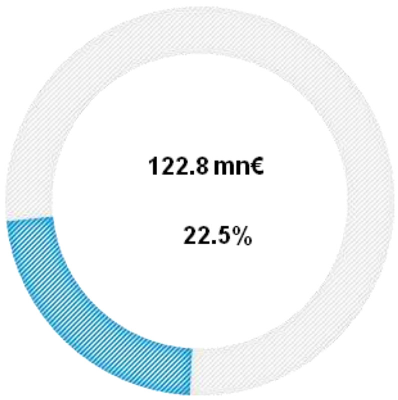
Margins rise

In the first half of 2020, results for the integrated water cycle area remained essentially in line with the previous year, showing a slight drop in Ebitda that came to 0.1 million euro or 0.1%. From a regulatory perspective, note that 2020 is the first year in which the tariff method defined by the Authority for the third regulatory period (MTI-3), 2020-2023 (resolution 580/2019), is applied. A revenue (Vrg) is recognised to each manager based on operating costs and capital costs, according to the investments made and with a view to increasing efficiency in costs, in addition to measures intended to promote and valorise interventions aimed at sustainability and resilience.

Ebitda water cycle area 2020



Ebitda water cycle area 2019



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

(mn€)	June 20	June 19	Abs. change	% change
Area Ebitda	**122.7**	**122.8**	**(0.1)**	**(0.1%)**
Group Ebitda	559.7	545.9	+13.8	+2.5%
Percentage weight	21.9%	22.5%	-0.6 p.p.	

-0.1%
Ebitda virtually unchanged

The number of water customers settled at 1.5 million, up 3.1 thousand or 0.2% over the first half of 2019, confirming the moderate trend of internal growth in the Group’s reference areas, mainly the Emilia-Romagna area served by Hera Spa.

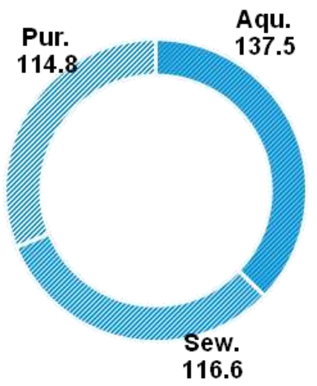
Customers (k)

1.5
million customers integrated water cycle

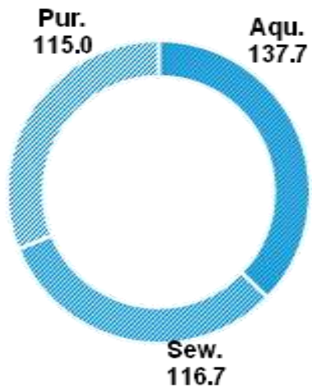
The area's main quantitative indicators are shown below:

137.5 million m³: quantity managed in the aqueduct

Quantity managed 2020 (mn m³)



Quantity managed 2019 (mn m³)



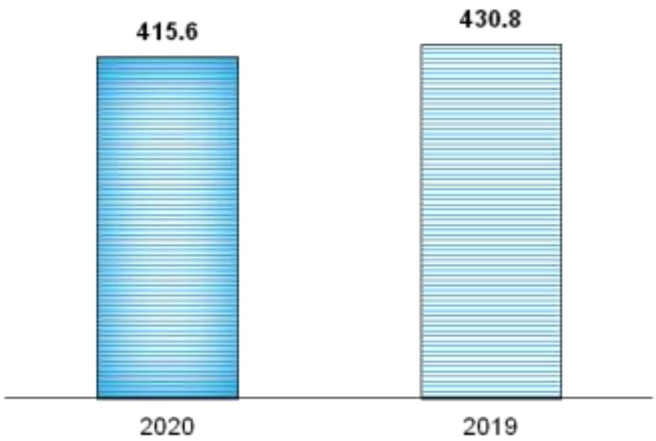
Volumes dispensed through the aqueduct were essentially in line with the first half of 2019, showing a slight 0.2 million m^3 or 0.2% drop. Little change was also seen in the quantity managed in sewerage and purification, which both fell slightly, by 0.1 million m^3 and 0.2 million m^3 respectively compared to the first half of the previous year. The volumes dispensed, following the Authority's resolution 580/2019, are an indicator of activity in the areas in which the Group operates and are subject to equalisation owing to norms that call for a regulated revenue to be recognised independently from volumes distributed.

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

Income statement (mn€)	June 20	% inc.	June 19	% inc.	Abs. change	% change
Revenues	415.6		430.8		-15.2	-3.5%
Operating costs	(202.4)	-48.7%	(219.7)	-51.0%	(17.3)	(7.9%)
Personnel costs	(92.4)	-22.2%	(90.8)	-21.1%	+1.6	+1.8%
Capitalised costs	1.9	0.4%	2.5	0.6%	(0.6)	(24.4%)
Ebitda	**122.7**	**29.5%**	**122.8**	**28.5%**	**-0.1**	**-0.1%**

In June 2020, revenues fell by 15.2 million euro or 3.5%, going from 430.8 million euro in the first half of 2019 to 415.6 million euro in the same period in 2020. This trend was due to lower revenues for subcontracted and third-party works in the first half of 2020, coming to 10.3 million euro overall, and lower revenues for new connections and customer requests. Note the lower other revenues mainly linked to contributions received, coming to roughly 3.0 million euro, of which 1 million covering non-recurring costs for the 2017 water emergency, recorded in June 2019. Revenues for dispensing fell by 1.7 million euro, mainly due to a reduction in equalised costs for electricity and water as a raw material, partially offset by the tariffary adjustments foreseen by the new method, MTI-3.

Revenues (mn€)

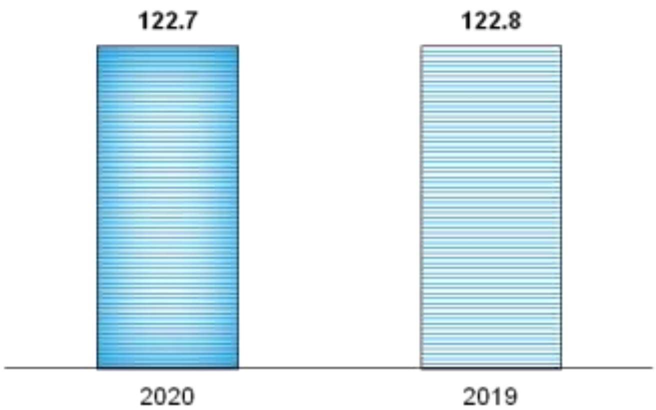


415.6
million euro revenues integrated water cycle

Operating costs fell by 17.3 million euro or 7.9%, going from 219.7 million euro in the first half of 2019 to 202.4 million euro in the same period of 2020. Not including the lower costs related to lesser amount of works carried out, as described under revenues, coming to 9.3 million euro overall, note the lower costs for water as a raw material and electricity, which amounted to roughly 9.2 million euro.

Ebitda remained fundamentally unchanged compared to the previous year, with a slight drop coming to 0.1 million euro or 0.1%, going from 122.8 million euro in June 2019 to 122.7 million euro in June 2020. The negative effects on business in the first six months of the year due to the Covid-19 epidemic brought about a 0.4 million euro overall drop in Ebitda, consisting in lower new connections, customer requests and third-party works, partially offset by the control measures introduced by the Group.

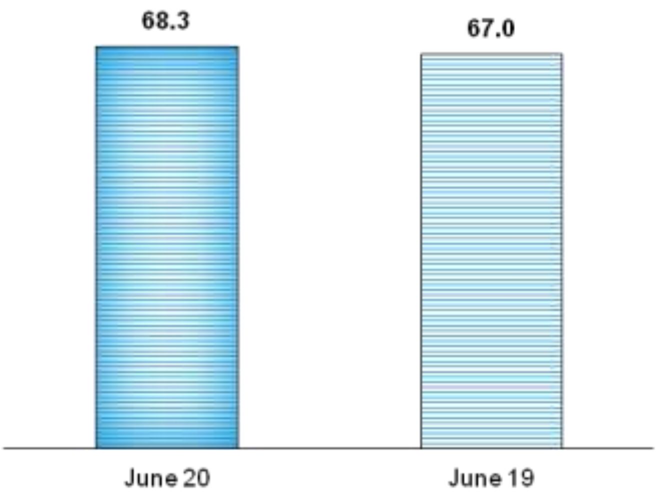
Ebitda (mn€)



122.7
million euro Ebitda integrated water cycle

In the first half of 2020, net investments in the integrated water cycle area amounted to 68.3 million euro, up 1.3 million euro compared to the previous year. Including the capital grants received, which dropped by 0.4 million euro, the investments made rose by 0.8 million euro and came to 75.4 million euro.
These investments mainly involved extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.
Investments were made coming to 47.3 million euro in the aqueduct, 17.7 million euro in sewerage and 10.4 million euro in purification.

Net investments water cycle (mn€)



68.3
million euro net investments water cycle (+1.3 million euro)

The more significant works include: in the aqueduct, increased activity in network and connection improvement linked to Arera resolution 917/2017 on the regulation of the technical quality of the integrated water system, enhancing and replacing feeding pipes in two municipalities in the Bologna area; in sewerage, continued progress was made in the important works for the Rimini seawater protection plan, even though the interventions are expected to have a lesser on impact Hera in 2020 than in the previous year. Further work was done in maintenance and upgrading for the sewerage network in other areas, and in drainage adaptation pursuant to regional resolution 201/2016; in purification, upgrading on the Lido di Classe and Lugo purifiers.
Requests for new water and sewerage connections increased over the previous year.
Capital grants amounting to 7.2 million euro included 6.6 million euro deriving from the tariff component called for by the New Investments Fund (FoNI) tariff method and fell by 0.4 million euro compared to the previous year.
On the whole, the favourable weather seen during the first quarter of the year allowed strong progress to be made in worksites, leading to positive results for the half-year even though a few sites suffered delays due to the health emergency during the second quarter.

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

Integrated water cycle (mn€)	June 20	June 19	Abs. change	% change
Aqueduct	47.3	44.5	+2.8	+6.3%
Purification	10.4	10.7	-0.3	-2.8%
Sewerage	17.7	19.3	-1.6	-8.3%
Totale integrated water cycle gross	**75.4**	**74.6**	**+0.8**	**+1.1%**
Capital grants	7.2	7.6	-0.4	-5.3%
of which FoNI (New Investment Fund)	*6.6*	*6.5*	+0.1	+1.5%
Total integrated water cycle net	**68.3**	**67.0**	**+1.3**	**+1.9%**

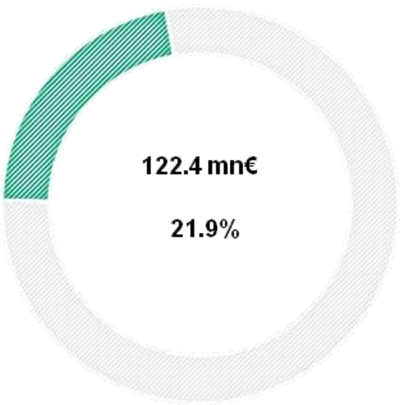
Significant operating investments in the aqueduct, sewerage and purification

1.05.04
Waste management

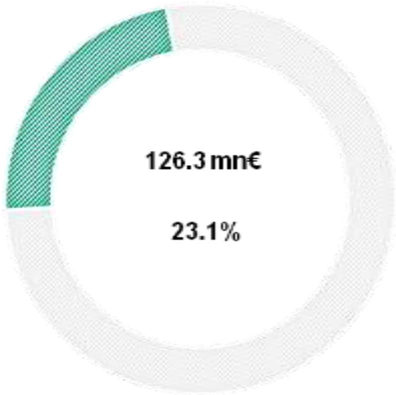
Ebitda falls

In June 2020, the waste management area accounted for 21.9% of Group Ebitda, with margins falling compared to the same period in 2019. The first six months of the year felt the negative effects of the Covid-19 epidemic. The measures made necessary by the health emergency, including restrictions on personal movement and a closure of most business and industrial activity during the lockdown, led to a decrease in the amount of waste produced and, as regards the plastic waste recovery and recycling market, a decrease in demand for recycled plastic material and a drop in the prices for recycled products. In this exceptional context, the Hera Group showed its ability to react swiftly, making its professional services available to communities and its own customers across the areas served in a joint effort to overcome the emergency. All waste treatment plants remained operational and at the service of client companies that continued to produce essential goods. Even in this particular context, the initiatives developed supporting a circular economy continued to represent not only a distinctive feature of the Group's business model but also one of its main strategic drivers. In this direction, note the beginning of the processes aimed at obtaining authorisation for a second plant producing biomethane from organic waste and the fully operational status of Aliplast's first polyethylene regenerator, installed during the previous year, and the start of work on installing the second regenerator. Environmental resource protection was confirmed as a priority goal in the first half of 2020 as well, along with optimising reuse, as is demonstrated by the Group's special focus on promoting sorted waste, which increased by 1.0 p.p. over June 2019.

Waste management area Ebitda 2020



Waste management area Ebitda 2019



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

Decrease in Ebitda: -3.1%

(mn€)	June 20	June 19	Abs. change	% change
Area Ebitda	**122.4**	**126.3**	**-3.9**	**-3.1%**
Group Ebitda	559.7	545.9	+13.8	+2.5%
Percentage weight	21.9%	23.1%	-1.2 p.p.	

The following table provides a breakdown of the volumes commercialised and treated by the Group during the first half of 2020:

Quantity (k tons)	June 20	June 19	Abs. change	% change
Municipal waste	1,030.6	1,149.3	-118.7	-10.3%
Market waste	1,111.6	1,110.4	+1.2	+0.1%
Waste commercialised	**2,142.2**	**2,259.7**	**-117.5**	**-5.2%**
Plant by-products	1,278.9	1,373.8	-94.9	-6.9%
Waste treated by type	**3,421.1**	**3,633.5**	**-212.4**	**-5.8%**

Market waste stable, drop in municipal waste

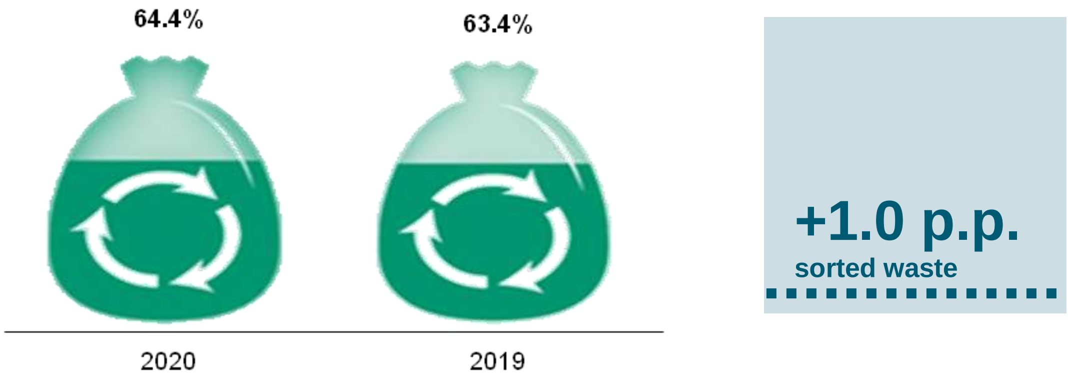
An analysis of this data shows a drop in waste commercialised, due to the decrease in municipal waste, while market waste remained essentially unchanged. As regards municipal waste, the first half of 2020 saw a 10.3% decrease, which concerned in particular both the amount of sorted and sandy shore waste and the amount of unsorted waste.

Market waste was basically in line with the previous year: the higher volumes treated owing to an increase in the scope of operations, as discussed below, and an increase in intermediated flows, fully offset the lower amount of activity caused by the Covid-19 health emergency.

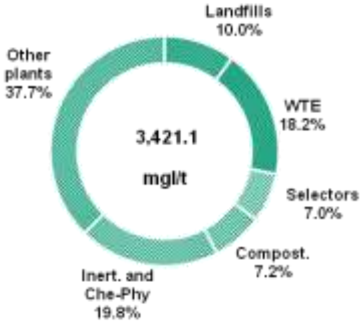
Lastly, plant by-products decreased compared to the previous year due to the lesser quantities treated and a lower amount of rainfall.

Further progress was made in sorted municipal waste, which went from 63.4% in the first half of 2019 to 64.4% in the same period of the current year. In June 2020, sorted waste increased by 1.0 p.p. in Emilia Romagna and by 2.2 p.p. in the Triveneto region, with slighter growth in the Marche region, coming to 0.4 p.p.

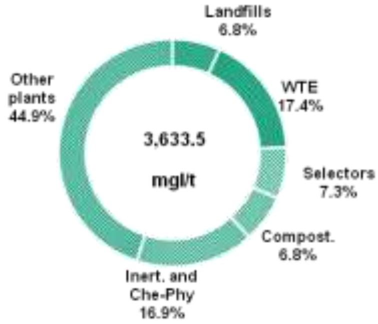
Sorted waste (%)



Waste treated by type of plant June 2020



Waste treated by type of plant June 2019



Quantity (k tons)	June 20	June 19	Abs. change	% change
Landfills	342.8	247.7	+95.1	+38.4%
WTE	623.9	632.0	-8.1	-1.3%
Selecting plants and other	238.1	264.6	-26.5	-10.0%
Composting and stabilisation plants	247.3	245.4	+1.9	+0.8%
Inertisation and chemical-physical plants	678.1	613.4	+64.7	+10.5%
Other plants	1,291.0	1,630.2	-339.2	-20.8%
Waste treated by plant	**3,421.1**	**3,633.5**	**-212.4**	**-5.8%**

The Hera Group operates in the entire waste cycle, with 93 plants used for municipal and special waste treatment and plastic material regeneration. The most important of these include: 9 waste-to-energy plants, 12 composters/digesters and 14 selecting plants.

Compared to the first half of 2019, the current year benefitted from both the acquisition of Pistoia Ambiente Srl, that manages the Serravalle Pistoiese landfill, and the operational status of the new non-dangerous waste treatment plant in Cordenons, in the province of Pordenone. Furthermore, note the management of the municipal and special non-dangerous waste treatment plant in Gaggio Montano.

Waste treatment showed a 5.8% drop compared to the first half of 2019. Note in particular the higher quantity in landfills, mainly due to the enlarged scope of operations mentioned above. In waste-to-energy plants, waste treated was essentially in line with the previous year, with a slight decrease coming to 1.3%. The fall in selecting plants is due to the lower quantity treated, mainly in the Rimini and Bologna plants. Volumes treated remained constant in composters and stabilisers, and the higher volume treated in the Voltana plants and the Tremonti mechanical-biological treatment plant fully offset the decrease in volumes treated in the Ostellato and Cesena plants. The higher amount treated in stabilisation and chemical-physical plants is due to a different classification of some plants in the subcontracted/other plants area, despite the decrease in landfill leachate due to lesser rainfall. Lastly, the decrease in subcontracted/other plants is mainly due to the representation of a few plants in other categories, partially offset by the increase in intermediated volumes.

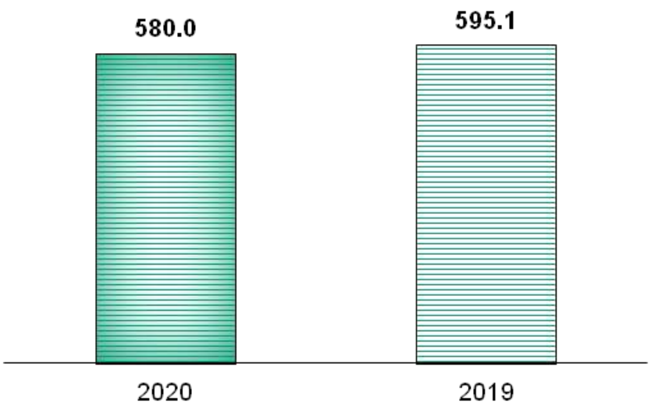
The table below summarises the area's operating results:

Ebitda increases

Income statement (mn€)	June 20	% inc.	June 19	% inc.	Abs. change	% change
Revenues	580.0		595.1		-15.1	-2.5%
Operating costs	(356.6)	-61.5%	(369.3)	-62.0%	-12.7	-3.4%
Personnel costs	(103.9)	-17.9%	(102.9)	-17.3%	+1.0	+1.0%
Capitalised costs	2.9	0.5%	3.3	0.6%	-0.4	-12.0%
Ebitda	**122.4**	**21.1%**	**126.3**	**21.2%**	**-3.9**	**-3.1%**

Revenues fell by 2.5% or 15.1 million in June 2020, going from 595.1 million euro at 30 June 2020 to 580.0 million euro in the first half of 2020. Not including changes in the scope of operations involving the entry of Pistoia Ambiente Srl and the Gaggio Montano plant (henceforth, changes in the scope of operations), which contributed with roughly 10.9 million euro, the waste management area saw revenues drop by roughly 26 million euro compared to the previous year. This trend is mainly due to lower revenues from electricity generation on account of the loss of energy incentives for a few plants, a drop in the price of market and thermal energy, a decrease in the volume of products sold by Aliplast Spa, coming to roughly 15% and, lastly, a fall in volumes treated and a decrease in upgrading activities. These negative effects were only partially offset by the positive trend in prices for special waste.

Revenues (mn€)



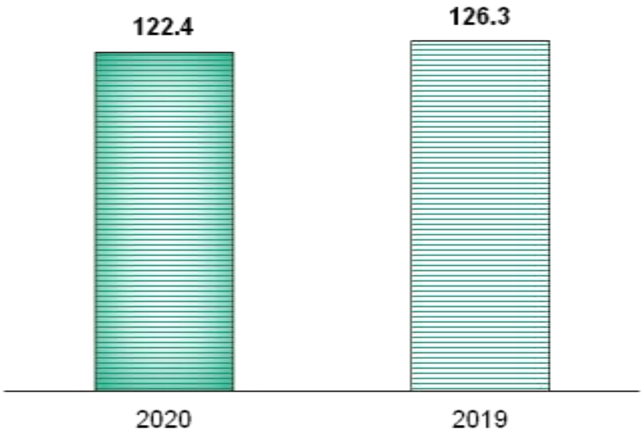
580.0
million euro revenues waste management

Operating costs decreased by 3.4% or 12.7 million euro in the first half of 2020, going from 369.3 million euro in June 2019 to 356.6 million euro in the first half of 2020. Excluding changes in the scope of operations, which contributed with 4.9 million euro, lower costs amounting to 17.6 million euro were seen. Note the lower costs for planned maintenance on Group plants and lower costs for outsourcing by-products and upgrading activities. Lastly, note the fall in the cost of purchasing on the Pet sustained by Aliplast, linked to the trend in revenues mentioned above.

The cost of personnel, not including changes in the scope of operations, increased by roughly 1.2 million euro or 0.2%.

Ebitda went from 126.3 million euro in the first half of 2019 to 122.4 million euro in the same period in 2020, showing a 3.9 million euro or 3.1% decrease. This trend is due to lower revenues from electricity generation, the negative effects of the Covid-19 emergency, coming to roughly 9.4 million euro in terms of lower volumes treated and lower margins from plastic recovery and recycling, despite the actions undertaken by the Group to limit this decrease. These negative effects were only partially offset by the higher prices seen for special waste treatment and the enlarged scope of operations.

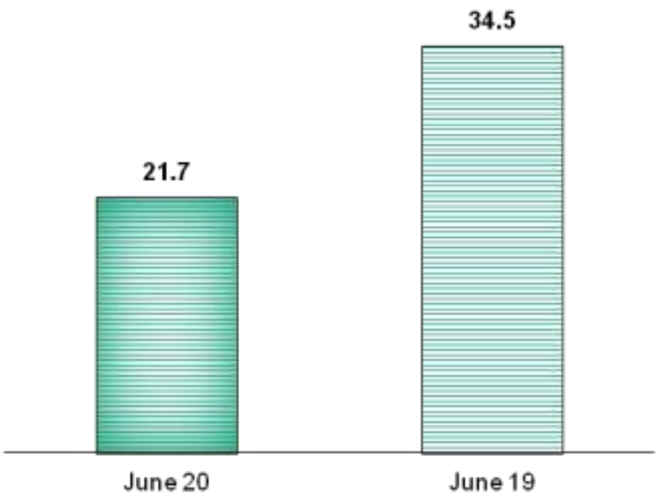
Ebitda (mn€)



122.4
million euro
Ebitda

Net investments in the waste management area concerned treatment plant maintenance and upgrading and amounted to 21.7 million euro, down 12.8 million euro compared to one year earlier.
The composter/digester sector dropped by 3.6 million euro, due to the significant interventions carried out the previous year on the Sant'Agata Bolognese composter in constructing the biomethane plant, in addition to other interventions including upgrading the Tre Monti mechanical biological treatment plant.
Investments in landfills fell by 5.0 million euro, owing to the work done in 2019 in Cordenons, the tenth sector of the Ravenna landfill and plants belonging to Marche Multiservizi Spa. Among the work begun in 2020, note the intervention on the Il Pago plant.
The WTE plants sector saw a 2.7 million euro drop in investments, mainly involving non-recurring maintenance done on the Bologna, Forlì, Rimini and Ravenna plants.
Investments in the special waste plants sector, in line with the previous year, mainly concerned revamping on the Ravenna F3 plant.
Investments in the ecological islands and collection equipment sector showed a 0.3 million euro increase over the previous year, and the 1.9 million euro decrease in the selection and recovery plants sector mainly concerned the investments made by the Aliplast Group and the end of work on the mobile soil washing plant in Chioggia in 2019.

Net investments waste management (mn€)



21.7
million euro
net investments
waste management

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

Operating investments on treatment plants

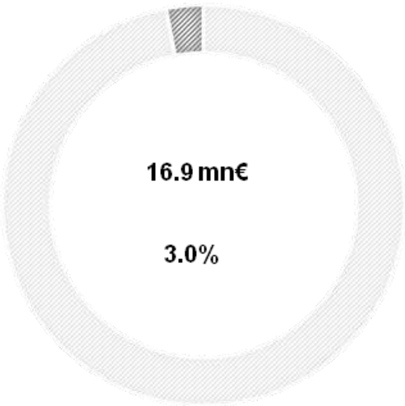
Waste management (mn€)	June 20	June 19	Abs. change	% change
Composting/digestors	0.8	4.4	-3.6	-81.8%
Landfills	5.2	10.2	-5.0	-49.0%
WTE	4.5	7.2	-2.7	-37.5%
RS plants	1.6	1.6	+0.0	+0.0%
Ecological areas and collection equipment	4.4	4.1	+0.3	+7.3%
Transshipment, selecting and other plants	5.2	7.1	-1.9	-26.8%
Total waste management gross	**21.7**	**34.7**	**-13.0**	**-37.5%**
Capital grants	0.0	0.2	-0.2	-100.0%
Total waste management net	**21.7**	**34.5**	**-12.8**	**-37.1%**

1.05.05
Other services

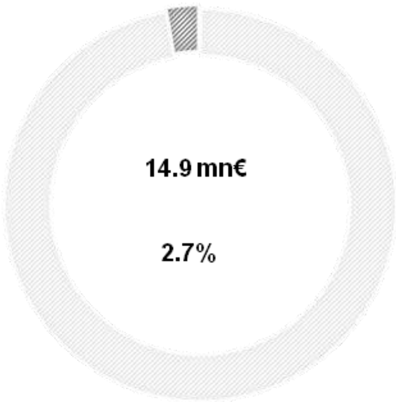
Ebitda rises

The other services area covers all minor businesses managed by the Group, including public lighting, telecommunications and cemetery services. In the first six months of 2020, results for this area increased by 13.5% over the previous year, with Ebitda going from 14.9 million euro in the first six months of 2019 to 16.9 million euro in the same period of 2020.

Ebitda other services 2020



Ebitda other services 2019



The changes occurred in terms of Ebitda are as follows:

(mn€)	June 20	June 19	Abs. change	% change
Area Ebitda	**16.9**	**14.9**	**+2.0**	**+13.5%**
Group Ebitda	559.7	545.9	+13.8	+2.5%
Percentage weight	3.0%	2.7%	+0.3 p.p.	

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

Quantity	June 20	June 19	Abs. change	% change
Public lighting				
Lighting points (k)	562.8	535.8	+27.0	+5.0%
of which led	27.3%	17.9%	+9.4 p.p.	
Municipalities served	186.0	179.0	+7.0	+3.9%

562.8 thousand lighting points

An analysis of the data regarding public lighting shows a growth of 27.0 thousand lighting points and the acquisition of 7 new municipalities served. Over the first half of 2020, the Hera Group acquired roughly 29 thousand lighting points in 10 new municipalities. The most significant of these were: roughly 5 thousand lighting points in Lombardy, roughly 8.5 thousand lighting points in Emilia-Romagna, roughly 9.1 thousand lighting points in Friuli-Venezia Giulia, roughly 1.1 thousand lighting points in Sardinia and roughly 4.5 thousand lighting points in the regions of central Italy. These increases fully offset the loss of roughly 2 thousand lighting points and 3 municipalities served in Friuli-Venezia Giulia. The percentage of lighting points using led light bulbs also increased, settling at 27.3% in June 2020, up 9.4 percentage points. This trend reflects the constant attention shown by the Group towards an increasingly efficient and sustainable management of public lighting.
Among the quantitative indicators for the other services area, note also the 4,300 Km fibre optic ultra-broadband network owned by the Hera Group through its digital company, Acantho. This network serves the main cities in

the Emilia Romagna region as well as Padua and Trieste, offering businesses and private customers a high-performance connectivity with outstanding reliability, system and data security and service continuity.

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

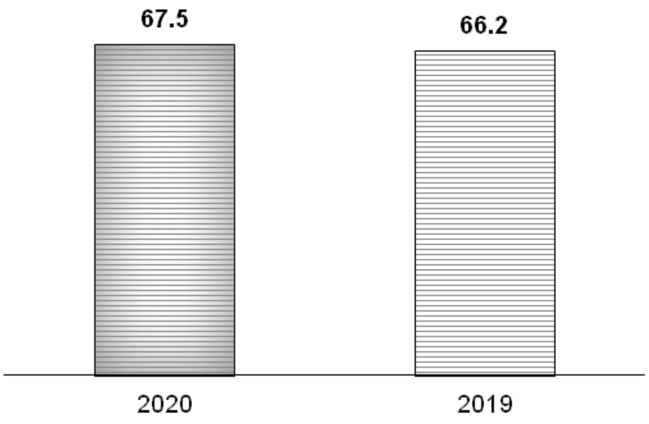
Area grows

Income statement (mn€)	June 20	% inc.	June 19	% inc.	Abs. change	% change
Revenues	67.5		66.2		+1.3	+2.0%
Operating costs	(41.2)	-61.1%	(42.3)	-63.9%	-1.1	-2.6%
Personnel costs	(10.2)	-15.2%	(10.1)	-15.3%	+0.1	+1.0%
Capitalised costs	0.8	1.2%	1.1	1.6%	-0.3	-28.3%
Ebitda	**16.9**	**25.0%**	**14.9**	**22.4%**	**+2.0**	**+13.5%**

Revenues in this area increased slightly over June 2019, up 2.0% or 1.3 million euro. This trend is due to higher revenues from the telecommunications business, only partially offset by lower revenues for public lighting. These lower revenues are due to a change in the price of electricity in management fees (with an equal effect on costs), in spite of the higher amount of work done by Hera Luce in plant upgrading and energy efficiency in the municipalities served.

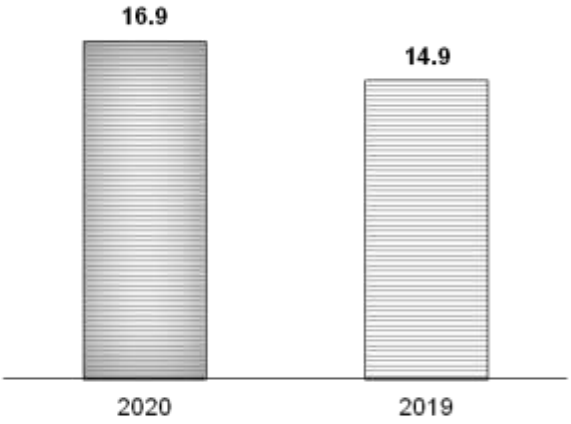
The more contained operating costs, despite the increase in municipalities served, is mainly due to the change in the price of electricity mentioned above.

Revenues (mn€)



Ebitda rose by 2.0 million euro over the first half of 2019, settling at 16.9 million. This trend is due to higher margins in the telecommunications and public lighting services, in spite of the negative effects of the Covid-19 epidemic, which caused an overall drop in Ebitda coming to 0.5 million euro.

Ebitda (mn€)

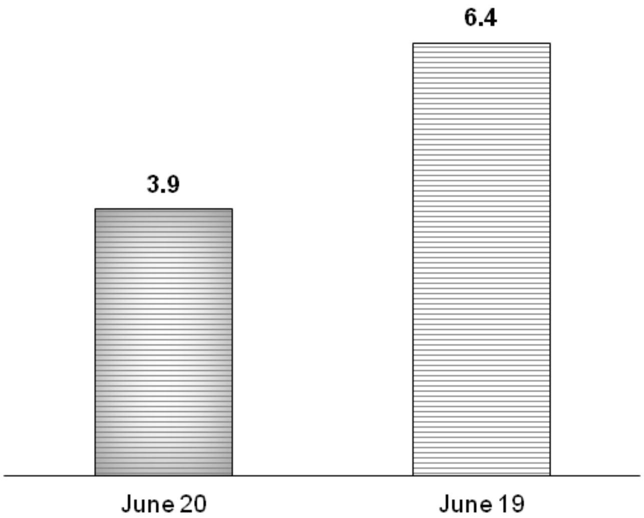


16.9
million euro
Ebitda

In the first half of 2020, investments in the other services area came to 3.9 million euro, down compared to the same period in the previous year.

In telecommunications, 2.7 million euro were invested in networks and TLC and IDC (Internet data centre) services, down by 0.7 million euro compared to the previous year. The 1.2 million euro invested in the public lighting service went to maintaining, upgrading and modernising lampposts in the areas served, down compared to the previous year mainly due to the different way of recording public lighting contracts falling under Ifric 12.

Net investments other services (mn€)



3.9
million euro
net investments
other services

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

Other services (mn€)	June 20	June 19	Abs. change	% change
TLC	2.7	3.4	-0.7	-20.6%
Public lighting and street lights	1.2	3.0	-1.8	-60.0%
Total other services gross	**3.9**	**6.4**	**-2.5**	**-39.1%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total other services net	**3.9**	**6.4**	**-2.5**	**-39.1%**

1.06
Significant events occurred during the half-year

January

Ascopiave Spa
On 30 January 2020, Hera Spa acquired 2.5% of the capital of Ascopiave Spa from Amber Capital UK LLP. On 18 June 2020 Hera Spa acquired an additional 2% of the share capital of Ascopiave Spa from A2A Spa. Hera Spa now holds, following additional purchases made on the market, 4.9% of the share capital of Ascopiave Spa.

February

Q.tHermo Srl
On 27 February 2020, Sviluppo Ambiente Toscana Srl, 95% of whose share capital is held by Hera Spa and the remaining 5% by Herambiente Spa, transferred its shares held in Q.tHermo Srl, a company involved in constructing the Sesto Fiorentino (FI) waste-to-energy plant, corresponding to 40% of the share capital.

March

Sviluppo Ambiente Toscana Srl
On 18 March 2020, following the transfer of its shareholding in Q.tHermo Srl, the Sviluppo Ambiente Toscana Srl Shareholders Meeting resolved to proceed with the voluntary dissolution of the company.

Hera Servizi Energia Srl
On 30 March 2020, Meta Srl transferred to AcegasApsAmga Servizi Energetici Spa its shareholding in Hera Servizi Energia Srl, a company active in energy services and heat management, corresponding to 9.72% of the share capital. Following this transaction, AcegasApsAmga Servizi Energetici Spa increased its holding in the share capital of Hera Servizi Energia Srl to 67.61%.

April

Inrete Distribuzione Energia Spa
The Municipalities of Cento and Bondeno, shareholders in Inrete Distribuzione Energia Spa, following the effective date of the partial demerger from the latter of CMV Servizi Srl, on 27 April 2020 acted on their right to swap the Inrete shares held for Hera shares.
At a later date, on 23 June 2020, the Municipalities of Vigarano Mainarda, Terre del Reno, Goro and Poggio Renatico, shareholders in Inrete Distribuzione Energia Spa, following the effective date of the partial demerger from the latter of CMV Servizi Srl, also acted on their right to swap the Inrete shares held for Hera shares.
Following these transactions, Hera became the holder of the Inrete shares previously held by the Municipalities of Cento, Bondeno, Vigarano Mainarda, Terre del Reno, Goro and Poggio Renatico, and thus brought its shareholding in Inrete from 99.09% to 100% of the share capital.

May

Green Factory Srl
On 19 May 2020, Marche Multiservizi Spa established a limited liability company dedicated to constructing and later managing an anaerobic waste digester, named Green Factory Srl, of which it holds the entire chare capital.

EstEnergy Spa
On 27 May 2020, Hera Spa transferred its shareholding in EstEnergy Spa to Hera Comm Spa, equivalent to 1% of the share capital. Following this transaction, Hera Comm Spa increased its shareholding in EstEnergy Spa to 52%.
On the same date, the extraordinary Shareholders Meeting of EstEnergy Spa resolved an "Exemption Option" increase of the share capital, this increase being intended for payment of the substitute tax for exemption from goodwill of the aforementioned tax option for exemption in shareholdings and shareholder financing to be paid to Hera Comm NordEst Srl for the exemption of its customer list. Following this increase, the company's share capital rose from 266,061,261 euro to 299,925,761 euro and was subscribed and proportionally freed by shareholders by way of a cash payment on 15 June 2020.

Ricicla Srl

June

On 4 June 2020, Marche Multiservizi Spa transferred its shareholding in Ricicla Srl, a company dedicated to recycling all types of residues for reuse, corresponding to 10% of the share capital.

Significant events occurred after the reporting period

Pistoia Ambiente Srl/ Herambiente Spa

Effective as of 1 July 2020, the merger by incorporation of Pistoia Ambiente Srl into Herambiente Spa, which already held the entire share capital, was completed.

2

Consolidated Financial Statements of the Hera Group

2.01
Financial statement formats

2.01.01
Income statement

mn€	notes	first six months of 2020	first six months of 2019
Revenues	1	3,402.3	3,371.6
Other operating revenues	2	222.6	249.0
Use of raw materials and consumables	3	(1,605.1)	(1,699.2)
Service costs	4	(1,151.0)	(1,075.1)
Personnel costs	5	(290.9)	(286.6)
Other operating costs	6	(32.5)	(29.8)
Capitalized costs	7	14.3	16.0
Amortisation, depreciation and provisions	8	(264.0)	(257.0)
Operating revenues		**295.7**	**288.9**
Share of profits (losses) of associated companies	9	3.7	6.5
Financial income	10	30.9	67.8
Financial expenses	10	(90.8)	(119.2)
Financial operations		**(56.2)**	**(44.9)**
Earnings before taxes		**239.5**	**244.0**
Taxes	11	(64.6)	(70.1)
Net profit for the period		**174.9**	**173.9**
Attributable to:			
Parent company shareholders		166.2	166.2
Minority shareholders		8.7	7.7
Earnings per share	**12**		
basic		**0.113**	**0.113**
diluted		**0.113**	**0.113**

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 in paragraph 2.04.01 of this consolidated financial statement.

2.01.02
Statement of comprehensive income

mn€	notes	first six months of 2020	first six months of 2019
Profit (loss) for the period		**174.9**	**173.9**
Items reclassifiable to the income statement			
Fair value of derivatives, change for the period	20	(1.4)	(58.9)
Tax effect related to items reclassifiable to the income statement		0.5	16.2
Shares valued at fair value	17	(2.5)	
Items not reclassifiable to the income statement			
Actuarial income (losses) post-employment benefits	27	2.8	(2.6)
Tax effect related to items not reclassifiable to the income statement		(0.6)	0.3
Total comprehensive profit (loss) for the period		**173.7**	**128.9**
Attributable to:			
Parent company shareholders		164.8	121.5
Minority shareholders		8.9	7.4

2.01.03
Statement of financial position

mn€	notes	30-Jun-20	31-Dec-19
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,951.1	1,992.7
Rights of use	14	91.0	96.9
Intangible assets	15	3,823.2	3,780.2
Goodwill	16	812.8	812.9
Equity investments	17	183.0	143.5
Non-current financial assets	18	136.7	135.3
Deferred tax assets	19	177.9	174.8
Derivative financial instruments	20	43.3	41.1
Non-current assets		**7,219.0**	**7,177.4**
Current assets			
Inventories	21	170.7	176.5
Trade receivables	22	1,746.9	2,065.3
Current financial assets	18	48.0	70.1
Current tax assets	23	39.3	42.1
Other current assets	24	379.9	395.7
Derivative financial instruments	20	84.8	72.2
Cash and cash equivalents	18	705.5	364.0
Total current assets		**3,175.1**	**3,185.9**
TOTAL ASSETS		**10,394.1**	**10,363.3**

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

mn€	notes	30-Jun-20	31-Dec-19
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	25		
Share capital		1,470.6	1,474.8
Reserves		1,176.5	948.0
Profit (loss) for the period		166.2	385.7
Group net equity		**2,813.3**	**2,808.5**
Non-controlling interests		185.3	201.5
Total net equity		**2,998.6**	**3,010.0**
Non-current liabilities			
Non-current financial liabilities	26.31	3,451.7	3,456.3
Non-current lease liabilities	14.31	70.1	76.1
Post-employment and other benefits	27	120.0	127.3
Provisions for risks and charges	28	518.7	521.8
Deferred tax liabilities	19	145.8	154.5
Derivative financial instruments	20	28.3	27.4
Total non-current liabilities		**4,334.6**	**4,363.4**
Current liabilities			
Current financial liabilities	26.31	448.1	305.5
Current lease liabilities	14.31	18.9	19.4
Trade payables	29	1,087.9	1,391.8
Current tax liabilities	23	79.4	86.9
Other current liabilities	30	1,286.1	1,047.9
Derivative financial instruments	20	140.5	138.4
Total current liabilities		**3,060.9**	**2,989.9**
TOTAL LIABILITIES		**7,395.5**	**7,353.3**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**10,394.1**	**10,363.3**

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

2.01.04
Cash flow statement

mn€	notes	30-Jun-20	30-Jun-19
Earnings before taxes		**239.5**	**244.0**
Adjustments to reconcile net profit to the cash flow from operating activities			
Amortisation and impairment of assets		214.9	199.3
Allocation to provisions		49.1	57.7
Effects from valuation using the net equity method		(3.7)	(6.5)
Financial (income) expenses		59.9	51.4
Capital (gains) losses and other non-monetary elements		(15.7)	(2.7)
Change in provision for risks and charges		(15.1)	(16.2)
Change in provision for employee benefits		(5.6)	(4.4)
Total cash flow before changes in net working capital		**523.3**	**522.6**
(Increase) decrease in inventories		5.8	7.6
(Increase) decrease in trade receivables		280.8	32.6
Increase (decrease) in trade payables		(303.9)	(270.3)
Increase/decrease in other current assets/liabilities		102.5	131.6
Changes in working capital		**85.2**	**(98.5)**
Dividends collected		5.0	7.9
Interest income and other financial income collected		13.6	25.5
Interest expenses, net charges on derivatives and other paid financial charges		(53.2)	(62.2)
Taxes paid		(86.8)	(10.8)
Cash flow from operating activities (a)		**487.1**	**384.5**
Investments in property, plant and equipment		(46.2)	(60.5)
Investments in intangible assets		(157.1)	(154.1)
Investments in companies and business units net of cash and cash equivalents	31	(45.6)	(0.6)
Sale price of property, plant, equipment and intangible assets		2.3	1.3
Divestments in equity investments and contingent consideration	31	1.4	
(Increase) decrease in other investment activities		21.1	(24.9)
Cash flow from (for) investing activities (b)		**(224.1)**	**(238.8)**
New issue of long-term binds	31	7.3	127.6
Repayments and other net changes in financial payables	31	111.1	(45.8)
Finance lease payments	31	(13.9)	(9.4)
Acquisition of stakes in consolidated companies	31	(1.2)	(2.8)
Dividends paid out to Hera shareholders and non-controlling interests		(2.7)	(151.1)
Changes in treasury share		(22.1)	19.7
Cash flow from (for) financing activities (c)		**78.5**	**(61.8)**
Increase (decrease) in cash and cash equivalents (a+b+c)		**341.5**	**83.9**
Cash and cash equivalents at the beginning of the period		364.0	535.5
Cash and cash equivalents at the end of the period		705.5	619.4

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 in paragraph 2.04.03 of this consolidated financial statement.

2.01.05 STATEMENT OF CHANGES IN NET EQUITY

mn€	Share capital	Reserves	Reserves derivatives valued at fair value	Reserves actuarial income (losses) post-employment benefits	Reserves shares valued at fair value	Revenues for the period	Net equity	Non-controlling interests	Total
Balance at 31 December 2018	**1,465.3**	**926.8**	**16.5**	**(29.8)**		**281.9**	**2,660.7**	**186.0**	**2,846.7**
Adoption of IFRS 16		(4.5)					(19.3)	(0.6)	(19.9)
Balance at 01-Jan-19	**1,465.3**	**922.3**	**16.5**	**(29.8)**	**-**	**281.9**	**2,656.2**	**185.4**	**2,841.6**
Revenues for the period						166.2	166.2	7.7	173.9
Other components of comprehensive income:									
Fair value of derivatives, change for the period			(42.7)				(42.7)		(42.7)
Actuarial income (losses) post-employment benefits				(2.0)			(2.0)	(0.3)	(2.3)
Overall revenues for the period	**-**	**-**	**(42.7)**	**(2.0)**	**-**	**166.2**	**121.5**	**7.4**	**128.9**
Changes in treasury share	6.2	13.5					19.7		19.7
Changes in equity investments		(0.9)					(0.9)	(1.9)	(2.8)
Changes in the scope of consolidation							-	11.9	11.9
Allocation of revenues:									
Dividends paid out						(149.1)	(149.1)	(11.4)	(160.5)
Allocation to reserves		132.8				(132.8)	-		-
Balance at 30 June 2019	**1,471.5**	**1,067.7**	**(26.2)**	**(31.8)**	**-**	**166.2**	**2,647.4**	**191.4**	**2,838.8**
Balance at 31-Dec-19	**1,474.8**	**1,019.7**	**(37.9)**	**(33.8)**	**-**	**385.7**	**2,808.5**	**201.5**	**3,010.0**
Revenues for the period						166.2	166.2	8.7	174.9
Other components of comprehensive income:									
Fair value of derivatives, change for the period			(0.9)				(0.9)		(0.9)
Actuarial income (losses) post-employment benefits				2.0			2.0	0.2	2.2
Fair value of shares, change for the period					(2.5)		(2.5)		(2.5)
Overall revenues for the period	**-**	**-**	**(0.9)**	**2.0**	**(2.5)**	**166.2**	**164.8**	**8.9**	**173.7**
Changes in treasury share	(4.2)	(7.8)					(12.0)		(12.0)
Changes in equity investments							-	(11.3)	(11.3)
Other movements		2.2					2.2	0.9	3.1
Dividends paid out						(150.2)	(150.2)	(14.7)	(164.9)
Allocation to reserves		235.5				(235.5)	-		-
Balance at 30 June 2020	**1,470.6**	**1,249.6**	**(38.8)**	**(31.8)**	**(2.5)**	**166.2**	**2,813.3**	**185.3**	**2,998.6**

2.02
Explanatory notes

2.02.01
Accounting policies and evaluation principles

The consolidated financial statement at 30 June 2020, comprised of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity and explanatory notes, have been prepared in compliance with Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of International Accounting Financial Reporting Standards (hereinafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called Standing Interpretations Committee, as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

In preparing the half-yearly abbreviated consolidated financial statements, prepared in accordance with IAS 34 Interim Financial Reporting, the same accounting principles were adopted as those utilized in drafting the consolidated financial statements at 31 December 2019, which should be consulted for more detailed information.

The general principle adopted in preparing this abbreviated consolidated financial statement is the cost principle, except for the assets and liabilities (including the derivative instruments), which were measured at fair value.

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

Information on the Group's operations and significant events occurred after the end of the six-month period is provided in the Directors' report.

This half-yearly abbreviated consolidated financial statement at 30 June 2020 was drawn up by the Board of Directors and approved by the same at the meeting held on 29 July 2020. This financial statement underwent limited auditing by Deloitte & Touche Spa.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements at and for the year ended 31 December 2019. A vertical format has been used for the income statement, with individual items analysed by nature. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results.

The Statement of comprehensive income is presented in a separate document from the income statement, as permitted by IAS 1revised, distinguishing the components that may be reclassified subsequently to profit and loss and those that will never be reclassified to profit and loss. The other components of comprehensive income are shown separately also in the Statement of changes in equity. The statement of financial position makes the distinction between current and non-current assets and liabilities. The cash flow statement has been prepared using the indirect method, as allowed by IAS 7.

In the financial statements any non-recurring costs and revenues are indicated separately. Moreover, with reference to Consob resolution no. 15519 of 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, highlighting the most significant balances with related parties, in order to avoid altering the overall clarity of the financial statements.

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

Evaluation criteria

The preparation of the half-yearly abbreviated consolidated financial statement and related notes required 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. 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.

Going concern

The directors considered the applicability of the assumed going concern in drafting the consolidated financial statement, and decided that such assumption is fully satisfied in that there are no doubts about the going concern. With reference to the crisis resulting from the Covid-19 pandemic, see chapter 1.02 "Covid-19 emergency and risk management areas".

Recognition of revenues

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

Depreciation

Depreciation is calculated on the basis of the useful life of an asset, determined at the moment that said asset is entered into the financial statement. Assessments of the length of the useful life are based on historical experience, market conditions and the expectation of future events that could affect this useful life, including technological changes. Therefore, it is possible that the actual useful life could differ from the estimated useful life.

Provisions for risks

These provisions were made on the basis of Group policy, with reference to up-to-date reports by the legal advisors and consultants that are following the cases, as well as on the basis of developments in the relevant legal proceedings.

Income taxes

Income taxes are reported on the basis of the best estimate of the weighted average tax rate anticipated for the full financial period, also taking into account any tax effects resulting from the regulatory provisions introduced during the half year.

Deferred tax assets

Accounting for pre-paid 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 pre-paid tax assets depends on factors that may vary over time and significantly affect the recoverability of pre-paid 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 on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as a reference. The fair value of derivatives contracts on commodities is determined using directly observable market inputs, where available. The methodology for calculating the fair value of derivative instruments includes the assessment of the non-performance risk, where relevant. All derivative contracts entered into by the Group are with leading counterparties.

It is also noted that certain valuation processes, specifically the more complex ones such as establishing any impairment of non-current assets, are generally carried out fully only for the preparation of the annual financial statements, except in cases where there are impairment indicators that require an immediate impairment test.

Risk management

Credit risk
The credit risk faced by the Group originates from the articulation of the client portfolios in the main business areas in which it operates; for the same reason, this risk is spread out over a large number of clients. In order to manage the credit risk, the Group has defined procedures for selecting, monitoring and evaluating its customer portfolio. The benchmark market is the Italian market.
The Group's credit management model makes it possible to analytically determine the different risks associated with the collectability of trade receivables as soon as they arise and progressively according to their increasing seniority. This approach allows the company to reduce the concentration and exposure to credit risk posed by both business and household customers. With regard to receivables from small-sized customers, allocations 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 the management of financial resources. For the most part, this is done through the centralised management of cash inflows and outflows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate credit facilities; 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 the effective management of liquidity risk.

Interest rate risk and currency risk on financing transactions
The cost of financing is affected by interest rate fluctuations. In the same way, the fair value of financial liabilities is also subject to interest rate and exchange rate fluctuations.
The Group regularly assesses its exposure to such risks and manages them by means of derivative financial instruments, in accordance with its risk management guidelines. To mitigate interest rate volatility risk and simultaneously ensure a correct balance between fixed rate debt and variable rate debt, the Group has stipulated interest rate derivatives in relation to a portion of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has signed foreign exchange derivatives to fully hedge loans in foreign currencies.
Under these guidelines, derivative financial instruments may only be used to manage its exposure to interest and exchange rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out.

Market risk and currency risk on commercial transactions
Concerning the wholesale business carried on by Hera Trading 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 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, but which are nevertheless entered into with a view to optimizing and managing the Group's overall exposure.

Covid-19 emergency

Reference should be made to paragraph 1.02 "Areas of risk management and Covid-19 emergency" of the management report for a more detailed analysis of the health emergency caused by the pandemic, with reference to the plans implemented by the Group to tackle it and the analysis of the effects that it might have.
From an accounting point of view, it should be noted that the Group's management considered the aforementioned health emergency to be a significant event in accordance with paragraph 15 of IAS 34. The current and forecasted effects for the Hera Group, however, are considered to be marginal and, consequently, the estimates of the financial statement values have not been revised as a result of the emergency. Moreover, based on the current situation and information available to date, the management believes that there are no indicators of impairment such as to lead to re-calculating the recoverable value of the assets recognised in the Group's consolidated financial statements at 30 June 2020.

2.02.02

Scope of consolidation

The half-yearly abbreviated consolidated financial statement at 30 June 2020 includes the financial statements of the Parent Company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Equity investments in joint ventures in which the Hera Group exercises joint control with other companies as well as the companies over which the Group exercises significant control are consolidated with the equity method.
Small-scale subsidiaries are excluded from overall consolidation and valued at fair value recorded in other items of the comprehensive income statement. These companies are listed in note 17 "Equity investments" under the item “Other minor companies”.

The main exchange rates used to translate the value of foreign companies in euros are as follows:

	30-Jun-20		31-Dec-19		30-Jun-19	
	Average	Specific	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.412	4.456	4.277	4.257	4.292	4.250

Changes in the scope of consolidation

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

Changes in equity investments

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

On April 29 2020, the municipalities that are minority shareholders of Inrete Distribuzione Energia Spa, holding a total interest of approximately 0.9% of the share capital, exchanged the shares they held with Hera Spa shares, pursuant to the Framework Agreement entered into in 2019. As a consequence of this operation, the Group gained total control over the company.

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

Other corporate operations

With effect from 1 January 2020, Alimpet Srl was merged by incorporation into Aliplast Spa and A Tutta Rete Srl was merged into Inrete Distribuzione Energia Spa.

Business Combination operations

Over the course of the first half year of the financial period, the evaluation process relating to the acquisition of "Pistoia Ambiente" and Ascopiave's commercial activities was completed.
The table below shows a comparison between the provisional and final assessment of assets and liabilities acquired recognized at their fair value.

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

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

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

As far as the "Pistoia Ambiente" business combination is concerned, at 30 June 2020 the management completed the analysis of the technical-regulatory feasibility of the additional volumes that can be transferred to the Serravalle Pistoiese landfill, as compared to those provisionally estimated at 31 December 2019. On the basis of the provisions included in the agreement between the parties, these higher volumes disposable resulted in a change in the estimate of the consideration transferred, leading to recognise a potential consideration of 5.2 million euro. This value will in fact be paid to the counterparty only after obtaining specific authorisation from the relevant authorities for the incremental volumes, an event not expected before 2024. Since this is a monetary amount to be paid in a future financial period, the corresponding debt has been discounted to present value. In addition, the revision of the amounts that may be deposited led to a change in the estimated life of the landfill from the initially assumed 10 years to approximately 12 years.
The fair value of the authorisation for the waste disposal activity was reassessed at 73.4 million euro (67.1 million euro in the provisional evaluation). Employing the same method, such assessment is mainly linked to the revision of the residual volumes available for disposal.
The value of the post-closure provision was also adjusted for 0.8 million euro (compared with an upward adjustment of 9.2 million euro in the provisional assessment), aligning it to its fair value determined at the date of the acquisition; the same occurred for the related value of dismantling and restoration costs recorded under "Plants and machinery". These effects are mainly due to the more precise estimate of the discount rate adopted, with particular reference to the coefficients characterising the business in question.
The deferred taxation corresponding to these evaluations led net liabilities for 20.7 million euro to be registered (17 million euro in the provisional assessment).
The residual result of recognising the combination transaction resulted in profit for 3.1 million euro thanks to a favourable price purchase (negative goodwill), unlike the provisional assessment in which goodwill of 0.7 million euro was recognised. In light of their limited significance, the effects deriving from having completed the process of fair value measurement of the assets and liabilities acquired by Pistoia Ambiente Srl, as compared to the amount provisionally estimated at 31 December 2019, were recorded under other movements in shareholders' equity for a total of 3.3 million euro. This amount includes 3.1 million euro profit from purchases at favourable prices and a residual adjustment of 0.2 million euro of the economic effects recognised in the second half of 2019.

With reference to the business combination "Ascopiave commercial activities", the final assessment led to completely marginal changes, limited to the fair value of some current assets and liabilities, as well as deferred taxation. This adjustment led to restate the goodwill to 431.2 million euro as compared with 430.6 million euro at 31 December 2019.

2.02.03
Changes in international accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2020

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

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

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

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

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

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

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

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

Amendments to IAS 1 - Presentation of Financial Statements: reporting liabilities as current or non-current. Document issued by IASB on 23 January 2020, applicable from 1 January 2022 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).

On 14 May 2020, IASB introduced a set of amendments with limited scope, as well as the 2018-2020 annual improvements. The amendments, applicable beginning 1 January 2022 with early application allowed, are as follows:
Amendments to IFRS 3 - business combinations. These changes update a reference to the systematic financial reporting framework without altering the accounting requirements for the business combinations;
Amendments to IAS 16 - Property, plant and equipment. The amendments introduce the impossibility of reducing the cost of property, plant and equipment by the amount received from the sale of products while the

asset is being prepared for its intended use. These sales, on the other hand, must be recorded in the income statement under income, as well as the associated costs;
Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets. The amendment specifies the costs that must be taken into account when assessing whether a contract will be onerous;
2018-2020 annual improvements. These amendments clarify, correct or remove redundant statements or formulations in the text of the relevant standards. Slight changes have been made to IFRS 1 - First adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments, IAS 41 - Agriculture and to the illustrative examples accompanying IFRS 16 - Leases.

Amendments to IFRS 16 - Leases: rental benefits related to Covid-19. Document issued by IASB on 28 May 2020, applicable from 1 January 2020 with early application allowed. The amendment exempts lessees from having to consider individual leases to determine whether the benefits granted as a direct consequence of the Covid-19 pandemic are to be classified as contractual changes. In particular, lessors may account for such benefits as if they were not contractual changes. The simplification applies to Covid-19 related benefits that reduce lease payments due by 30 June 2021. The amendment does not concern lessors.

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

2.02.04
Commentary notes to the financial statement formats

It is noted that paragraphs 1.03 and 1.05 show an analysis of management performance in the first half of the year which can aid in better understanding the changes that occurred in the key items of operating expenses and revenues.

1 Revenues

	first six months of 2020	first six months of 2019	Change
Revenues from sales and services	3,392.6	3,365.2	27.4
Changes in contract work in progress, semi-finished and finished products	9.7	6.4	3.3
Total	**3,402.3**	**3,371.6**	**30.7**

The item "Revenues from sales and services" is almost in line with the first half of the previous year, although including two opposing effects. On the one hand, in fact, unfavourable temperatures and crisis stemming from the public health emergency caused a reduction in the volumes of gas and electricity sold (in this case, solely as a result of the pandemic) with a consequent reduction in revenues, while on the other hand energy sales increase thanks to the input of the companies that were acquired at the end of 2019 as part of the partnership operation with the Ascopiave Group.

Revenues are earned mainly in Italy.

2 Other operating revenues

	first six months of 2020	first six months of 2019	Change
Long-term contracts	120.5	130.2	(9.7)
White certificates	44.7	48.1	(3.4)
Operating grants and grants for separated waste collection	26.3	30.1	(3.8)
Grants related to plants	4.6	6.4	(1.8)
Use of funds	6.8	5.9	0.9
Insurance refunds	1.5	0.9	0.6
Other revenues	18.2	27.4	(9.2)
Total	**222.6**	**249.0**	**(26.4)**

The most substantial changes by comparison with the previous financial period are described below.

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held in concession as per the interpretation of IFRIC 12 The change with respect to 30 June 2019 is due to the difference in recognising works on public lighting systems, which now include, if still ongoing, the costs incurred and invoiced for changes in work in progress, semi-finished and finished goods.

“White certificates” comprise the revenues calculated on the basis of energy efficiency objectives for the year as established by the GSE and regulated in relation to the Cassa per i Servizi Energetici e Ambientali. The change is due, given substantially the same subsidies provided for by the entity regulating the distribution companies, to the different obligations recorded with respect to the previous year.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 10.2 million euro (13.2 million euro at 30 June 2019), mainly comprising incentives provided by the GSE for the production of energy from renewable sources and contributions from sorted waste collection in the amount of 16.1 million euro (16.9 million euro at 30 June 2019) mainly comprising the value of packaging (cardboard, iron, plastic and glass) transferred to the Conai consortia.

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

"Use of funds", this item is associated with the costs incurred internally and duly accounted for in relation to labour, leachate and use of vehicles.

3 Use of raw materials and consumables

	first six months of 2020	first six months of 2019	Change
Gas earmarked for sale, net of changes in stocks	1,009.8	965.1	44.7
Electricity	401.3	541.6	(140.3)
White and grey certificates	50.6	53.6	(3.0)
Maintenance materials net of changes in stocks	31.7	32.9	(1.2)
Water	21.8	23.5	(1.7)
Plastics net of changes in stocks	21.4	27.4	(6.0)
Charges and revenues from derived materials	31.2	10.4	20.8
Chemical products	10.2	9.1	1.1
Fuels, motor fuels and lubricants	7.4	8.5	(1.1)
Methane gas for industrial use	3.4	9.2	(5.8)
Charges and revenues from certificate valuation	(0.9)	(0.7)	(0.2)
Consumables and miscellaneous	17.2	18.6	(1.4)
Total	**1,605.1**	**1,699.2**	**(94.1)**

"Gas earmarked for sale net of changes in stocks", the increase as compared to the first six months of 2019 is due to the greater volumes managed by the companies that were included in the scope of consolidation following the partnership with the Ascopiave Group, for 148.4 million euro, an effect partially offset by the lower volumes supplied due to reduced consumption for the unfavourable temperatures.

"Electricity", the decrease as compared to the first six months of 2019 is mainly due to the significant decrease of the average Pun value.

"White and grey certificates" includes the purchase cost of the various types of environmental certificates incurred during the first six months of 2020, and specifically: 45.1 million euro for white certificates (45.6 million euro in 2019) and 4.1 million euro for grey certificates (7 million euro in 2019) and 1.4 million euro for RECS certificates - renewable energy certificate system (1 million euro in 2019). Over the course of the first six months of 2020, market prices for all types of certificates remained substantially unchanged. It should also be noted that in relation to white certificates, supply needs are defined according to the obligations allocated to distribution companies.

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

"Charges and revenues from certificate valuation" reflects the valuation of environmental certificates in stock, mainly comprising green certificates.

For the item "Charges and revenues from derived materials", please see note 20.

4 Service costs

	first six months of 2020	first six months of 2019	Change
Transport and storage	643.3	546.8	96.5
Work and maintenance expenses	167.2	186.1	(18.9)
Waste transportation, disposal and collection	181.2	182.1	(0.9)
Fees paid to local authorities	33.3	34.0	(0.7)
IT and data processing services	25.8	22.6	3.2
Professional, legal and tax services	19.1	16.0	3.1
Other commercial services	10.1	15.5	(5.4)
Technical services	11.0	11.2	(0.2)
Recruitment, training and other staff costs	7.1	9.0	(1.9)
Insurance	8.5	8.0	0.5
Postal and telephone costs	6.1	7.5	(1.4)
Rents and leases payable	7.6	6.9	0.7
Bank fees and charges	5.5	4.9	0.6
Legal and financial announcements and advertising, communication with customers	3.0	3.9	(0.9)
Remuneration to statutory auditors and directors	2.8	3.2	(0.4)
Other service costs	19.4	17.4	2.0
Total	**1,151.0**	**1,075.1**	**75.9**

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution as well as the network costs charged to the end customers. The increase as compared to the first six months of 2019 is mainly due to the component from the former companies of Ascopiave in the amount of 63.6 million euro for the gas sector and 22.7 million euro for the electricity sector.

"Charges for works and maintenance" includes the costs for the construction or improvement of infrastructures under concession pursuant to the application of the IFRIC 12 interpretation and costs for maintaining the plants managed by the Group. The change as compared to the first half of 2019 is mainly due to the interruption of operations on networks held under concession and activities related to the "decontamination" business resulting from the measures taken during the lockdown caused by the health emergency.

The item "Fees paid to local authorities" also includes the charges incurred for the use of publicly owned networks, fees paid to companies that own these assets for the management of gas, water and electricity cycle assets, and, to a lower degree, fees paid to municipalities for the use of telecommunication networks.

"IT and data processing services" and "Professional, legal and tax services" increased mainly as a result of the former Ascopiave sales companies entering into the scope of consolidation.

"Other commercial services" includes the costs incurred in developing and managing sales activities, specifically natural gas and electricity sales and associated support structures. The decrease is mainly due to the reduction in outsourced help desk activities as a result of the health emergency.

"Other costs for services” mainly includes costs concerning cleaning and security services, utilities, meter reading service and laboratory analyses.

5 Personnel costs

	first six months of 2020	first six months of 2019	Change
Salaries and wages	202.7	201.9	0.8
Social security expenses	67.5	65.8	1.7
Post-employment and other benefits	0.6	0.4	0.2
Other costs	20.1	18.5	1.6
Total	**290.9**	**286.6**	**4.3**

The increase in labour costs of 4.3 million euro as compared with the first half of 2019 mainly reflects the increase in the number of employees during the period, an effect of the inclusion of the former Ascopiave companies.

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

	first six months of 2020	first six months of 2019	Change
Managers	154	149	5
Middle management	558	540	18
Clerks	4,926	4,711	215
Blue-collar worker	3,276	3,337	(61)
Total	**8,914**	**8,737**	**177**

Overall, the average cost of labour per capita for the first half of 2020 was 32.6 thousand euro (32.8 thousand euro in the first half of 2019).

At 30 June 2020, the actual headcount of employees was 8,896 (8,759 at 30 June 2019).

6 Other operating costs

	first six months of 2020	first six months of 2019	Change
Taxation other than income taxes	6.7	7.2	(0.5)
State rentals	7.3	6.3	1.0
Losses on the sale and disposal of assets	0.6	0.9	(0.3)
Landfill special tax	3.6	2.1	1.5
Bad debt losses	-	-	-
Other minor charges	14.3	13.3	1.0
Total	**32.5**	**29.8**	**2.7**

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

"State rentals" is mainly related to fees paid to the Emilia Romagna region, land reclamation consortia, sector agencies and mountain-area communities, mainly regarding the withdrawal and use of water, as well as maintenance and management costs for hydraulic works.

"Special landfill levy" refers to the relevant environmental tax for the period on landfills operated by the Group.

The item "Other minor charges" mainly includes compensation for damages, fines, penalties and other non-recurring charges.

7 Capitalized costs

	first six months of 2020	first six months of 2019	Change
Increase in self-constructed assets	14.3	16.0	(1.7)

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

8 Amortisation, depreciation and provisions

	first six months of 2020	first six months of 2019	Change
Property, plant and equipment amortisation	87.0	80.0	7.0
Rights of use amortisation	8.0	7.5	0.5
Intangible assets amortisation	119.9	111.8	8.1
Allowance for bad debts	37.7	39.6	(1.9)
Provisions for risks and charges	11.5	18.6	(7.1)
De-provisioning	(0.1)	(0.5)	0.4
Total	**264.0**	**257.0**	**7.0**

As breakdowns and further detail about these items, please refer to the comments under note 13 "property, plant and equipment", note 14 "Rights of use and leasing liabilities", note 15 "intangible assets", note 22 "trade receivables" and note 28 "Provisions for risks and charges".

For "Property, plant and equipment amortisation", the increase is due to the revision of the useful lives of some categories of electric meters, which were valued technologically obsolete and which will be replaced in the coming years, amounting to 1.3 million euro as well as to higher investments on plants for the waste treatment and heat management businesses.

"Rights of use amortisation" includes the amortisation of assets recorded in relation to leasing contracts falling within the scope of application of accounting standard IFRS 16.

"Intangible asset amortisation", the increase is mainly related to recording customer lists as part of the gain in control of the former Ascopiave sales companies, which led to higher amortisation for 9 million euro, partially offset by the sale of the gas distribution branch of AcegasApsAmga Spa and the adjustment of the technical-economic useful lives of the assets of the integrated water cycle at 31 December 2019.

"Provisions for risks and charges", the decrease is due, for 5.5 million euro, to reduced waste disposal volumes due to Covid-19, which led to lower volumes of waste stored for future treatment.

The item “De-provisioning” includes the re-verification of the various 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

	first six months of 2020	first six months of 2019	Change
Joint venture share of net profits	0.5	3.8	(3.3)
Associated companies share of net profits	3.2	2.7	0.5
Total	**3.7**	**6.5**	**(2.8)**

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 consolidation carried out using the equity method.

The "Joint venture share of net profit" mainly refers to the share of the Group's net income earned by Enomondo Srl, 0.5 million euro (1.1 million euro in the first six months of 2019). In the first six months of 2019, this item included EstEnergy Spa's share, 2,7 million euro, over which control was gained at the end of the 2019 financial year.

The "Associated companies share of net profit" mainly refers to the profit earned by Aimag Spa, 1.1 million euro (1.1 million euro in the first half of 2019) and Sgr Servizi Spa, 1.3 million euro (1.7 million euro in the first half of 2019) as well as Asm Set Srl for 0.6 million euro.

10 Financial income and expense

	first six months of 2020	first six months of 2019	Change
Revenues from derivatives	12.6	47.8	(35.2)
Customers	11.1	14.9	(3.8)
Income from valuation at fair value of financial liabilities	-	2.2	(2.2)
Other financial income	7.2	2.9	4.3
Total income	**30.9**	**67.8**	**(36.9)**
Bonds	36.5	45.6	(9.1)
Valuation at depreciated cost of financial liabilities	13.9	5.6	8.3
Charges from derivatives	13.1	46.8	(33.7)
Discounting of provisions and finance leases	12.0	10.8	1.2
Charges from derivatives	9.7	-	9.7
Loans	2.4	3.4	(1.0)
Charges from valuation at fair value of financial liabilities	1.2	4.8	(3.6)
Factoring	0.8	1.1	(0.3)
Other financial expenses	1.2	1.1	0.1
Total expenses	**90.8**	**119.2**	**(28.4)**
Total net financial expense (income)	**(59.9)**	**(51.4)**	**(8.5)**

The change in overall financial management, including reference to the Group's average cost of indebtedness, is described in the Directors' Report in paragraph 1.03.04.

For further details on "Loans" and "Financing and bonds", see note 26 "Non-current and current financial liabilities", while for "Income and charges from valuation at fair value of financial liabilities" and "Income and charges from derivatives", see note 20 "Derivative financial instruments".

The item "Other financial income" mainly includes:

- dividends paid by non-consolidated subsidiaries, amounting to 2.9 million euro (0.1 million euro at 30 June 2019);

- interest earnings on loans granted to companies valued at equity or to subsidiaries, in the amount of 1.4 million euro (1.3 million euro at 30 June 2019);
- income related to discounted receivables in the amount of 1.3 million euro (0.8 million euro at 30 June 2019);
- income from the sale of the stake in the associated company Q.Thermo Srl in the amount of 1.4 million euro.

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

	first six months of 2020	first six months of 2019	Change
Post-closure landfills	7.2	5.9	1.3
Restoration of third-party assets	2.6	2.3	0.3
Leases	1.6	2.0	(0.4)
Employee leaving indemnity and other benefits	0.5	0.5	-
Plant dismantling	0.1	0.1	-
Total	**12.0**	**10.8**	**1.2**

"Put option charges" includes the charges related to the fair value valuation (calculated as the current value of future cash disbursements) of the put option granted to Ascopiave Spa for the non-controlling shares in Estenergy Spa, equal to 48% of the share capital. For further details, please see note 26 "Current and non-current financial liabilities".

The item "Valuation at depreciated cost of financial liabilities" represents the breakdown (depreciation) of the costs associated with financial liabilities, including the costs of re-negotiations made that did not lead to de-recognising the liability, for the entire duration of the loans using the effective interest method.

"Factoring" refers to the sale of receivables aimed at optimizing the management of the Group's working capital.

11 Taxes

This item is made up as follows:

	first six months of 2020	first six months of 2019	Change
IRES	49.1	54.8	(5.7)
IRAP	13.2	15.0	(1.8)
Substitute tax	2.4	0.3	2.1
Total	**64.7**	**70.1**	**(5.4)**

The tax due the first half of 2020 amounted to 64.7 million euro, generating a tax rate of 27%, decrease as compared to 28.7% for the same period of the previous financial period. As in previous years, this significant improvement was mainly due to the benefits obtained in terms of maxi and hyper depreciation and tax credit introduced by the 2020 budget law (Legge di Bilancio), in particular with regard to the investments made to accompany the technological, digital and environmental transformation undertaken by the Group. It is also worth mentioning an additional benefit, the "elimination" of the amount due for IRAP 2019, and the first IRAP 2020 advance payment, for companies with revenues lower than 250 million euro, introduced by the Decreto Rilancio, decree no. 34 of 19 May 2020 converted into law.

Below is a brief summary of tax litigation at 30 June 2020. It should be noted, however, that the regulatory provisions issued as a result of the Covid-19 health emergency led to a general suspension of the deadlines.

- Notices of assessment for ICI served to Herambiente Spa and Hera Spa concerning the classification in the real estate registry of the Ferrara waste-to-energy plant. Notices of assessment issued referred to tax periods from 2008 to 2014 and altogether amount to 10.2 million euro. Regarding the notices of assessment for the years 2008 and 2009, the rulings by the tax committee of Ferrara issued in 2016 were all in favour of the Company. Subsequently, following the favourable, definitive rulings on the classification, on 11 February 2019, the Municipality of Ferrara issued orders for the total annulment of the assessments for the periods between 2008 and 2012 and the partial annulment for 2013 (for which 0.7 million euro remain to be assessed). As of today, only the proceedings for 2014, amounting to 1.5 million euro, remain suspended until the favourable ruling concerning the land registry dispute, which has already been issued, is finalized. The Group, having also consulted its lawyers, has decided not to make any provision for the litigations in question;

- Notices of assessment for ICI/IMU were served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. These notices of assessment related to tax periods from 2010 to 2015 and altogether amount to 2.1 million euro. The Company filed appeals or complaints against these notices in February 2017. Some of these disputes were settled by judicial settlements in June and December 2018. The Group, having obtained the advice of its legal counsel, decided to maintain a provision of 0.2 million euro to cover residual risks;

- Notices of assessment for ICI/IMU served to Herambiente Spa and Hera Spa concerning the classification in the real estate registry of the Lugo compost plant. These notices of assessment relating to tax periods from 2008 to 2011 were settled through the payment of 0.1 million euro on 29 November 2019. The 2014 tax period was settled through the payment of 0.1 million euro on 22 January 2020. For the remaining years, the Group, having also consulted its lawyers, decided to make a provision 0.4 million euro to cope with possible liabilities;

- Notices of assessment for the tax periods from 2013 to 2017 for TOSAP and COSAP, notified on 28 June 2018 and 20 July 2018 to Hera Spa by the Municipality of Riccione, for a total amount of 3.5 million euro, for the permanent occupation of public land with waste bins. On 26 September 2018, the related appeals were submitted and the hearing was held on 12 March 2019. On 26 November 2019, the court handed down the rulings by which the judge partially upheld the appeals, redefining the tax and the penalties, resulting in a charge to the company of 1 million euro paid on 10 March 2020. On 5 and 6 November 2019 similar assessment notices were served in relation to 2018 and 2019, for a total of 2.1 million euro against which an appeal was filed on 10 January 2020. On 30 December 2019 an assessment notice was served from the municipality of Corian for the TOSAP waste bins in relation to 2014, totalling 0.2 million euro, against which an appeal was filed on 28 February 2020. The Group, having also consulted its lawyers, decided not to make any provision to the risk provision for the litigations in question.

- Notices of assessment for TOSAP, to the sole-shareholder company I.I.C.A. Srl, recovering the tax for the use of public spaces and areas on behalf of the Municipality of Longiano for the tax years from 2004 to 2010, which Hera Spa appealed in the past, the ruling of the United Sections of the Cassazione of 7 May 2020, no. 8628, found, in favour of Hera Spa, that the taxable person is the holder of the concession for occupying public land, the municipality, and not the company using the pipelines, by virtue of a business lease contract. The Group, having also consulted its lawyers, has taken the necessary steps to recover the amounts paid in relation to past adverse rulings, which have not yet become final;

- Tax audits to Herambiente Spa, for covered fiscal years from 2009 to 2013 and focused mainly on the amount the company owed in relation to the IRAP subsidy tax wedge. With respect to the 2009 tax period, the second instance ruling, filed on 21 November 2019, was unfavourable to the company, after a favourable ruling for the company by the Provincial Tax Commission handed down in 2015. With regard to the 2010 and 2011 tax years, two sentences were handed down in 2017, also in the Company's favour. The Inland Revenue filed appeals and the company filed appeal for 2010 on 18 May 2018; as of today a hearing has not yet been scheduled. In relation to the 2011 tax period, on 9 December 2019 the hearing was held and the ruling, handed down on 18 June 2020, was unfavourable. In 2016, additional notices of assessment were served for the 2012 and 2013 tax years, against which the Company filed the relevant appeals. On 10 November 2017 the relative rulings were filed, both unfavourable to the Company, who filed two appeals on 7 May 2018. In relation to this complex matter, the Group recognised charges of 1.4 million euro in the income statement for the amounts to be paid for provisional registration as a result of the second-instance loss for 2009 and 2011;

- Tax audits to Hera Trading Srl, concerning the tax periods from 2010 to 2014. The most significant of these notifications regards the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates for the purposes of calculating IRES. In 2016, a notice of assessment was served in relation to IRES 2011, for 2.1 million euro of tax, against which the Company appealed; on 18 January 2018 the ruling was filed as unfavourable to the Company, but without the application of penalties, while on 17 July 2018 the company filed an appeal. As of today the hearing has not yet been scheduled. Against this ruling, on 6 March 2018, one-third of the tax was paid, plus interests, for a total of 0.9 million euro; on 29 March 2018, the second third of the tax was paid, plus interests, for 0.7 million euro. On 7 September 2017, a similar assessment notice was served for IRES 2012, amounting to 0.5 million euros in taxes, for which a presidential suspension of execution was obtained. The hearing was held on 30 January 2018 and the ruling, which was unfavourable to the company, was filed on 8 May 2018. An appeal was therefore lodged on 7 December 2018, the hearing has not yet been scheduled, and two-thirds of the amount was provisionally paid for 0.3 million euro. On 20 July 2018, an assessment notice was served in relation to 2013, for 0.4 million euro against which an appeal was filed on 17 October 2018. In relation to that year, the suspension request was rejected and on 20 December 2018 one-third of the amount was provisionally paid for 0.2 million euro. In relation to that year, the first instance ruling was filed on 4 June 2019, unfavourable to the company, and on 7 August 2019, the second third of the amount was provisionally paid for 0.2 million euro. Following service of the appeal by the Regional Department of Friuli Venezia-Giulia, on 4 January 2020, the deed of counter-deducement with incidental appeal was filed with the Regional Tax Commission of Trieste; a second instance hearing has yet to be scheduled. Finally, it should be noted that the company was also served the same assessment notice with regard to the Robin Tax. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any provisions for the disputes in question, as the alleged violations are considered unfounded;

- Tax audits to Inrete Distribuzione Energia Spa, concerning the tax period 2016. On 26 November 2019, the objection report was issued with which the verifiers contested, for IRES purposes, the undue deduction of discounting charges for 0.4 million euro and the erroneous determination of the maxi depreciation allowance, with regard to accessory charges related to smart meters, for 0.1 million euro. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any provisions for the disputes in question, as the alleged violations are considered unfounded.

12 Earnings per share

	first six months of 2020	first six months of 2019
Profit (loss) for the period attributable to holders of ordinary shares of the parent entity (A)	166.2	166.2
Weighted average number of shares outstanding for the purposes of calculation of profit (loss) per share		
basic (B)	1,471,955,200	1,470,156,318
diluted	1,471,955,200	1,470,156,318
Profit (loss) per share (in euro)		
basic (A/B)	**0.113**	**0.113**
diluted	**0.113**	**0.113**

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

As of this writing, the share capital of the parent company Hera Spa consisted of 1,489,538,745 ordinary shares, unchanged from 30 June 2018, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	30-Jun-20	31-Dec-19	Change
Land and buildings	576.8	583.5	(6.7)
Plants and machinery	1,133.8	1,181.6	(47.8)
Other movable assets	131.7	134.9	(3.2)
Assets under construction	106.5	90.3	16.2
Total operating assets	**1,948.8**	**1,990.3**	**(41.5)**
Investment property	2.3	2.4	(0.1)
Total	**1,951.1**	**1,992.7**	**(41.6)**

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
30-Jun-19									
Land and buildings	591.7	1.9	(0.1)	(9.3)	1.6	(9.0)	576.8	799.6	(222.8)
Plants and machinery	1,174.1	7.5	(1.1)	(55.6)	0.7	22.1	1,147.7	2,748.9	(1,601.2)
Other movable assets	131.1	3.7	(0.2)	(15.1)	2.0	6.6	128.1	481.0	(352.9)
Assets under construction	104.2	47.3	(0.2)	-	0.1	(43.7)	107.7	107.7	-
Total	**2,001.1**	**60.4**	**(1.6)**	**(80.0)**	**4.4**	**(24.0)**	**1,960.3**	**4,137.2**	**(2,176.9)**
30-Jun-20									
Land and buildings	583.5	0.6	(1.4)	(9.1)	-	3.2	576.8	818.1	(241.3)
Plants and machinery	1,181.6	6.6	(0.3)	(62.8)	-	8.7	1,133.8	2,871.5	(1,737.7)
Other movable assets	134.9	3.0	-	(15.1)	-	8.9	131.7	498.8	(367.1)
Assets under construction	90.3	36.0	-	-	-	(19.8)	106.5	106.5	-
Total	**1,990.3**	**46.2**	**(1.7)**	**(87.0)**	**-**	**1.0**	**1,948.8**	**4,294.9**	**(2,346.1)**

The breakdown and main changes within each category are commented on below.

"Land and buildings", totalling 576.8 million euro, consisted of 116.5 million euro in land and buildings and 460.3 million euro in buildings. These are mainly properties on which the majority of the sites and production plants of the Group stand.

"Plant and machinery", amounting to 1,133.8 million euro, is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system and, therefore: district heating, electricity in the Modena area, waste disposal and waste treatment. The main investments during the period relate to waste treatment activities and heat management for a total of 4.3 million euro and 1.8 million euro respectively.

"Other movable assets", equal to 131.7 million euro, include the equipment, waste disposal bins for 65 million euro, furniture and electronic machines for 15 million euro, and vehicles and cars for 51.7 million euro. The main investments during the six-month period relate to equipment and waste-collection bins for a total of 1.7 million euro and vehicles for 1.2 million euro.

"Assets under construction and advance payments", amounting to 106.5 million euro, include mainly investment for development of district heating and electricity distribution and waste disposal plants.

"Other changes" covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial year, as well as the reclassification from Property, plant and equipment to Intangible assets, especially when goods used in activities under concession are involved. Over the course of the first half of 2020, the evaluation process of the assets relating to the acquisition of the company Pistoia Ambiente Srl, which occurred in July 2019. The fair value of plant and machinery was revised compared to the provisional valuation used for the financial statements at 31 December 2019, recording a lower value of 3.1 million euro.

14 Rights of use and leasing liabilities

	30-Jun-20	31-Dec-19	Change
Rights of use land and buildings	65.2	69.1	(3.9)
Rights of use plants and machinery	8.5	7.9	0.6
Rights of use other movable assets	17.3	19.9	(2.6)
Total	**91.0**	**96.9**	**(5.9)**

Rights of use are stated net of accumulated depreciation. Their composition and changes in the period are as follows:

	Net opening balance	New contracts and contractual changes	Decreases	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net terminal value	of which gross terminal value	of which amortisation provision
30-Jun-19									
Rights of use land and buildings	67.3	5.4	-	(3.9)	0.4	16.5	85.7	118.7	(33.0)
Rights of use plants and machinery	4.2	-	(0.1)	(0.5)	-	5.3	8.9	10.6	(1.7)
Rights of use other movable assets	19.5	1.6	-	(3.1)	0.4	-	18.4	30.8	(12.4)
Total	**91.0**	**7.0**	**(0.1)**	**(7.5)**	**0.8**	**21.8**	**113.0**	**160.1**	**(47.1)**
30-Jun-20									
Rights of use land and buildings	69.2	0.3	-	(3.9)	-	(0.4)	65.2	101.3	(36.1)
Rights of use plants and machinery	7.9	4.6	-	(0.7)	-	(3.3)	8.5	11.0	(2.5)
Rights of use other movable assets	19.9	0.8	-	(3.4)	-	-	17.3	32.7	(15.4)
Total	**97.0**	**5.7**	**-**	**(8.0)**	**-**	**(3.7)**	**91.0**	**145.0**	**(54.0)**

The breakdown and main changes within each category are commented on below.

"Rights of use land and buildings", totalling 65.2 million euro, consist of 59.6 million euro in rights of use of buildings and 5.6 million euro in rights of use of land. The rights of use for buildings refer mainly to contracts concerning the real estate structures used for headquarters, offices and customer service desk.

"Rights of use of plant and machinery" equal 8.5 million euro and comprise mainly contracts regarding purification and composting plants.

"Rights of use of other movable assets" equal 18.4 million euro and refer mainly to contracts concerning IT infrastructures (especially data centres), operational vehicles and cars.

The column "New contracts and contractual amendments" shows the leases signed in the first half of the year, as well as the change in the assumptions regarding their duration and contractual options. The main change in the period is the signing of a lease contract for a new waste treatment plant.

The item "Other changes" includes the value of the contracts redeemed during the period and recorded under property, plant and equipment due to their nature.

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

	Net opening balance	New contracts and contractual changes	Decreases	Financial expenses	Changes in the scope of consolidation	Other changes	Net terminal value
30-Jun-20							
Lease liabilities	95.5	5.7	(14.0)	1.7	-	0.1	89.0
of which							
non-current liabilities	76.1						70.1
current liabilities	19.4						18.9

Financial liabilities due to leases mainly include financial payables arising from the rental fees of the Group's operating and administrative offices and plants. The column "New contracts and contractual amendments" includes the new contracts signed in the past six-month 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 due in the first half of the year.

In accordance with its procurement policies, the Group subscribed contracts in line with market standards for all types of underlying assets. In the case of offices, customer service desks, cars and IT infrastructure, the contracts do not contain any binding clauses or special fees in the event of annulment, as these assets are perfectly interchangeable and are offered by a large number of counterparties. The liability reported in the financial statements therefore represents the most likely total sum of disbursements that the Group will have to make in future years. For the above reasons, moreover, the renewal clauses, when they exist, are not currently expected to be exercised, possibly assessing their cost-effectiveness in the future. Finally, with regard to the leased buildings hosting important production facilities, which represent the contracts with the most significant absolute value, it is currently assumed that the option to redeem them will be exercised and therefore the value of the liability already reflects the option to transfer ownership.

It should additionally be noted that the Group did not sign agreements with its suppliers to suspend payments of contractual instalments following the Covid-19 emergency.

The table below shows the lease liabilities broken down by category according to their expiration date, within the financial period, within 5 years and after 5 years:

Type	30-Jun-20	Portion due within the period	Portion due within 5th year	Portion due beyond 5th year
Lease liabilities	89.0	18.9	38.7	31.4
Total	**89.0**	**18.9**	**38.7**	**31.4**

15 Intangible assets

	30-Jun-20	31-Dec-19	Change
IT applications	71.9	78.6	(6.7)
Concessions and other rights of use	131.5	132.0	(0.5)
Public services under concession	2,676.2	2,718.6	(42.4)
Customer lists	562.2	578.4	(16.2)
Other intangible assets	55.6	49.6	6.0
Intangible assets under construction and public services under concession	248.0	157.3	90.7
Intangible assets under construction	77.8	65.7	12.1
Total	**3,823.2**	**3,780.2**	**43.0**

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
30-Jun-19									
IT applications	78.6	0.7		(15.0)	0.1	11.9	76.3	418.5	(342.2)
Concessions and other rights of use	74.9	0.1		(4.8)	0.4	(0.3)	70.3	389.2	(318.9)
Public services under concession	2,689.1	12.3	(0.2)	(77.8)	19.0	21.7	2,664.1	4,603.7	(1,939.6)
Customer lists	153.8			(7.6)	8.5		154.7	207.1	(52.4)
Other intangible assets	34.7	11.6		(6.6)		0.7	40.4	142.6	(102.2)
Intangible assets under construction and public services under concession	172.2	109.0				(17.3)	263.9	263.9	
Intangible assets under construction	51.6	20.4				(13.6)	58.4	58.4	
Total	**3,254.9**	**154.1**	**(0.2)**	**(111.8)**	**28.0**	**3.1**	**3,328.1**	**6,083.4**	**(2,755.3)**
30-Jun-20									
IT applications	78.6	0.8	-	(15.9)	-	8.4	71.9	451.4	(379.5)
Concessions and other rights of use	132.0	0.1	-	(7.1)	-	6.5	131.5	464.4	(332.9)
Public services under concession	2,718.6	15.6	(0.3)	(72.2)	-	14.5	2,676.2	4,622.6	(1,946.4)
Customer lists	578.4	-	-	(16.2)	-	-	562.2	638.1	(75.9)
Other intangible assets	49.6	13.9	(0.5)	(8.5)	-	1.1	55.6	178.3	(122.7)
Intangible assets under construction and public services under concession	157.3	104.1	-	-	-	(13.4)	248.0	248.0	-
Intangible assets under construction	65.7	22.6	-	-	-	(10.5)	77.8	77.8	-
Total	**3,780.2**	**157.1**	**(0.8)**	**(119.9)**	**-**	**6.6**	**3,823.2**	**6,680.6**	**(2,857.4)**

The breakdown and main changes within each category are commented on below.

"IT applications" in the amount of 71.9 million euro, mainly refers to costs incurred in purchasing licenses and implementing corporate information systems.

"Concessions and other rights of use" amounts to 131.5 million euro and comprises:

- concessions, in the amount of 54.4 million euro, primarily involving the rights relating to the activities of gas distribution and integrated water management, classified as intangible assets even before the IFRIC 12 interpretation "Service concession arrangements" was first applied;
- other rights of use, amounting to 77.1 million euro, mainly consisting of the fair value of the authorisation to operate the Serravalle Pistoiese landfill, an asset acquired during the second half of 2019 as part of the Pistoia Ambiente business combination operation, which will be amortised on the basis of the tons consigned. It should also be noted that the completion of the valuation process of the assets acquired led to revise the fair value of this authorisation of the provisional valuation used for the financial statements at 31 December 2019, recording a higher value of 6.3 million euro (change included in "Other changes").

"Public services under concession", amounting to 2,676.2 million euro, include assets relating to gas distribution, electricity distribution (Imola area), the integrated water cycle and public lighting activities (except for the latter, as specified in note 18 "Current and non-current financial assets") provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights are accounted for by applying the intangible asset model as set forth by IFRIC 12 interpretation. Investments for the period were carried out mainly in the water networks, in the amount of 14.3 million euro, and gas distribution networks, in the amount of 0.6 million euro.

"Intangible assets under construction and public services under concession," amounting to 248 million euro, refers to investments related to the these same contracts that have yet to be concluded at the end of the fiscal period. Investments for the six-month period were carried out mainly in the water networks, in the amount of 59.7 million euro, and gas distribution networks, in the amount of 36.9 million euro and the electricity distribution for 6 million euro.

"Customer lists", amounting to 562.2 million euro, 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 increase as compared to the previous six months is mainly connected to the acquisition of the sales activity of the Ascopiave Group in December 2019.

"Intangible assets in progress", equal to 77.8 million euro, essentially comprises IT projects that are still incomplete.

The item "Other intangible assets", amounting to 55.6 million euro, refers mainly to the rights of use for networks and infrastructures for the passage and laying down of telecommunication networks and the incremental costs incurred for obtaining new sale contracts. As required by IFRS 15, these incremental costs, involving mainly commissions paid to agents, were recorded as assets and are depreciated over the average lifetime of new customers (churn rate). The commissions stated as assets for the six-month period amount to 12.4 million euro (10.2 in the first half of 2019).

"Other changes" include reclassifications of assets under construction to their specific categories for assets that began to be used during the year and reclassifications to tangible assets, especially when goods used in activities under contract are involved.

16 Goodwill

	30-Jun-20	31-Dec-19	Change
Goodwill	812.8	812.9	(0.1)

In accordance with the provisions of IAS 36 and in the absence of trigger events, as set forth by the standard itself, the impairment test on goodwill recorded by 30 June 2020 has not been prepared.

In particular, the Group did not consider the health emergency caused by Covid-19 to be a trigger event, since the current and expected impacts are deemed to be marginal. Reference should be made to Chapter 1.02 "Covid-19 Emergency Management" for more detailed information on the potential impact on the Group's business, financial position and economic performance.

17 Equity investments

	30-Jun-20	31-Dec-19	Change
Investments valued using the equity method	132.3	135.8	(3.5)
Other Equity investments	50.7	7.7	43.0
Total	**183.0**	**143.5**	**39.5**

The changes in joint ventures and associated companies as compared to 31 December 2019 take into account the pro-quota losses and profits reported by the respective companies (including the other components of the comprehensive income statement) as well as the possible reduction of the value for any dividends that were distributed. The share of profit (loss) pertaining to companies accounted for by the equity method is shown in note 9 "Share of profit (loss) of joint ventures and associated companies".

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

	31-Dec-19	Investments and disinvestments	Valuation net equity	Dividends paid out	Changes in the scope of consolidation	Depreciation and other changes	30-Jun-20
Aimag Spa	50.4	-	1.1	(2.3)	-	-	49.2
Asm Set Srl	18.5	-	0.6	(1.0)	-	-	18.1
Enomondo Srl	15.9	-	0.5	(1.5)	-	-	14.9
Set Spa	26.4	-	0.1	-	-	-	26.5
Sgr Servizi Spa	23.5	-	1.3	(2.4)	-	-	22.4
Other minor	1.1	-	0.1	-	-	-	1.2
Total	**135.8**	**-**	**3.7**	**(7.2)**	**-**	**-**	**132.3**

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

	31-Dec-19	Investments and disinvestments	Fair value valuation	Durable value loss	Other changes	30-Jun-20
Ascopiave Spa	-	45.5	(2.5)	-	-	43.0
Calenia Energia Spa	1.8	-	-	-	-	1.8
Veneta Sanitaria Finanza di Progetto Spa	3.6	-	-	-	-	3.6
Other minor	2.3	-	-	-	-	2.3
Total	**7.7**	**45.5**	**(2.5)**	**-**	**-**	**50.7**

The item "Investments" mainly includes the purchase of shares of the company Ascopiave Spa and relates to the partnership operation with the Ascopiave Group, carried out in December 2019. This equity investment resulted from two separate operations:

- in January 2020, the Amber fund took over 2.5% stake in the share capital of Ascopiave Spa, rising to 2.9% in the following months with purchases on the market;
- in June 2020 A2A Spa purchased an additional 2% stake in the capital of Ascopiave Spa, bringing the total stake to 4.9%.

The item "Other changes" includes the fair value valuation recorded in the other components of the comprehensive income statement, in compliance with the provisions of accounting standard IFRS 9, of the equity investment in Ascopiave Spa, irrevocably classified as an asset measured at fair value.

The reduction in electricity consumption resulting from the lockdown due to the Covid-19 health emergency caused a significant drop in domestic thermoelectric production. At the same time, however, the input of the Msd dispatching services market increased, which generated significant revenues for the shareholding vehicles through which the Group holds production quotas in electricity generation plants. There is, therefore, no trigger event sufficient to require conducting an impairment test.

18 Current and non-current financial assets

	30-Jun-20	31-Dec-19	Change
Loan receivables	45.4	50.6	(5.2)
Portfolio securities	2.5	2.5	-
Receivables for construction services	34.4	33.7	0.7
Other financial receivables	54.4	48.5	5.9
Total non-current financial assets	**136.7**	**135.3**	**1.4**
Loan receivables	8.2	23.5	(15.3)
Portfolio securities	0.1	0.1	-
Other financial receivables	39.7	46.5	(6.8)
Total current financial assets	**48.0**	**70.1**	**(22.1)**
Total cash and cash equivalents	**705.5**	**364.0**	**341.5**
Total financial assets, cash and cash equivalents	**890.2**	**569.4**	**320.8**

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

	30-Jun-20			31-Dec-19		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe SpA	7.3	1.2	8.5	7.7	0.8	8.5
Calenia Energia Spa	9.6	0.8	10.4	11.9	-	11.9
Set Spa	20.0	2.9	22.9	21.4	2.9	24.3
Tamarete Energia Srl	-	1.8	1.8	-	2.8	2.8
Other minor	8.5	1.5	10.0	9.6	17.0	26.6
Total	**45.4**	**8.2**	**53.6**	**50.6**	**23.5**	**74.1**

In the absence of trigger events, loans are subject to an impairment test at the end of the financial period. This test determined value adjustments totalling 26.5 million euro in previous financial periods.

"Portfolio securities" include 2.5 million euro in bonds, funds and insurance policies to guarantee post-mortem management of the landfill managed by the subsidiary Asa Scpa. The book value of these securities is substantially in line with their fair value at 30 June 2020. These securities are measured at fair value through other comprehensive income components.

"Receivables for construction services", are recorded in relation to municipalities for construction services for public lighting systems in compliance with the financial activity model provided for by the IFRIC 12 interpretation. These receivables will be collected according to a pre-established amortisation plan that covers the duration of the concession or lending contract.

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

- Municipality of Padua, receivables regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 16.3 million euro (17.9 million euro at 31 December 2019);
- The "Collinare" Consortium of Municipalities in the amount of 12.5 million euro represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- Acosea Impianti Srl, regarding a security deposit in the amount of 12.5 million euro;
- receivables for collections to be received from the Consorzio Stabile Energie Locali (CSEL) following the award of the public tender for the lighting service (launched by Consip to award the contract to serve public administrations) in the amount of 7.3 million euro;
- Municipalities of Vigarano Mainarda, Goro and Castello d'Argile in relation to a financial loan granted during the tender for the gas distribution service and due to the departing operator at the end of the concession for 3.9 million euro;
- Municipality of Riccione for a multi-year repayment plan signed in 2018 involving a cash outlay of 1.2 million euro.

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

- public grant to be received from various subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region, among others) in the amount of 13.4 million euro;
- deposits provided as security for participation in foreign platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity and natural gas, totalling 13.6 million euro;
- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the commencement of the calls for tender, in the amount of 4.7 million euro;
- receivables for cash-pooling claimed from the affiliated company Asm Set Spa for 2.5 million euro;
- current portion of receivables from the Municipality of Padua, regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 1.7 million euro.

To better understand the financial dynamics taking place during the first half of 2020, see the financial statement and the comments shown in the management report in paragraph 1.03.04 "Financial structure analysis".

19 Deferred tax assets and liabilities

	30-Jun-20	31-Dec-19	Change
Pre-paid tax assets	266.8	264.8	2.0
Offsetting of deferred tax liabilities	(89.4)	(90.5)	1.1
Substitute tax credit	0.5	0.5	-
Total net deferred tax assets	**177.9**	**174.8**	**3.1**
Deferred tax liabilities	235.2	245.0	(9.8)
Offsetting of deferred tax liabilities	(89.4)	(90.5)	1.1
Total net deferred tax liabilities	**145.8**	**154.5**	**(8.7)**

"Pre-paid tax assets" arise from timing differences between reported profit and taxable profit, mainly in relation to bad debt provisions, risks and expenses funds, instances of civil depreciation that are greater than those relevant for tax purposes, and the redemption of goodwill and controlling interests.

"Deferred tax liabilities" arise from timing differences between reported profit and taxable profit, mainly in relation to greater tax deductions taken in previous years for provisions and amounts of property, plant and equipment not relevant for tax purposes.

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.

"Substitute tax credits" as an advance payment on current taxes represent the amount paid for the release of goodwill reported in prior years for tax purposes.

20 Derivative financial instruments

Non-current assets and liabilities							
		30-Jun-20			31-Dec-19		
Underlying amounts hedged	**Fair Value Hierarchy**	**Notional**	**Fair value assets**	**Fair value liabilities**	**Notional**	**Fair value assets**	**Fair value liabilities**
Interest rate derivatives							
Loans	2	500.0 mn	20.5	6.1	500.0 mn	18.6	4.2
Loans	2	161 mn		22.2	161.7 mn		23.2
Total non-current derivatives			**20.5**	**28.3**		**18.6**	**27.4**
Exchange rate derivatives							
Loans	2	20 bn Jpy	22.8		20 bn Jpy	22.5	
Total non-current derivatives			**43.3**	**28.3**		**41.1**	**27.4**

Current assets and liabilities							
		30-Jun-20			31-Dec-19		
Underlying amounts hedged	**Fair Value Hierarchy**	**Notional**	**Fair value assets**	**Fair value liabilities**	**Notional**	**Fair value assets**	**Fair value liabilities**
Commodity derivatives							
Foreign gas hubs	3	1,350,878 MWh	4.3		310,300 MWh	1.6	
Refined oil products/coal	2	1,302 Ton	0.1		2,818 Ton	0.1	
Formulas Electricity	2	17,663,687 MWh	80.3		12,564,290 MWh	70.5	
Foreign gas hubs	3	5,145,412 MWh		30.1	5,564,835 MWh		25.6
Refined oil products/coal	2				1,222 Ton		0.1
Electricity formulas	2	20,525,948 MWH		110.4	17,230,886 MWH		112.7
Total current commodity derivatives			**84.8**	**140.5**		**72.2**	**138.4**

Derivative financial instruments underwritten by the Group are meant to hedge loans and commodity price fluctuations and, albeit residually, for trading activities.

The net fair value of non-current assets and liabilities in the first half of 2020 is positive and amounts to 15 million euro (13.7 million euro at 31 December 2019). Specifically, interest rate derivatives have a negative fair value of 7.8 million euro (negative for 8.7 million euro at 31 December 2019), while the fair value of derivatives underwritten to hedge the exchange rate and fair value of foreign currency loans in the form of cross-currency swaps is positive and amounts to 22.8 million euro (positive for 22.5 million euro at 31 December 2019). The positive change in the net fair value of non-current assets and liabilities compared to the previous financial period is 1.3 million euro is due prevalently to the decreasing trend in exchange rates, since the Japanese yen was essentially stable compared to the euro during at the end of the previous period.

Financial instruments reported as current assets and liabilities represent derivative contracts whose execution is expected to take place within the next financial year. The net fair value of non-current assets and liabilities in the first half of 2020 is negative and amounts to 55.7 million euro (negative for 66.2 million euro at 31 December 2019). The positive change in fair value in relation to 31 December 2019 is due both to the change generated by an increase of the underlying volumes of the gas and electric power contracts and to the trend of the gas price, linked to the Ttf index, and of electricity, especially in relation to the Pun volatility.

During the first six months of 2020, no transfers took place between the different levels of fair value indicated above.

On the basis of the underlying transactions and related management objectives, financial derivative instruments can be divided into the following classes:

Hedging interest/exchange rate derivatives Financial operations						
Type	**30-Jun-20**			**31-Dec-19**		
	Fair value assets	**Fair value liabilities**	**Net effect**	**Fair value assets**	**Fair value liabilities**	**Net effect**
Cash flow hedge	-	0.4	(0.4)	-	0.4	(0.4)
Fair value hedge	22.8	21.8	1.0	22.4	22.8	(0.4)
Non-hedge accounting	20.5	6.1	14.4	18.7	4.2	14.5
Total fair value	**43.3**	**28.3**	**15.0**	**41.1**	**27.4**	**13.7**
Type	**30-Jun-20**			**30-Jun-19**		
	Income	**Evaluation expenses**	**Net effect**	**Income**	**Evaluation expenses**	**Net effect**
Cash flow hedge	0.0	(0.1)	(0.1)	0.2	(0.2)	-
Fair value hedge	3.6	(3.5)	0.1	7.0	(5.2)	1.8
Non-hedge accounting	9.0	(9.6)	(0.6)	40.7	(41.5)	(0.8)
Total income (expenses)	**12.6**	**(13.1)**	**(0.6)**	**47.8**	**(46.8)**	**1.1**

Commodity/exchange derivatives Operations management						
Type	**30-Jun-20**			**31-Dec-19**		
	Fair value assets	**Fair value liabilities**	**Net effect**	**Fair value assets**	**Fair value liabilities**	**Net effect**
Cash flow Hedge	49.1	101.6	(52.5)	38.2	89.2	(51.0)
Non-hedge accounting	35.7	38.9	(3.2)	34.0	49.2	(15.3)
Total fair value	**84.8**	**140.5**	**(55.7)**	**72.2**	**138.4**	**(66.3)**
Type	**30-Jun-20**			**30-Jun-19**		
	Income	**Evaluation expenses**	**Net effect**	**Income**	**Evaluation expenses**	**Net effect**
Cash flow Hedge	27.9	(48.6)	(20.7)	14.6	(37.4)	(22.8)
Non-hedge accounting	2.9	(13.4)	(10.5)	63.3	(51.0)	12.4
Total income (expenses)	**30.8**	**(62.0)**	**(31.2)**	**77.9**	**(88.4)**	**(10.4)**

Derivatives designated as cash flow hedges refer mainly to hedges for misalignment between buying and selling formulas of electricity and gas that are deemed to be highly likely. In relation to electricity, in order to achieve every possible synergy and optimize hedging, the Group renewed its strategic approach to operations management and primarily operates with a single commercial portfolio beginning in 2019. The review of the internal organisational model and the updating of the management systems led to renew the procedures that make it possible to identify the nature of the operation (hedging vs. trading) and produce the information required to formally identify the purpose of the derivative instruments, for a higher number of contracts than in the past. This aims at reducing operations classified as "non-hedge accounting" although they were implemented for the purpose of hedging.

Due to the hedging between the derivative contracts mentioned above and the related underlying operations, net charges, including their effect on taxes, coming to 1.4 million euro (85.7 million in net charges at 31 December 2019) were recorded in the overall income statement.

Derivatives designated as fair value hedges of financial liabilities recorded in the financial statements (fair value hedges) relate to the bond loan in Japanese yen with a notional residual value of 20 billion yen or 149.8 million euro (converted at the original exchange rate being hedged).

Derivatives not included in hedging strategies (non-hedge accounting) relate to:

- restructuring of the derivative portfolio (through mirroring) carried out in previous years with the aim of rebalancing the ratio between fixed and variable rate debt. This restructuring resulted in revoking certain hedging relationships and underwriting new derivative contracts that do not qualify for hedge accounting, but whose primary purpose is to hedge against fluctuations in interest rates;
- hedging transactions on the purchase of raw materials that cannot be formally qualified as hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are reported as operating costs.

Sensitivity Analysis - Financial operations

In conjecturing an instant shift of -25 basis points in the interest rate curve with respect to the interest rates effectively applied for the assessments at 30 June 2020, at like-for-like exchange rates, the potential decrease in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly 14.5 million euro. Likewise, conjecturing an instant shift of +25 basis points in the interest rate curve, there would be a potential increase in fair value of approximately 14.4 million euro.

These changes in fair value of financial instruments accounted for as cash flow hedges would have no effect on the income statement if it were not for their potential ineffective portion, which moreover is not significant. In the event of an increase or decrease in fair value, there would be a non-significant increase or decrease in net equity. As to derivatives designated as fair value hedges, any change in fair value would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be essentially offset by a movement in the opposite direction of the hedged liability. Finally, even non-hedge accounting derivatives would have no impact on the income statement, as they are the result of mirroring operations that determine their neutrality (i.e. their fair value will tend to decrease over time when the expected cash flows are generated).

Assuming an instant change of 10% in the euro/yen exchange rate, given the same interest rates, the potential decrease in fair value of the derivative financial instruments in place at 30 June 2020 would amount to approximately 18.2 million euro. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 19.8 million euro. As exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

Sensitivity Analysis - Commercial operations

In assuming an instant 10 dollar-per-barrel rise in the Brent price, with no change in the national standard price curve, the potential increase in the fair value of derivative financial instruments held at 30 June 2020 would amount to approximately 11.2 million euro. On the contrary, an instant fall in the same amount would bring about a potential decrease in the fair value of the instruments of approximately 11.2 million euro.

In assuming an instant +10 euro/MWh change in the national standard price curve, with no change in the Brent price, the potential increase in the fair value of derivative financial instruments held at 30 June 2020 would amount to approximately 48 million euro. On the contrary, an instant change of -10 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 48 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 would be recorded in the income statement.

21 Inventories

	30-Jun-20	31-Dec-19	Change
Raw materials and stocks	96.5	112.8	(16.3)
Materials earmarked for sale and final products	19.2	15.9	3.3
Contract work in progress	55.0	47.8	7.2
Total	**170.7**	**176.5**	**(5.8)**

"Raw materials and stocks", stated net of an obsolescence provision, mainly comprise gas stocks, for 41.2 million euro (60.1 million euro at 31 December 2019), spare parts and equipment used for maintenance and running of operating plants and networks, equal to 49.5 million euro (45.9 million euro at 31 December 2019) and plastics earmarked for regeneration in the amount of 5.8 million euro (7.6 million euro at 31 December 2019). The change in natural gas inventories compared with the previous period, with substantially the same quantity in stock, is closely related to the significant decrease of the wholesale price of natural gas in the first half of 2020, due mainly to the Covid-19 emergency.

"Materials earmarked for sale" mainly consists of:

- GVG system - Steam grid generator and complementary plant components for a total of 9.6 million euro. This machinery, already included in inventories in the previous financial period and earmarked for sale, will be used internally for revamping the second line of the Trieste waste to energy plant;
- plastic products made in the Group's regeneration plants equal to 8.5 million euro (6 million euro at 31 December 2019);
- 1 million euro in equipment and devices used to provide services and finished products for projects commissioned by customers in the telecommunications sector

"Commissioned work in progress" includes long-term contracts for plant engineering construction work, mainly in relation to water and public lighting (respectively in the amount of 28 million euro, 15.4 million euro and 8.6 million euro), as well as for design activities aimed at acquiring commissions in the national and international markets (2.3 million euro).

22 Trade receivables

	30-Jun-20	31-Dec-19	Change
Receivables from customers	1,508.4	1,625.8	(117.4)
Allowance for bad debts	(422.3)	(399.3)	(23.0)
Receivables from customers for bills and invoices not yet issued	660.8	838.8	(178.0)
Total	**1,746.9**	**2,065.3**	**(318.4)**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 30 June 2020, as well as receivables for revenues coming due during the period, for the water sector, which will be billed in the following months in accordance with the billing methods for final customers established by AEEGSI.

The value of trade receivables reported in the financial statements at 30 June 2020 represents the Group's maximum exposure to credit risk.

Changes in the provisions for bad debts are as follows:

	Opening balance	Provisions	Changes in scope of consolidation	Uses and other movements	Closing balance
30-Jun-19	342.1	39.6	6.8	(19.9)	368.6
30-Jun-20	399.3	37.7	-	(14.7)	422.3

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on future-oriented analyses of the receivables regarding the general body of customers (in relation to the age of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the section "Risk management" in paragraph 2.02.01 "Accounting policies and evaluation principles".

23 Current tax assets and liabilities

	30-Jun-20	31-Dec-19	Change
Income tax receivables	21.2	24.0	(2.8)
IRES refund receivables	18.1	18.1	-
Total current tax assets	**39.3**	**42.1**	**(2.8)**
Income tax payables	73.0	15.6	57.4
Substitute tax payables	6.5	71.3	(64.8)
Total current tax liabilities	**79.5**	**86.9**	**(7.4)**

"Income tax credits" refer to the excess advance IRES and IRAP payments over the tax amount payable as well as advance payments made in the first half of 2020.

The "IRES refund credit" refers to the requests for IRES refund due for the period 2007-2011, following the deductibility of IRAP from IRES related to labour costs and the like under Law Decree 201/2011.

"Income tax payables" includes the IRES and IRAP amounts allocated in relation to the profit produced in the first half of 2020.

"Substitute tax payables", represents the amounts that will be paid by July 2020 to redeem the controlling shareholdings in Amgas Blu Srl acquired as part of the Hera-Ascopiave partnership operation. The change compared to the previous financial period is related to the payment of the substitute tax for redeeming, for tax purposes, the higher values implicit in the value of the controlling shareholdings acquired by Ascopiave in Ascopiave Energie Spa, Ascotrade Spa, Blue Meta Spa and Etra Energia Srl, which led to enter customer lists and goodwill in the consolidated financial statements.
The redemption operation was considered to be closely related to the partnership agreement and, therefore, already included in the valuation of the business combination at 31 December 2019, with the resulting recognition of the liability for substitute tax for a total of 71.3 million euro. Following the final valuation of the acquired assets completed in the first half of 2020, given that these assets are also crucial for tax purposes, the value of the substitute tax to be paid was recalculated on a timely basis, amounting to 71.9 million euro, 65.3 million of which had already been paid at 30 June 2020. The parent company EstEnergy Spa paid the tax relative to the shareholdings in Ascopiave Energie Spa, Ascotrade Spa, Blue Meta Spa, Etra Energia Srl; to do so, it was provided with the necessary financial resources through a dedicated capital increase. Ascopiave Spa also contributed to this increase for the legal portion pertaining to it, amounting to 31.4 million euro. This payment had already been taken into account at 31 December 2019, recording receivables (entered under "Other current assets") from Ascopiave Spa for the estimated value of 31.1 million euro. The net cash outlay for the Group thus amounted to 33.9 million euro. In substance, this redemption made it possible to attribute a significant value for tax purposes to part of the customer lists and goodwill recorded in the consolidated financial statements as a result of the business combination, without generating current economic effects but ensuring lower future cash flows for the payment of lower income taxes.

24 Other current assets

	30-Jun-20	31-Dec-19	Change
Energy efficiency bonds and emissions trading	116.7	83.1	33.6
VAT, excise and additional taxes	49.6	92.9	(43.3)
Security deposits to suppliers	44.2	42.4	1.8
Cassa per i servizi energetici e ambientali for equalization and continuity income	40.1	26.4	13.7
Prepaid costs	35.4	19.8	15.6
Advances to suppliers and employees	19.1	17.0	2.1
Incentives from renewable sources	10.4	24.2	(13.8)
Other receivables	64.4	89.9	(25.5)
Total	**379.9**	**395.7**	**(15.8)**

"Energy efficiency bonds and emissions trading", includes:

- white certificates, 101.7 million euro (65.6 million euro at 31 December 2019);
- green certificates, 9.8 million euro (unchanged from 31 December 2019);
- grey certificates, 5.2 million euro (7.6 million euro at 31 December 2019);

In relation to white certificates, the increase in the value of the portfolio is mainly due to the recording by area of the amount of certificates recognized during the period, waiting to collect the entire value referred to the previous period, taking into account the credit transfer transactions at 31 December 2019.
In relation to green certificates, by virtue of the incentive mechanism for the sale of electricity from renewable sources, the portfolio of this type of bonds will be cancelled with a negative effect in terms of evaluation, delivery times to GSE or sales on the market.
In relation to grey certificates, the decrease in the value of the portfolio is mainly due to the lower number of this type of certificates held as compared with the previous period.

"VAT, excise and additional taxes", is comprised of tax credits receivables to the treasury for value added tax in the amount of 8.2 million euro and for excise and additional taxes in the amount of 41.4 million euro. The change as compared to 31 December 2019 is attributable to a decrease of 48.5 million euro in receivables for value added tax (56.7 million euro at 31 December 2019) and an increase of 5.2 million euro in receivables for excise and additional taxes (36.2 million euro at 31 December 2019). These changes should be interpreted together with the same change shown in note 30 "Other current liabilities". With regard to value added tax, in the first half of 2020 VAT refund for 2018 was collected for 6 million euro and receivables were transferred to factoring companies for 5.7 million euro. 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. These methods can generate credit or debit positions with differences that may be significant even between one period and another.

“Security Deposits”, amounting to 44.2 million euro (42.4 million euro at 31 December 2019), include:

- deposits provided as security for participation in foreign platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity, natural gas and certificates, totalling 25.2 million euro;
- deposit paid to the associated company Sinergie Italiane Srl in liquidation, in accordance with the provisions of the natural gas supply contract with the same company, to guarantee the sales that will be made to the Group for 7.6 million euro. This deposit is covered by a security that the Ascopiave Group issued when the partnership agreement was signed;
- deposits required by Customs amounting to 2.3 million euro.

For "Cassa per i servizi energetici e ambientali for equalization and continuity income”, amounting to 40.1 million euro (26.4 million euro at 31 December 2019), the increase is mainly due to a higher portion of receivables for the equalisation of gas and distribution of electricity and a higher portion of receivables for components of the water cycle, only partially offset by lower receivables for components of gas distribution.

"Prepaid costs" mainly refers to the future portion of services and outsourced processing, costs incurred for insurance coverage and guarantees, and personnel costs (especially with reference to the accrued portion of the fourteenth monthly salary). The increase as compared with the previous financial year is due to annual costs that have been paid in the first half of the year.

"Incentives from renewable sources", amounting to 10.4 million euro (24.2 million euro at 31 December 2019), consist of receivables from the GSE for the incentive mechanism to promote the production of electricity from renewable sources, which replaced the mechanism for recognising green certificates. The decrease from the previous financial period is due to the collection of almost the whole amount of receivables for 2019.

"Other receivables", the decrease is mainly due to the collection of receivables from Ascopiave Spa, booked at 31 December 2019 in the amount of 31.1 million euro, as minority shareholder of EstEnergy Spa, for its portion of the substitute tax paid in the first six months of 2020 to implement a process of tax optimisation strictly related to the acquisition of the energy commercial activities. For more detailed information, please see note 23 "Current tax assets and liabilities".
This item includes, additionally, receivables for dividends that will be collected in the second half of 2020 for 5.1 million euro.

25 Share capital and reserves

Compared to 31 December 2019, shareholders' net equity decreased by 11.4 million euro due mainly to the combination of the following effects:

- overall revenues for the period in the amount of 173.7 million euro;
- the distribution of dividends in the amount of 164.9 million euro;
- decrease due to transactions on treasury shares, in the amount of 12 million euro;
- decrease due to changes in treasury shares, in the amount of 11.3 million euro.
- increase due to other operations in the amount of 3.1 million euro.

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

Share capital
The share capital at 31 December 2019 amounted to 1,470.6 million euro, made up of 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up.
The treasury shares, whose nominal value at 30 June 2020 was 18.2 million euro, and the costs associated with the new share issues, net of the relevant tax effects, are deducted from share capital.

Reserves
This item, amounting to 1,176.5 million euro, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 1,253.8 million euro, cumulative losses in the other components of comprehensive income for 73 million euro and negative reserves for operations on treasury shares in the amount of 4.3 million euro. The latter reflect the transactions carried out on treasury shares by the parent company and subsidiaries at 30 June 2020. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 5.1 million euro.
Reserves, additionally, increase for 3.3 million euro due to recording the effects of having completed the process of fair value measurement of the assets and liabilities acquired by Pistoia Ambiente Srl, as compared to the amount provisionally recorded at 31 December 2019. This amount, recorded under other movements in shareholders' equity, represents the residual result of accounting for the merger transaction, i.e. the profit deriving from purchasing at favourable prices (negative goodwill).

Non-controlling interests
This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. In particular, it includes non-controlling equity interests in the Herambiente Group and the company Marche Multiservizi Spa.
With reference to Ascopiave Spa's shareholding in EstEnergy Spa, equal to 48% of the share capital, it should be noted that Ascopiave Spa has been granted an irrevocable sale option on its shareholding. This option may be activated annually, on a discretionary basis, on all or part of the shareholding, by and no later than 31 December 2026. Such a right enjoyed by the minority shareholder led to the option being classified under financial liability. Consequently, in accordance with its own accounting policies, the Group did not include in its consolidated financial statements the non-controlling interests of the shareholder Ascopiave Spa, considering the shareholding in EstEnergy Spa to be fully owned from an accounting point of view.

26 Current and non-current financial liabilities

	30-Jun-20	31-Dec-19	Change

Bonds and loans	2,880.3	2,882.8	(2.5)
Minority shareholders' put option	545.2	553.3	(8.1)
Payables to acquire controlling shares and potential payments	22.6	17.4	5.2
Other financial liabilities	3.6	2.8	0.8
Total non-current financial liabilities	**3,451.7**	**3,456.3**	**(4.6)**
Overdrafts and interest expenses	317.0	111.5	205.5
Bonds and loans	55.6	63.1	(7.5)
Payables to acquire controlling shares and potential payments	9.9	9.9	-
Other financial liabilities	65.6	121.0	(55.4)
Total current financial liabilities	**448.1**	**305.5**	**142.6**
Total financial liabilities	**3,899.8**	**3,761.8**	**138.0**

"Bonds and loans" are substantially in line with those entered at 31 December 2019. During the first six months of 2020, loans were entered into with the following counterparties:

- RivieraBanca Sc disbursed on 27 April 2020 with a nominal value of 4 million euro;
- Ubi Banca Spa disbursed on 24 June 2020 with a nominal value of 5 million euro.

The item also includes the value of the put option related to Ascopiave Spa's minority shareholding in Hera Comm Spa which, as a result of the contractual provisions, is classified as a loan and valued according to the depreciated cost method at 55.6 million euro. The face value of the initial statement of such debt, as well as the value of its repayment, amounted to 54 million euro.

"Minority shareholders' put option", which includes the fair value measurement of the sale options that are granted, with specific contractual arrangements, to minority shareholders on their own shares. At 30 June 2020, this item refers to the put option on the non-controlling shares in EstEnergy Spa, equal to 48% of the share capital, held by the Ascopiave Spa. Fair value of this option is determined on the basis of two separate components:

- the present value of the expected price of the non-controlling shares in Estenergy Spa, equal to 403.6 million euro (396.6 million euro at 31 December 2019);
- the discounted estimate of any future dividends that are expected to be paid out by Estenergy Spa over the hypothetical life of the option, amounting to 141.6 million euro (156.7 million euro at 31 December 2019).

The change as compared to the previous period is due both to the payment of dividends by EstEnergy Spa during the first half of the year, resulting in a reduction of 17.8 million euro, and to the recognition of notional financial expense, being a discounted debt, of 9.7 million euro. The hypotheses for calculating the fair value of the put option were unchanged, i.e. no changes were made to the valuation of the amount and/or timing of the expected cash flows. The following table shows the value adjustments made in the first half of the year:

	31-Dec-19	Financial expenses	Dividends paid out	Hypothesis change	30-Jun-20
Put option (fair value)	396.6	7.0	-	-	403.6
Put option (future dividends)	156.7	2.7	(17.8)	-	141.6
Total put option	**553.3**	**9.7**	**(17.8)**	**-**	**545.2**

"Payables for the acquisition of controlling interests and potential payments" include the amounts still to be paid to transferor shareholders as part of the business combination transactions concluded in the period or in previous periods, as well as the estimate of the potential payments foreseen by the agreements signed at the time of the acquisition, as of the balance sheet date. At 30 June 2020, this item mainly refers to the acquisition of:

- Aliplast Group, for 17.4 million euro in the non-current part and 0.5 million euro in the current part;
- Pistoia Ambiente Spa, for 5.2 million euro in the non-current part and 8.6 million euro in the current part;
- Biogas Srl, merged by incorporation into Herambiente Spa, in 2017, for 0.7 million euro.

The item "Other financial liabilities", in relation to the portion due after the current period, includes 2.5 million euro due to the Municipal Pension Fund of the Municipality of Trieste and 1.1 million euro due to Acer for early redemption of assets previously held through leases. The current part mainly consists of payables due to:

- collections from customers under safeguard, customers for last resort services in the gas sector for advances already received from the Cassa per i Servizi energetici e ambientali, amounting to 34.8 million euro (13.8 million euro at 31 December 2019);
- collection of receivables factored without recourse still to be transferred to factoring companies, in the amount of 18.9 million euro (88.9 million at 31 December 2019);
- RAI license fee collection for 7.3 million euro (5 million euro at 31 December 2019);
- current liability of 1.1 million euro due to Acer for early redemption of assets previously held through leases.
- payables to the Municipal pension fund of the Municipality of Trieste for 0.5 million euro (0.6 million euro at 31 December 2019).

In "Overdrafts and interest expenses", the significant change compared with the previous financial period is represented by the disbursement of a short-term loan, in the form of hot money, amounting to 267 million euro at 30 June 2020 and by reimbursement of short-term liquidity granted by the banking system during 2019 for 46.5 million euro.

The table below shows the financial liabilities broken down by category at 30 June 2020, with an indication of the portion expiring within the period, within 5 years and after 5 years:

Type	30-Jun-20	Portion due within the period	Portion due within 5th year	Portion due beyond 5th year
Bonds	2,306.3		787.7	1,518.6
Loans	629.6	55.6	299.2	274.8
Minority shareholder' sale option	545.2			545.2
Payables to acquire controlling shares and potential payments	32.5	9.9	22.6	
Other financial liabilities	69.2	65.6	3.6	
Overdrafts and interest expenses	317.0	317.0		
Total	**3,899.8**	**448.1**	**1,113.1**	**2,338.6**

The main conditions of the bonds outstanding at 30 June 2020 are as follows:

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

At 30 June 2020 the outstanding bonds, totalling a face value of e 2,514.6 million euro (unchanged as compared to 31 December 2019) and recorded at the discounted cost of 2,306.3 million euro (2,292.8 million euro at 31 December 2019), have a fair value of 2,890.9 million euro (2,919.6 million euro (2,890.8 at 31 December 2019) determined by market quotations where available.
There are no covenants on the debt except those, for a few loans, which requires the company not to have even one agency lower its corporate rating below investment grade (BBB-). As of the balance sheet date this covenant has been complied with.

27 Post-employment and other benefits

This includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the employee's matured receivables at the presumed date of leaving the company.

The changes in the existing employee benefit plans in the first half of 2019 are shown below:

	31-Dec-19	Service cost	Financial expenses	Actuarial profit (losses)	Uses and other movements	Changes in scope of consolidation	30-Jun-20
Post-employment	112.0	0.6	0.5	(2.3)	(5.2)	-	105.6
Tariff reduction	7.9	-	-	(0.2)	(0.2)	-	7.5
Premungas	3.5	-	-	(0.2)	-	-	3.3
Gas discount	3.9	-	-	(0.1)	(0.2)	-	3.6
Total	**127.3**	**0.6**	**0.5**	**(2.8)**	**(5.6)**	**-**	**120.0**

The item "Service Cost" regards companies with a small number of employees for whom the employee severance indemnity fund continues to represent a defined benefit plan. "Financial charges" are calculated by applying a specific discount rate for each company, determined on the basis of the average financial life of the bond. "Actuarial gains (losses)" reflects the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recorded directly in the comprehensive income statement.

The item "Uses and other movements", amounting to 5.6 million euro, mainly includes the sums paid to employees over the course of the financial period.

28 Provisions for risks and charges

	31-Dec-19	Provisions	Financial expenses	Uses and other movements	Changes scope of consol.	30-Jun-20
Provision for restoration of third-party assets	217.3	4.8	2.6	(0.1)	-	224.6
Provision for closure and post-closure landfill expenses	183.6	0.1	7.2	(15.9)	-	175.0
Provision for legal cases and disputes brought by personnel	16.6	0.6	-	(1.1)	-	16.1
Provision for plants dismantling	7.8	-	0.1	-	-	7.9
Provisions for waste disposal	7.2	4.8	-	(6.2)	-	5.8
Other provisions for risks and charges	89.3	1.2	-	(1.2)	-	89.3
Total	**521.8**	**11.5**	**9.9**	**(24.5)**	**-**	**518.7**

"Provision for third-party asset restauration", includes provisions made in relation to law and contractual requirements for the Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. The provision reflects the present value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted to present value, and the financial charges for the period associated with the cash flows discounted to present value.

"Provision for landfill closure and post-closure expenses" represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently managed. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting process and provisions due to changes in the assumptions about future outlays, following the change in expert estimates on closed landfills. Uses represent the effective outlays during the year. Changes in estimated closure and post-closure costs in relation to active or new landfills, which entailed the recording of an adjustment of the same amount as the value of the property, were classified under "Uses and Other movements".

"Uses and other movements" of the item "Provision for landfill closure and post-closure expenses" decreased by 15.9 million euro, as follows:

- decrease of 10 million euro due to the completion of the process of fair value measurement of the assets and liabilities of Pistoia Ambiente Srl, acquired in July 2019. For further details, reference should be made to paragraph 2.02.02 "Scope of consolidation".
- decreases in the amount of 6.6 million euro due mainly to the effects of cash outlays for the management of landfills;
- increase due to restatement from property, plant and equipment for 0.7 million euro.

"Provision for legal cases and disputes brought by personnel" reflects the outcomes of lawsuits and disputes brought by employees.

"Provision for plants dismantling" includes the amounts allocated for the future dismantling of the WTE plants at the end of their life cycle.

"Provision for waste disposal" reports the estimated costs of disposal of the waste already stored at the Group's plants. The provisions, amounting to 4.8 million euro, reflect the estimated costs of contributions of the first six months of 2020 not yet processed at the end of the financial period, while the uses, amounting to 6.2 million euro, represent the costs incurred over the period for the processing of residual waste stored at 31 December 2019.

The item "Other provisions for risks and charges", amounting to 89.3 million euro, comprises provisions made against sundry risks. Below, there is a description of the main items:

- 18.7 million euro related to the potential risk of the amount of the WTE green certificates not being recognised calculated according to the difference between auxiliary services resulting from self-consumption and services estimated on the basis of the benchmark percentage;
- 11.3 million euros, due to the potential liability related to existing obligations (guarantee on financial exposure given by AcegasApsAmga S.p.A.) in case of abandonment of the operations run by the foreign subsidiary AresGas (Bulgaria).
- 7.1 million euro for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill;
- 6.6 million euro for the dispute that arose with the subsidiary Hestambiente Srl in connection with the payment of CIP6 incentives for the Trieste waste to energy plant for the years 2010-2012;
- 5 million euro refer to potential liability for tax risks recorded as part of the valuation of the sales activities acquired from the Ascopiave Group. During the negotiations, Ascopiave and the Hera Group arranged a specific indemnity for any liabilities related to the unfavourable outcome of an ongoing tax dispute, therefore the amount recorded in the balance sheet is the value exceeding this indemnity, calculated as the difference compared to the maximum potential risk that should be paid to the tax authorities in the event of losing the dispute. due to the current state of affairs, it is not possible to determine the outcome of the dispute and the likelihood of losing the case;
- 4.1 million euro, for the risk arising from the Economic development ministerial decree of 20 November 2012 "New procedures to determine the component of the avoided fuel cost (CEC), under measure CIP6/92, and determination of the adjustment amount of CEC for 2011", which introduced new procedures for the determination of the component of avoided fuel cost (CEC) for 2010, 2011 and 2012;
- 3.5 million euro for potential litigation arising from the sale of the gas distribution unit of the Veneto and Friuli Venezia Giulia regions;
- 3.3 million euro for the risk arising from the Authority's resolution 527/2016, which, in keeping with the findings of the GSE, established that the Cassa per i servizi energetici e ambientali recover the amounts that the Group would unduly receive for the electricity produced by the Granarolo (Bo) WTE plant.

29 Trade payables

	30-Jun-20	31-Dec-19	Change
Payables to suppliers	391.6	626.9	(235.3)
Payables to suppliers for invoices not yet received	696.3	764.9	(68.6)
Total	**1,087.9**	**1,391.8**	**(303.9)**

Nearly all trade payables are the result of transactions carried out in Italy.

30 Other current liabilities

	30-Jun-20	31-Dec-19	Change
Payables for advances to the Cassa per i servizi energetici e ambientali	354.2	382.2	(28.0)
Plant investment grants	205.7	202.5	3.2
Trade payables	165.2	2.9	162.3
Security deposits from clients	118.8	118.0	0.8
VAT, excise and additional taxes	111.1	31.8	79.3
Cassa per servizi energetici e ambientali for components and equalization	83.2	81.5	1.7
Payables to social security institutions	61.4	51.6	9.8
Personnel	54.6	50.2	4.4
Payables for damage in customs	14.5	14.3	0.2
Employee withholding	13.3	17.6	(4.3)
Anticipated revenues and other expenses	10.4	11.8	(1.4)
Other payables	93.8	83.5	10.3
Total	**1,286.2**	**1,047.9**	**238.3**

"Liabilities for advances due to the Cassa per i servizi energetici e ambientali" comprises non-interest-bearing advances granted by the Cassa per i servizi energetici e ambientali, as follows:

- 294.6 million euro for advances in compliance with the integration mechanism set forth by resolution 370/2012/R/Eel and 456/2013/R/Eel by the Authority in charge of regulating the energy networks and environment (ARERA), for overdue and unpaid receivables from customers managed as protected customers; The latest reports concern the years 2009-2018;
- 57.8 million euro in compliance with the integration mechanism set forth in Law 239 of 23 August 2004 and by ARERA's Tivg, for the charges for delinquency of services of last resort in the natural gas sector (Fui, Ftf and Fdd) until the 2016-2017 thermic year;
- 1.8 million euro in compliance with the recognition mechanism established by ARERA resolution 627/2015/R/com for overdue charges related to the supply of electricity, gas and integrated water service to the populations affected by the 20 May 2012 earthquakes in the Emilia-Romagna region;

"Plant investment grants" refers mainly to investments made in the water and waste management sector; this item decreases in proportion to the amount of depreciation calculated on the fixed assets in question and increases as a result of new investments subject to grants. The item includes specifically:

- 53.3 million euro in contributions related to the FoNI fund (new water system investment fund);
- 40.6 million euro in contributions related to purification for the Servola plant built in the Municipality of Trieste;
- 17.8 million euro in contributions to build rolling basins e underwater pipes in the area of Rimini.
- 17.1 million neuro in contributions for constructing the sewer networks in the north-east area.

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

"Payables for dividends", amounting to 165.2 million euro, include dividends not yet paid at 30 June 2020 to the shareholders of the parent company for 150.2 million euro (the related coupon was released on 6 July 2020 and paid on 8 July 2020) and to minority shareholders for 15 million euro (2.9 million euro at 31 December 2019).

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

"VAT, excise and additional taxes" includes payables for VAT in the amount of 15.3 million euro (6.6 million euro at 31 December 2019), and excise and additional taxes in the amount of 95.8 million euro (25.2 million euro at 31 December 2019). As outlined in note 24, "Other current assets", this increase must be understood taking into account the factors that regulate financial relations with the Inland Revenue Office, which can generate credit/debit positions with differences that can be significant even between one financial period and another. In particular, the change in payables for value added tax is due to the increase of the debt of the former Ascopiave companies acquired during December 2019 for approximately 9.5 million euro.

"Cassa per servizi energetici e ambientali for components and equalization" reflects the liabilities due to the Cassa per i servizi energetici e ambientali caused by the equalization of the gas service, the equalization of the electricity service and some system components of the gas, electricity and water services. The change as compared to 31 December 2019 is due primarily to;

- increase in payables due to components of the electricity and water distribution and sale for a total of 10 million euro;
- reduction in payables for gas distribution components for 4.9 million euro;
- reduction in payables due to the equalization of the electricity distribution for a total of 3.4 million euro.

"Payables to social security institutions" and "Employee withholdings" relate to contributions and withholdings owed to social security institutions and the inland revenue in relation to compensation for June. The significant increase as compared to the previous period is mainly due to the portion of social security contributions recorded on an accrual basis in relation to remuneration components still to be paid.

“Personnel" includes the vacation time accrued and not used, as well as the productivity bonuses and additional monthly wages for the first six months of 2020, accounted for by department at 30 June 2020.

"Payables for damage in customs", amounting to 14.5 million euro, includes the value of insurance deductibles that the Group must repay directly to damaged third parties or insurance companies.

The item "Anticipated revenues and other expenses", amounting to 10.4 million euro, comprises portions of revenues already invoiced falling due in the following financial period and mainly refer to the telecommunications business for 6.8 million euro and the waste treatment business for 1.1 million euro.

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

- payments on account and specific tariff subsidies payable to customers amounting to 12.2 million euro (11.1 million euro at 31 December 2019) the increase mainly refers to higher advance payments received from customers in the environment business area for 1 million euro;
- payables related to the authority's requirement that energy efficiency certificates be given back, in the amount of 6.4 million euro, almost entirely referring to grey certificates (7.6 million euro at 31 December 2019);
- sundry tax payables other than VAT, excise and additional taxes for 4.3 million euro (3 million euros at 31 December 2019);

31 Investment activities

Investments in companies and business operations
These investments in companies and business branches carried out in the first six months of 2020 refer for 45.5 million euro to the purchase of shares of the non-consolidated company Ascopiave Spa, which the Group classifies as an asset measured at fair value, recorded in the other components of the comprehensive income statement. For more detailed information, please see note 17 "Equity investments".

Acquisition of interests in consolidated companies
The amount refers to the cash outlays related to the purchase of non-controlling shares in the company Hera Servizi Energia Srl, as described in section 2.02.02 "Scope of consolidation"

Divestments in equity investments and contingent consideration
The item records the sale of the stakes, amounting to 39.5%, in the affiliated company Q.Thermo Srl over which the Group had significant influence, as described in paragraph 2.02.02 "Scope of consolidation".

Changes in liabilities generated by financing activities

The table below shows the changes in financial liabilities that occurred in the first half of 2020, broken down into cash and non-monetary flows.

Type	30-Jun-20	31-Dec-19	Change	Non-cash flows				Cash flows
				Acquisitions divestitures	(Income) Evaluation expenses	Changes in fair value	Other changes	
Banks, loans and non-current options	3,451.7	3,456.3	(4.6)		23.5	1.2	(19.9)	(9.4)
Banks, loans and current options	448.1	305.5	142.6				14.8	127.8
Lease liabilities	89.0	95.5	(6.5)		1.6		5.8	(13.9)
Liabilities generated by financing activities	**3,988.8**	**3,857.3**	**131.5**	**-**	**25.1**	**1.2**	**0.7**	**104.5**

"Evaluation income/ expenses" refer to:

- Expenses for evaluation at depreciated cost of bonds and loans for 13.8 million euro;
- expenses related to the put option on the non-controlling shares in EstEnergy Spa, equal to 9.7 million euro; For further details, please see note 26 "Current and non-current financial liabilities";
- expenses related to lease contracts for 1.6 million euro.

"Changes in fair value" includes the adjustments to the value of the bond in Japanese yen as part of a fair value hedging arrangement. For more detailed information, please see note 20 "Derivatives financial instruments".

"Other change" includes:

- "Banks, loans and non-current options" the change in the consideration transferred following the final valuation of the acquisition of Pistoia Ambiente Srl for 5.2 million euro. For further details, reference should be made to paragraph 2.02.02 "Scope of consolidation";
- The column "Lease liabilities" includes the liabilities related to contracts signed in the six-month period and the re-assessment of the debt of some of the existing contracts, generated by the update of the underlying assumptions concerning options of renewal, purchase or early termination.

Finally, it should be noted that non-monetary flows due to exchange rate differences were absent in the first six months of 2020.

2.02.05
Reporting by operational sector

Reporting by operational sectors is based on the approach management uses to monitor the performance of the Group by homogeneous business areas. The net costs and assets for business support functions, in keeping with the internal control model, are entirely associated to operational businesses.

At 30 June 2020, the Hera Group is organized according to the following operating sectors:

- **Gas** includes the costs of distributing and selling gas and LPG as well as district heating and heating management;
- **Electricity** includes the costs of producing, distributing and selling electricity;
- **Water Cycle** includes aqueduct, purification and sewage services;
- **Waste Management** includes waste collection, treatment and recycling services;
- **Other services** include public lighting, telecommunications and other minor services.

Assets and liabilities by operational sector for the first six months of 2020 are outlined below:

30-Jun-20	Gas	Electricity	Water cycle	Waste management	Other services	Total
Assets (tangible and intangible)	1,822.3	603.2	2,103.5	1,216.7	119.6	5,865.3
Goodwill	498.3	68.7	42.7	198.2	4.9	812.8
Equity investments	131.9	19.2	8.2	23.7	-	183.0
Not attributed fixed assets						32.1
Net fixed assets	**2,452.5**	**691.1**	**2,154.4**	**1,438.6**	**124.5**	**6,893.2**
Attributed net working capital	(23.5)	89.8	(240.1)	73.9	23.3	(76.6)
Non attributed net working capital						(95.7)
Net working capital	**(23.5)**	**89.8**	**(240.1)**	**73.9**	**23.3**	**(172.3)**
Other provisions	(166.0)	(34.1)	(146.6)	(287.6)	(4.4)	(638.7)
Net invested capital	**2,263.0**	**746.8**	**1,767.7**	**1,224.9**	**143.4**	**6,082.2**

31-Dec-19	Gas	Electricity	Water cycle	Waste management	Other services	Total
Assets (tangible and intangible)	1,858.6	624.4	1,952.4	1,302.2	132.2	5,869.8
Goodwill	500.0	66.4	42.8	198.9	4.8	812.9
Equity investments	66.7	43.2	9.0	24.6	-	143.5
Not attributed fixed assets						20.1
Net fixed assets	**2,425.3**	**734.0**	**2,004.2**	**1,525.7**	**137.0**	**6,846.3**
Attributed net working capital	245.7	54.7	(153.9)	63.9	(10.6)	199.8
Non attributed net working capital						(112.8)
Net working capital	**245.7**	**54.7**	**(153.9)**	**63.9**	**(10.6)**	**87.0**
Other provisions	(168.9)	(29.8)	(147.6)	(298.2)	(4.6)	(649.1)
Net invested capital	**2,502.1**	**758.9**	**1,702.7**	**1,291.4**	**121.8**	**6,284.2**

The most significant results by operational sector for the first half of 2020 and the same period of 2019 are outlined as follows:

First six months of 2020	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total
Direct revenues	1,589.2	1,032.2	399.6	548.3	47.5	8.2	3,625.0
Infra-cycle revenues	38.1	62.2	2.8	27.4	20.0	19.4	169.9
Total direct revenues	**1,627.3**	**1,094.4**	**402.4**	**575.7**	**67.4**	**27.7**	**3,794.9**
Indirect revenues	7.3	2.8	13.1	4.3	-	(27.7)	-
Total revenues	**1,634.6**	**1,097.3**	**415.6**	**580.0**	**67.5**	**-**	**3,794.9**
EBITDA	**200.8**	**97.0**	**122.7**	**122.4**	**16.9**	**-**	**559.7**
Direct amortisations and provisions	72.8	28.7	52.5	68.3	10.5	31.3	264.0
Indirect amortisations and provisions	3.6	1.5	13.9	12.1	0.2	(31.3)	-
Total amortisations and provisions	**76.3**	**30.2**	**66.4**	**80.3**	**10.7**	**-**	**264.0**
Operating revenues	**124.4**	**66.8**	**56.2**	**42.1**	**6.1**	**-**	**295.7**

First six months of 2019	Gas	Electricity	Water cycle	Waste management	Other services	Structure	Total
Direct revenues	1,451.0	1,133.2	414.4	565.6	48.0	8.3	3,620.6
Infra-cycle revenues	46.3	73.4	2.6	24.9	18.2	16.6	182.0
Total direct revenues	**1,497.3**	**1,206.6**	**417.0**	**590.5**	**66.2**	**24.9**	**3,802.6**
Indirect revenues	4.7	1.8	13.8	4.6	-	(24.9)	-
Total revenues	**1,502.0**	**1,208.4**	**430.8**	**595.1**	**66.2**	**-**	**3,802.6**
EBITDA	**195.6**	**86.3**	**122.8**	**126.3**	**14.9**	**-**	**545.9**
Direct amortisations and provisions	65.4	27.0	57.6	67.6	9.9	29.5	257.0
Indirect amortisations and provisions	3.9	1.6	13.1	10.8	0.2	(29.5)	-
Total amortisations and provisions	**69.2**	**28.6**	**70.7**	**78.3**	**10.2**	**-**	**257.0**
Operating revenues	**126.3**	**57.7**	**52.1**	**48.0**	**4.7**	**-**	**288.9**

2.03
Net financial indebtedness

2.03.01
Net financial indebtedness

		30-Jun-20	31-Dec-19
a	**Cash and cash equivalents**	**705.5**	**364.0**
b	**Other current financial receivables**	**48.0**	**70.1**
	Current bank payables	(317.0)	(111.5)
	Current portion of bank indebtedness	(55.6)	(63.1)
	Other current financial payables	(75.5)	(130.9)
	Current lease liabilities	(18.9)	(19.4)
c	**Current financial indebtedness**	**(467.0)**	**(324.9)**
d=a+b+c	**Current net financial indebtedness**	**286.5**	**109.2**
	Non-current bank payables and bonds issued	(2,865.3)	(2,869.1)
	Other non-current financial payables	(571.4)	(573.5)
	Non-current lease liabilities	(70.1)	(76.1)
e	**Non-current financial indebtedness**	**(3,506.8)**	**(3,518.7)**
f=d+e	**Net financial position - CONSOB Communication no. 15519/2006**	**(3,220.3)**	**(3,409.5)**
g	**Non-current financial receivables**	**136.7**	**135.3**
h=f+g	**Net financial indebtedness**	**(3,083.6)**	**(3,274.2)**

2.03.02

Net financial indebtedness according to the CONSOB communication Dem/6064293 of 2006

		30-Jun-20					31-Dec-19				
			A	B	C	D		A	B	C	D
a	**Cash and cash equivalents**	**705.5**	**-**	**-**	**-**	**-**	**364.0**				
	of which related parties										
b	Other current financial receivables	48.0					70.1				
	of which related parties		-	8.4	4.9	2.7		-	5.7	2.9	1.4
	Current bank payables	(317.0)	-	-	-	-	(111.5)	-	-	-	-
	Current portion of bank indebtedness	(55.6)	-	-	-	-	(63.1)	-	-	-	-
	Other current financial payables	(75.5)	-	-	(0.6)	-	(130.9)	-	-	(1.1)	-
	Current lease liabilities	(18.9)	-	-	(0.8)	(0.1)	(19.4)	-	-	(1.4)	(0.1)
c	**Current financial indebtedness**	**(467.0)**					**(324.9)**				
	of which related parties		**-**	**-**	**(1.4)**	**(0.1)**		**-**	**-**	**(2.5)**	**(0.1)**
d=a+b+c	**Current net financial indebtedness**	**286.5**					**109.2**				
	of which related parties		**-**	**8.4**	**3.5**	**2.6**		**-**	**5.7**	**0.4**	**1.3**
	Non-current bank payables and bonds issued	(2,865.3)	-	-	-	-	(2,869.1)	-	-	-	-
	Other non-current financial payables	(571.4)	-	-	(2.5)	-	(573.5)	-	-	(2.8)	-
	Non-current lease liabilities	(70.1)	-	-	(2.8)	(0.3)	(76.1)	-	-	(2.8)	(0.3)
e	**Non-current financial indebtedness**	**(3,506.8)**					**(3,518.7)**				
	of which related parties		**-**	**-**	**(5.3)**	**(0.3)**		**-**	**-**	**(5.6)**	**(0.3)**
f=d+e	**Net financial position - CONSOB Communication no. 15519/2006**	**(3,220.3)**					**(3,409.5)**				
	of which related parties		**-**	**8.4**	**(1.8)**	**2.3**		**-**	**5.7**	**(5.2)**	**1.0**
g	**Non-current financial receivables**	**136.7**					**135.3**				
	of which related parties		**-**	**20.7**	**16.3**	**37.3**		**-**	**23.2**	**18.0**	**39.9**
h=f+g	**Net financial indebtedness**	**(3,083.6)**					**(3,274.2)**				
	of which related parties		**-**	**29.1**	**14.5**	**39.6**		**-**	**28.9**	**12.8**	**40.9**

Key to column headings for related parts:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholding municipalities)
D Other related parties

2.04
Financial statement formats as per CONSOB resolution 15519/2006

2.04.01
Income statement as per CONSOB resolution 15519/ 2006

	notes	first six months of 2020	of which related parties						first six months of 2019	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	3,402.3	-	17.0	141.0	6.8	164.8	4.8%	3,371.6	-	44.3	147.5	5.0	196.8	5.8%
Other operating revenues	2	222.6	-	0.1	2.8	-	2.9	1.3%	249.0	-	0.1	5.6	-	5.7	2.3%
Use of raw materials and consumables	3	(1,605.1)	-	(6.3)	-	(20.5)	(26.8)	1.7%	(1,699.2)	-	(8.6)	-	(22.0)	(30.6)	1.8%
Service costs	4	(1,151.0)	-	(4.4)	(7.8)	(11.9)	(24.1)	2.1%	(1,075.1)	-	(7.1)	(10.0)	(11.8)	(28.9)	2.7%
Personnel costs	5	(290.9)	-	-	-	-	-		(286.6)	-	-	-	-	-	
Other operating costs	6	(32.5)	-	-	(0.8)	(0.3)	(1.1)	3.4%	(29.8)	-	(0.1)	(0.7)	(0.2)	(1.0)	3.4%
Capitalized costs	7	14.3	-	-	-	-	-		16.0	-	-	-	-	-	
Amortisation, depreciation and provisions	8	(264.0)	-	-	-	-	-		(257.0)	-	-	(1.0)	-	(1.0)	0.4%
Operating revenues		**295.7**	**-**	**6.4**	**135.2**	**(25.9)**	**115.7**		**288.9**	**-**	**28.6**	**141.4**	**(29.0)**	**141.0**	
Share of profits (losses) of associated companies	9	3.7	-	3.7	-	-	3.7	100.0%	6.5	-	6.5	-	-	6.5	100.0%
Financial income	10	30.9	-	2.4	0.4	0.2	3.0	9.7%	67.8	-	1.1	-	0.2	1.3	1.9%
Financial expenses	10	(90.8)	-	-	(0.1)	0.0	(0.1)	0.1%	(119.2)	-	-	(0.4)	-	(0.4)	0.3%
Financial operations		**(56.2)**	**-**	**6.1**	**0.3**	**0.2**	**6.6**		**(44.9)**	**-**	**7.6**	**(0.4)**	**0.2**	**7.4**	
Earnings before taxes		**239.5**	**-**	**12.5**	**135.5**	**(25.7)**	**122.3**		**244.0**	**-**	**36.2**	**141.0**	**(28.8)**	**148.4**	
Taxes	11	(64.6)	-	-	-	-	-		(70.1)	-	-	-	-	-	
Net profit for the period		**174.9**	**-**	**12.5**	**135.5**	**(25.7)**	**122.3**		**173.9**	**-**	**36.2**	**141.0**	**(28.8)**	**148.4**	
Attributable to:															
Parent company shareholders		166.2							166.2						
Minority shareholders		8.7							7.7						
Earnings per share	**12**														
basic		**0.113**							**0.113**						
diluted		**0.113**							**0.113**						

Key to column headings for related parts:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholding municipalities)
D Other related parties

2.04.02

Statement of financial position as per Consob resolution 15519/ 2006

	notes	30-Jun-20	of which related parties						31-Dec-19	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	13	1,951.1	-	-	-	-	-		1,992.7	-	-	-	-	-	
Rights of use	14	91.0	-	-	-	-	-		96.9	-	-	-	-	-	
Intangible assets	15	3,823.2	-	-	-	-	-		3,780.2	-	-	-	-	-	
Goodwill	16	812.8	-	-	-	-	-		812.9	-	-	-	-	-	
Equity investments	17	183.0	0.1	133.4	-	2.0	135.5	74.0%	143.5	0.1	137.0	-	2.0	139.1	96.9%
Non-current financial assets	18	136.7	-	20.7	16.3	37.3	74.3	54.4%	135.3	-	23.2	18.0	39.9	81.1	59.9%
Deferred tax assets	19	177.9	-	-	-	-	-		174.8	-	-	-	-	-	
Derivative financial instruments	20	43.3	-	-	-	-	-		41.1	-	-	-	-	-	
Non-current assets		**7,219.0**	**0.1**	**154.1**	**16.3**	**39.3**	**209.8**		**7,177.4**	**0.1**	**160.2**	**18.0**	**41.9**	**220.2**	
Current assets															
Inventories	21	170.7	-	-	-	-	-		176.5	-	-	-	-	-	
Trade receivables	22	1,746.9	-	1.6	53.4	14.9	69.9	4.0%	2,065.3	-	7.2	60.7	16.9	84.8	4.1%
Current financial assets	18	48.0	-	8.4	4.9	2.7	16.0	33.3%	70.1	-	5.7	2.9	1.4	10.0	14.3%
Current tax assets	23	39.3	-	-	-	-	-		42.1	-	-	-	-	-	
Other current assets	24	379.9	-	12.4	4.5	5.2	22.1	5.8%	395.7	-	1.2	(0.3)	5.1	6.0	1.5%
Derivative financial instruments	20	84.8	-	-	-	-	-		72.2	-	-	-	-	-	
Cash and cash equivalents	18	705.5	-	-	-	-	-		364.0	-	-	-	-	-	
Total current assets		**3,175.1**	**-**	**22.4**	**62.8**	**22.8**	**108.0**		**3,185.9**	**-**	**14.1**	**63.3**	**23.4**	**100.8**	
TOTAL ASSETS		**10,394.1**	**0.1**	**176.5**	**79.1**	**62.1**	**317.8**		**10,363.3**	**0.1**	**174.3**	**81.3**	**65.3**	**321.0**	

Key to column headings for related parts:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholding municipalities)
D Other related parties

	notes	30-Jun-20	of which related parties						31-Dec-19	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	25														
Share capital		1,470.6	-	-	-	-	-		1,474.8	-	-	-	-	-	
Reserves		1,176.5	-	-	-	-	-		948.0	-	-	-	-	-	
Profit (loss) for the period		166.2	-	-	-	-	-		385.7	-	-	-	-	-	
Group net equity		**2,813.3**	**-**	**-**	**-**	**-**	**-**		**2,808.5**	**-**	**-**	**-**	**-**	**-**	
Non-controlling interests		185.3	-	-	-	-	-		201.5	-	-	-	-	-	
Total net equity		**2,998.6**	**-**	**-**	**-**	**-**	**-**		**3,010.0**	**-**	**-**	**-**	**-**	**-**	
Non-current liabilities															
Non-current financial liabilities	26.31	3,451.7	-	-	2.5	-	2.5	0.1%	3,456.3	-	-	2.8	-	2.8	0.1%
Non-current lease liabilities	14.31	70.1	-	-	2.8	0.3	3.1	4.4%	76.1	-	-	2.8	0.3	3.1	4.1%
Post-employment and other benefits	27	120.0	-	-	-	-	-		127.3	-	-	-	-	-	
Provisions for risks and charges	28	518.7	-	-	-	-	-		521.8	-	-	-	-	-	
Deferred tax liabilities	19	145.8	-	-	-	-	-		154.5	-	-	-	-	-	
Derivative financial instruments	20	28.3	-	-	-	-	-		27.4	-	-	-	-	-	
Total non-current liabilities		**4,334.6**	**-**	**-**	**5.3**	**0.3**	**5.6**		**4,363.4**	**-**	**-**	**5.6**	**0.3**	**5.9**	
Current liabilities															
Current financial liabilities	26.31	448.1	-	-	0.6	-	0.6	0.1%	305.5	-	-	1.1	-	1.1	0.4%
Current lease liabilities	14.31	18.9	-	-	0.8	0.1	0.9	4.9%	19.4	-	-	1.4	0.1	1.5	7.6%
Trade payables	29	1,087.9	-	11.4	13.4	19.6	44.4	4.1%	1,391.8	-	12.5	17.6	25.1	55.2	4.0%
Current tax liabilities	23	79.4	-	-	-	-	-		86.9	-	-	-	-	-	
Other current liabilities	30	1,286.1	-	0.4	58.6	0.1	59.1	4.6%	1,047.9	-	0.4	2.7	0.1	3.2	0.3%
Derivative financial instruments	20	140.5	-	-	-	-	-		138.4	-	-	-	-	-	
Total current liabilities		**3,060.9**	**-**	**11.8**	**73.4**	**19.8**	**105.0**		**2,989.9**	**-**	**12.9**	**22.8**	**25.3**	**61.0**	
TOTAL LIABILITIES		**7,395.5**	**-**	**11.8**	**78.7**	**20.1**	**110.6**		**7,353.3**	**-**	**12.9**	**28.4**	**25.6**	**66.9**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**10,394.1**	**-**	**11.8**	**78.7**	**20.1**	**110.6**		**10,363.3**	**-**	**12.9**	**28.4**	**25.6**	**66.9**	

Key to column headings for related parts:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholding municipalities)
D Other related parties

2.04.03
Financial statement as per CONSOB resolution 15519/2006

	30-Jun-20	of which correlated parts
Earnings before taxes	**239.5**	
Adjustments to reconcile net profit to the cash flow from operating activities		
Amortisation and impairment of assets	214.9	
Allocation to provisions	49.1	
Effects from valuation using the net equity method	(3.7)	
Financial (income) expenses	59.9	
Capital (gains) losses and other non-monetary elements	(15.7)	
Change in provision for risks and charges	(15.1)	
Change in provision for employee benefits	(5.6)	
Total cash flow before changes in net working capital	**523.3**	
(Increase) decrease in inventories	5.8	
(Increase) decrease in trade receivables	280.8	14.9
Increase (decrease) in trade payables	(303.9)	(10.8)
Increase/decrease in other current assets/liabilities	102.5	(6.4)
Changes in working capital	**85.2**	
Dividends collected	5.0	3.4
Interest income and other financial income collected	13.6	1.6
Interest expenses, net charges on derivatives and other paid financial charges	(53.2)	
Taxes paid	(86.8)	
Cash flow from operating activities (a)	**487.1**	
Investments in property, plant and equipment	(46.2)	
Investments in intangible assets	(157.1)	
Investments in companies and business units net of cash and cash equivalents	(45.6)	(0.1)
Sale price of property, plant, equipment and intangible assets	2.3	
Divestments in equity investments and contingent consideration	1.4	1.4
(Increase) decrease in other investment activities	21.1	0.8
Cash flow from (for) investing activities (b)	**(224.1)**	
New issue of long-term binds	7.3	
Repayments and other net changes in financial payables	111.1	(0.8)
Finance lease payments	(13.9)	(0.6)
Acquisition of stakes in consolidated companies	(1.2)	
Dividends paid out to Hera shareholders and non-controlling interests	(2.7)	
Changes in treasury share	(22.1)	
Cash flow from (for) financing activities (c)	**78.5**	
Increase (decrease) in cash and cash equivalents (a+b+c)	**341.5**	
Cash and cash equivalents at the beginning of the period	364.0	
Cash and cash equivalents at the end of the period	705.5	

2.04.04
List of related parties:

The figures in the table at 30 June 2020 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries

Black Sea Comp.Compr.Gas Ltd
Green Factory Srl
Sviluppo Ambiente Toscana Srl in liquidation

Group B- Affiliated and jointly controlled companies

Adria Link Srl
Aimag Spa
ASM SET Srl
Energo Doo
Enomondo Srl
H.E.P.T. Co. Ltd
Natura Srl in liquidation
Oikothen Scarl in liquidation
Set Spa
Sgr Servizi Spa
Sinergie Italiane Srl in liquidation
Tamarete Energia Srl

Group C - Related parties with 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
Holding Ferrara Servizi Srl
Ravenna Holding Spa
Rimini Holding Spa

Group D - Other related parties

Acosea Impianti Srl
Acquedotto del Dragone Impianti Spa
Aloe Spa
Amir Spa - Asset
Aspes Spa
Autostrada Pedemontana Lombarda Spa
Baldassi Srl
Calenia Energia Spa
CO.RA.B. Srl
Dama Srl
Eurizon Capital Sgr Spa
Executive Advocacy Srl
Fiorano Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
G.S.G Srl
Imola Gru Srl
KT Finance Srl
Maranello Patrimonio Srl
Nexi Spa
Nexi Payments Spa
Rabofin Srl

Rest Srl
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Scr Servizi Srl
Serramazzoni Patrimonio Srl
Sinapsi Srl
Sis Società Intercomunale di Servizi Spa in liquidazione
Società Italiana Servizi Spa - Asset
Te.Am Srl
Teikos Lab Srl
Unica reti - Asset
Vallicelli Sollevamenti Srl
Auditors, directors, strategic executives, family members of strategic executives

2.04.05
Commentary notes to the relations with related parties

Service management
In most of the areas it serves competence and in almost all of the shareholding municipalities for the provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna, Rimini, Padua, Udine, Trieste, Gorizia and Pesaro, the Hera Group holds the concession for the local public services of economic interest (distribution of natural gas through local gas pipelines, integrated water service and waste management services, including sweeping, waste collection, transport and recovery and disposal). The electricity distribution service is carried out in the areas of Modena and Imola and in the municipalities of Trieste and Gorizia. Other public utilities (including urban district heating, heat management and public lighting) are carried out in a free market regime or through specific agreements with the local authorities concerned. Through specific relations with the local authorities and / or local agencies, Hera is also responsible for waste treatment and disposal services, not included in urban hygiene activities.

Water sector
The water services managed by the Hera Group are carried out in the areas served in the Emilia-Romagna, Veneto, Friuli-Venezia Giulia and Marche regions. It is carried out on the basis of conventions with the relevant local agencies, with a variable duration, which is usually twenty years.
Hera's mandate to manage integrated water services refers to activities of water collection and drinking water treatment and distribution for civil and industrial applications as well as sewerage and sewage treatment. The agreements signed with the local area authorities also require the operator to carry out the planning and construction of new networks and plants aimed at providing the service. The conventions regulate the economic aspects of the contractual agreement, as well as the modes of managing the service, and the performance and quality standards.
Beginning in 2012, the government transferred the authority for rates to the national agency ARERA which, as part of the task it was assigned, approved a transitional rate method for the period 2012-2013, a two-year period of consolidation from 2014 to 2015 a second rate period (Mti-2) between 2016 and 2019, and the current rate period in force (Mti-3) between 2020 and 2023. As part of this last measure (Authority Resolution no. 664/2015/ R/IDR) the National Authority also updated the agreements on the basis of a model it established.
The adjustment for 2020-2023 is in continuity with the previous period 2016-2019, with the introduction of a number of incentives; each operator is granted revenue (VRG) independently of the trends of the volumes distributed and it is established on the basis of operating costs (efficient and exogenous) and capital costs in relation to the investments made.
For the purpose of carrying out the service, the operator uses networks, facilities and other equipment owned by the company itself or the municipalities or asset companies. These assets, part of the inaccessible water stores, or granted or leased to the provider, must be returned to the municipalities, asset companies or local area authorities at the end of the concession to be made available to the incoming provider. Any work carried out by Hera for the water service must be returned to above mentioned entities following payment or the residual value of the assets in question.
Hera's relations with users are regulated by provisioning regulations as well as Service Charters drafted on the basis of templates approved by local area authorities in compliance with provisions set out by ARERA regarding the quality of the service and the resource.

Environment sector
The municipal waste service managed by Hera in the area it serves is provided on the basis of agreements with local authorities and comprises the exclusive management of the collection, transportation, sweeping and cleaning of streets, preparations for waste recovery or disposal, etc. Agreements with local authorities regulate the economic aspects of the contract as well as the methods used to organize and manage these services and the quantity and quality of the services provided. Beginning in 2020, the payments due to the operator for the services rendered, including municipal waste disposal/treatment/recovery activities, are to be defined on the basis of the new national regulation (Authority resolution 443/2019) adopted by the ARERA national authority. Hera invoices the urban waste management service to the individual municipalities through TARI tax where present or to individual users through the TCP fee.
To run treatment plants for municipal waste, the Hera Group is required to obtain provincial authorizations; furthermore, for 2020, the subsidiary Herambiente signed with Atersir the service contract established by article 16 of Regional Law 23 of Emilia Romagna, dated 2011, for the disposal of unsorted waste.
In compliance with the principle of continuity of public service, in accordance with the existing agreements, the operator is required to continue the service also in areas in which the existing concession has already expired and until the new concessions come into effect; the relevant Agencies have already initiated procedures for assigning the expired concessions. The new contract for the area of Ravenna-Cesena was signed, coming into force on 1 January 2020 and valid for fifteen years.

Energy sector
The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (so-called Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the

energy market. Inrete Distribution Energy Spa, an Hera Group company that took over natural gas and electricity distribution from Hera SpA, takes advantage of longer residual terms established for operators that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions issued by the national authority ARERA. The area in which the Hera Group company Inrete Distribuzione Energia Spa provides gas distribution services is divided into rate zones in which a uniform distribution rate is applied to different categories of customers. The main tariff regulations in force at the time of approval of these half-yearly financial statements are resolutions 571/2019/R/gas of 27 December 2019 (Update of tariffs for gas distribution and metering services, for the year 2020), which replaced the 667/2018/R/gas of 18 December 2018 and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2020, as per Article 42 of the RTDG and the bi-monthly equalisation amounts for the natural gas distribution service referred to in Article 47 of the RTDG. The same regulation likewise approves the maximum amount for recognising higher expenses deriving from the presence of concession fees, as per article 60 of the RTDG, for distribution companies that submitted a request and provided suitable documentation.
The mandatory natural gas distribution and metering tariffs are broken down into six different geographical tariff areas:

- the northwest area, which includes the regions of Valle d'Aosta, Piedmont and Liguria;
- the northeast area, including the regions of Lombardy, Trentino - Alto Adige, Veneto, Friuli - Venezia Giulia, and Emilia - Romagna;
- the central area, comprising the regions of Tuscany, Umbria and the Marche;
- the central-southeastern area, including the regions of Abruzzo, Molise, Apulia and Basilicata;
- the central-southwestern area, including the Lazio and Campania regions;
- the southern area, including the regions of Calabria and Sicily.

With regard to electricity, the contracts (lasting thirty years and renewable pursuant to the current regulations) govern power distribution activities comprising, inter alia, the management of distribution networks and the operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development projects, and metering. The contract may be suspended or terminated, on the judgment of the sector national Authority ARERA, if defaults and violations occur on the part of the concessionary company that seriously affect the performance of the distribution and metering of electricity. The distribution company is obliged to apply the rates set by current regulations and resolutions adopted by the sector Authority. The rate regulations in effect at the time the half-yearly financial statements are approved refers to 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 metering services, for the 2016-2023 regulatory period, defining a regulatory period of eight years consisting of two four-year half-periods, also providing for an infra-period update between the first and second half-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 mandatory tariff for the distribution service is updated periodically by the sector national Authority ARERA by means of a suitable measure, and on 27 December 2019 Resolution 568/2019/R/Eel was issued to approve tariff regulation of electricity transmission, distribution and metering services for the regulatory half-period 2020-2023.
In addition, following the Covid-19 emergency, with Resolution 190/2020/R/eel the Authority implemented the provisions of law decree no. 34 of 19 May 2020, on "Urgent measures concerning health, support to work and the economy, and social policies related to the Covid-19 epidemiological emergency", redefining, inter alia, the values of the mandatory tariff components for the distribution service for low-voltage non-household users and for the period from 1 May to 31 July 2020.

2.05
Equity investments: List of consolidated companies

Subsidiaries

Registered name	Registered office	Share capital (euro) (*)	Percentage held		Total interest
			direct	indirect	
Parent company: Hera Spa	Bologna	1,489,538,745			
Acantho Spa	Imola (BO)	23,573,079	80.64%		80.64%
AcegasApsAmga Spa	Trieste	284,677,32	100.00%		100.00%
AcegasApsAmga Servizi Energetici Spa	Udine	11,168,284		100.00%	100.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sarl	La Wantzenau (France)	25,000		75.00%	75.00%
Aliplast Iberia SL	Calle Castilla -Leon (Spain)	815,000		75.00%	75.00%
Aliplast Polska Spoo	Zgierz (Poland)	1,200,000 PLN		75.00%	75.00%
Amgas Blu Srl	Foggia	10,000		100.00%	100.00%
Aresenergy Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
AresGas Ead	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
Asa Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Ascopiave Energie Spa	Pieve di Soligo (TV)	250,000		100.00%	100.00%
Ascotrade Spa	Pieve di Soligo (TV)	1,000,000		89.00%	89.00%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Blue Meta Spa	Pieve di Soligo (TV)	606,123		100.00%	100.00%
Cosea Ambiente Spa in liquidation	Castel di Casio (BO)	477,526	100.00%		100.00%
EstEnergy Spa	Trieste	299,925,761		100.00%	100.00%
Etra Energia Srl	Cittadella (PD)	100,000		51.00%	51.00%
Feronia Srl	Finale Emilia (MO)	100,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Herambiente Spa	Bologna	271,648,000	75.00%		75.00%
Herambiente Servizi Industriali Srl	Bologna	1,748,472		75.00%	75.00%
Hera Comm Spa	Imola (BO)	53,595,899	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		84.00%	84.00%
Hera Comm Nord Est Srl	Trieste	1,000,000		100.00%	100.00%
Hera Luce Srl	Cesena	1,000,000		100.00%	100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		67.61%	67.61%
Heratech Srl	Bologna	2,000,000	100.00%		100.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Inrete Distribuzione Energia Spa	Bologna	10,091,815	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	16,388,535	46.70%		46.70%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		46.70%	46.70%
Pistoia Ambiente Srl	Serravalle Pistoiese (PT)	1,000,000		75.00%	75.00%
Tri-Generazione Scarl	Padua	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%

Jointly controlled companies

Registered name	Registered office	Share capital (euro)	Percentage held		Total interest
			direct	indirect	
Enomondo Srl	Faenza (RA)	14,000,000		37.50%	37.50%

Associated companies

Registered name	Registered office	Share capital (euro)	Percentage held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
ASM SET Srl	Rovigo	200,000		49.00%	49.00%
Set Spa	Milan	120,000	39.00%		39.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Sinergie Italiane Srl in liquidation	Milan	1,000,000		31.00%	31.00%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

*The share capital of these companies consists of 67,577,681 euros of ordinary shares and 10,450,000 of related shares.

2.06
Declaration on the consolidated financial statement pursuant to Art. 154-bis of Legislative Decree 58/98

1 – The undersigned Stefano Venier, acting as CEO, and Luca Moroni, acting as Manager Appointed for drafting the corporate accounting documents of Hera Spa, pursuant to the content of article 154-*bis*, paragraphs 3 and 4, of legislative decree 24 February 1998, no. 58, attest to

- the adequacy with respect to the characteristics of the company and
- the actual application

of the administrative and accounting procedures used in drafting the half-year financial report during the first six months of 2020.

2 – They furthermore attest that:

2.1 the abbreviated half-year report:

a. is drafted in compliance with the applicable international accounting standards recognised in the European community pursuant to regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b. corresponds to the entries made in the accounting documents, ledgers and records;

c. appropriately provides a truthful and correct representation of the operating and financial situation of the issuer and the consolidated companies as a whole.

2.2 The intermediate report on management includes a reliable analysis of the significant events that occurred during the first six months of the year and their effect on the abbreviated half-year report, along with a description of the main risks and uncertainties for the remaining six months of the year. The intermediate report on management furthermore includes a reliable analysis of the significant transactions carried out with related parties.

The CEO

The Manager Appointed
for drafting the corporate accounting documents

Stefano Venier

Luca Moroni

Bologna 29 July 2020

2.07
Report by the independent auditor

Deloitte.

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
HERA S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Hera S.p.A. and subsidiaries (the "Hera Group"), which comprise the statement of financial position as of June 30, 2020 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of Hera Group as at June 30, 2020 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
August 4, 2020

This report has been translated into the English language solely for the convenience of international readers.

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