Consolidated Financial Statements 2018

GRUPPO HERA

Hera Group – Consolidated Financial Statements at 31 December 2018, approved by the Hera Spa BoD on 27 March 2019 and to be approved by the Shareholders Meeting called for 30 April 2019

Table of contents

Introduction

CHAPTER 1

Directors' Report

CHAPTER 2

Consolidated Financial Statements 111

4. Report on remuneration

Introduction

Letter from the Chairman to Shareholders

Dear Shareholders,

The activities in which your Company was engaged in 2018, which we hereby submit to your approval, have led us to reach results exceeding expectations, with trends proving decidedly satisfactory both as a whole and in their components.

This financial report bears witness, once again, to results that continue along the path of growth accumulated over all these years; this has been accomplished by making the most of opportunities for internal growth, integrated with various initiatives aimed at broadening our activities in free market sectors, in particular energy and environmental services.

Overall, the activities carried out led us to reach the milestone of over one billion euro in Ebitda, 1.31 billion to be precise, in a 4.7% increase over the previous year, with net profits for shareholders coming to 281.9 million euro, up 12.1%.
This result was matched by the quality of our financial results, with a reduction in the net debt/Ebitda ratio, which fell to 2.5, confirming the financial solidity accumulated over the previous year. Indicators of return also showed improvement, reaching a 9.4% Roi and a 10.4% Roe, both higher than the figures seen in previous years.

An important contribution to internal growth came from our ongoing commitment towards greater efficiency and a level of service quality higher than the standards required by the Authority. This became concretely visible in our growth in productivity per employee, now reaching 120.4 thousand euro (+6%).

The external expansion mentioned above led to a significant increase in our energy customer portfolio, that reached over 2.5 million, owing to the acquisitions made during the year.

As regards operating investments, the increase we recorded over the year brought us to roughly 462 million, thus contributing to an additional reinforcement in the operating base of our plants. With respect to the latter, particular emphasis must go to the operational status of the new Sant'Agata Bolognese biomethane plant, our most significant and innovative initiative, without forgetting our achievements in the water cycle, involving the completion of the Trieste purifier and continued work, now close to its conclusion, on the Rimini seawater protection plan.

We also achieved good results nationally, owing to the many tenders in which we participated in safeguarded services and new contracts in the public lighting sector. This confirms our ability to compete with other operators with varying sizes, which has reached a higher degree of maturity, confirming that the Group's structures and its potential are adequate to participate in tenders for renewing regulated service concessions.

The CEO will present the new Sustainability Report, which we initially adopted many years ago, and will explain the importance of the socio-environmental policies that our company has reinforced over time, bringing the Group to stand out as a leading actor in the new trends seen in the realm of sustainability.

I would also like to reveal in advance that the Board of Directors has approved, in line with the indications provided in the business plan and fully reflecting the results achieved, a dividend payment coming to 10 cents per share, increasing over the amount paid last year.

In early 2019, the new business plan to 2022 was presented, which laid new groundwork and defined the strategic levers to be activated in order to continue along the path of growth pursued until present. Our new goals were presented to a considerable number of investors during a road show that visited the main European and American financial hubs, confirming our commitment towards maintaining an open communication with all our main stakeholders.

I would also like to remind you that, just over a month ago, Borsa Italiana included Hera shares in the Italian stock exchange's main index, in recognition of the amount of capitalisation and trading seen by our stock.

This too is an important milestone, bearing out the Group's long path of growth and ranking it 27th in the classification of the largest capitalisations on the Italian market.

Speaking for the CEO as well, I would like to thank the Board of Directors and the Board of Auditors for their commitment, along with all our personnel who contributed to the results, confident that, despite the difficult scenario we are currently facing, we will be able to bring the current year as well to an end with results that fully respect the content of the new business plan.

Thank you for your kind attention.

Mr. Tomaso Tommasi di Vignano

Governance and control bodies

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice Chairman	Giovanni Basile
Director	Francesca Fiore
Director	Giorgia Gagliardi
Director	Massimo Giusti
Director	Sara Lorenzon
Director	Stefano Manara
Director	Danilo Manfredi
Director	Alessandro Melcarne
Director	Erwin Paul Walter Rauhe
Director	Duccio Regoli
Director	Federica Seganti
Director	Marina Vignola
Director	Giovanni Xilo
Board of Statutory Auditors	
Chairman	Myriam Amato
Standing Auditor	Antonio Gaiani
Standing Auditor	Marianna Girolomini
Control and Risk Committee	
Chairman	Giovanni Basile
Member	Erwin Paul Walter Rauhe
Member	Duccio Regoli
Member	Sara Lorenzon
Remuneration Committee	
Chairman	Giovanni Basile
Member	Francesca Fiore
Member	Massimo Giusti
Member	Stefano Manara
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giovanni Basile
Member	Stefano Venier
Member	Alessandro Melcarne
Ethics and Sustainability Committee	
Chairman	Massimo Giusti
Member	Federica Seganti
Member	Mario Viviani
Member	Filippo Maria Bocchi
Independent auditing firm	
	Deloitte&Touche Spa

Corporate structure

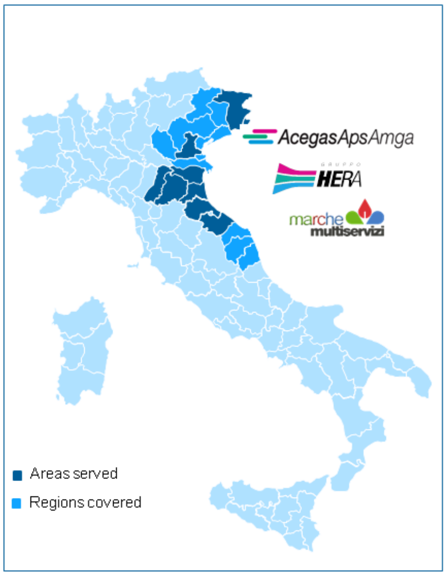
The structure of the Hera Group (the Group) developed out of a complex rationalisation process that began in 2002 after the incorporation of the 11 companies out of which it was first created. The Group has since evolved, adapting over time to meet legislative changes and unbundling its activities into separate companies. The Group operates principally in the waste management, energy and water sectors and consists of the companies Hera Spa, Herambiente Spa, Hera Comm Srl, Hera Trading Srl, Inrete Distribuzione Energia Spa, Marche Multiservizi Spa and AcegasApsAmga Spa.
The top of its corporate structure is occupied by parent company **Hera Spa**, an industrial holding company in charge of governance, coordination and financial management for all Group companies, in addition to being responsible for consolidating their operating activities.

Herambiente Spa, 75% of which is owned by Hera Spa, was established in 2009 as a waste disposal spin-off, ensuring coordinated plant management across the nation. Herambiente Spa in turn established the company Herambiente Servizi Industriali (Hasi Srl), targeted at an industrial customer base.
HeraComm Srl, 100% controlled by Hera Spa and with 2.5 million customers, represents the Group on national energy markets.
Hera Trading Srl, 100% controlled by Hera Spa, deals with trading and procurement of wholesale energy commodities, following a flexible supply rationale on international markets.
Inrete Distribuzione Energia Spa, 100% controlled by Hera Spa, manages energy distribution activities in Emilia Romagna, following a rationale based on efficiency and exploiting scale economies as a preparation for the new tenders for gas concession renewals.

Over the years, the Group's external expansion has resulted in the integration of over a dozen other multi-utility companies. In order to produce synergies, exploit scale economies and convey know-how, these transactions have been concluded as mergers through incorporation into the holding company.
Marche Multiservizi and **AcegasApsAmga** are multi-utility companies operating respectively in the Marche and Triveneto regions, which have maintained their own corporate structure even after being merged into the Group. The aim behind this was to maintain a well-rooted and stable presence in these areas, with a twofold objective: guaranteeing geographical proximity and seizing further opportunities for expansion.

Free market activities

Regulated activities



Hera Spa

Herambiente Spa	75%
*Hestambiente Srl	70%
Fea Srl	51%
Herambiente Servizi Industriali Srl	100%
Enomondo Srl	50%
Asa Scpa	51%
Feronia Srl	70%
Waste Recycling Spa (1)	100%
Aliplast Spa	80%

Hera Comm Srl(2)	100%
So.Sel Spa(3)	26%
Sgr Servizi Spa	29.61%
Hera Comm Marche Srl	84%
Hera Servizi Energia Srl	57.89%
Estenergy Spa	51%
EnergiaBaseTrieste Srl	100%
Sangroservizi Srl(3)	100%

AcegasApsAmga Spa	100%

Hera Trading Srl	100%
Adria Link Srl (4)	33.33%

Marche Multiservizi Spa(5)	46.20%

Inrete Distr. Energia Spa(2)	100%

Other holdings

Calenia Energia Spa	15%	Galsi Spa	11.76%
**Sviluppo Ambiente Toscana	95%	Heratech Srl	100%
Aimag Spa	25%	Tamarete Energia Srl	40%
Uniflotte Srl	97%	Energo Doo	34%
Set Spa	39%	S2A Scarl	23.81%
Acantho Spa	77.36%	Aloe Spa	10%

* Over 30% held by AcegasApsAmga Spa.
** Over 5% owned by Herambiente. Sviluppo Ambiente Toscana Srl, in turn, has a 40% holding in Q.tHermo Srl.
AcegasApsAmga Spa's holdings are: Black Sea Company for Gas Compressed Eood, Centro Idrico di Novoledo Srl, Hera Luce Srl, La Dolomiti Ambiente Spa, AcegasApsAmga Servizi Energetici Spa and AresGas Ead, and SiGas Doo, which is expected to be demerged.
Aliplast Spa's holdings are: Alimpet Srl, Aliplast France Recyclage Sarl, Aliplast Iberia Sl and Aliplast Polska Spoo; effective as of 01/01/2019, the merger of Cerplast Srl, Umbroplast Srl and Variplast Srl into Aliplast Spa was completed.
Effective as of 01/01/2019, the merger of Cerplast Srl, Umbroplast Srl and Variplast Srl into Aliplast Spa was completed.
(1) The merger by incorporation of Waste Recycling Spa into Herambiente Servizi Industriali Srl is currently underway and will be effective as of 01/07/2019..
(2) On 1 March 2019, the following was completed:
- the partial and proportional demerger of CMV Energia&Impianti Srl with beneficiary Hera Comm Srl; as a result, Hera Spa's control percentage passed to 99.89%;
- the partial and proportional demerger of CMV Servizi Srl with beneficiary Inrete Distribuzione Energia Spa; as a result, the latter gained part of the share capital of A Tutta Rete Srl; Hera Spa's control percentage passed to 99.09%.
(3) A release of Hera Comm Srl's holding in So.Sel Spa, and the merger of Sangro Servizi Srl into Hera Comm Marche Srl, are furthermore expected.
(4) On 14 January 2019, Hera Trading Srl's holding in Adria Link Srl increased from 33.33% to 50%.
(5) On 1 February 2019, Hera Spa's holding in Marche Multiservizi Spa increased from 46.20% to 46.70%.

Mission

Hera aims at being the best multi-utility in Italy for its customers, workforce and shareholders. It intends to achieve this through further development of 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: customers, who receive, thanks to Hera's constant responsiveness to their needs, quality services that satisfy their expectations; the women and men who work at Hera, whose skills, engagement and passion are the foundation of the company's success; shareholders, confident that the economic value of the company will continue to be generated in full respect of the principles of social responsibility; the reference area, because economic, social and environmental wealth represent the promise of a sustainable future; and suppliers, key elements in the value chain and partners for growth.

1

Directors' Report

1,031
million
Ebitda

296.6
million
Net profit

432
million
Investments

ROE 10.4 %
Return
on Equity

ROI 9.4 %
Return
on Investment

2.51 x
Net debt/Ebitda
ratio

1.01
Overview of Group management performance and definition of alternative performance measures

Operating APMs and investments

Operating APMs and investments (mn€)	Dec 18	Dec 17	Abs. change	% change
Revenues	**6,134.4**	**5,612.1**	**+522.3**	**+9.3%**
Ebitda	**1,031.1**	**984.6**	**+46.5**	**+4.7%**
Ebitda/revenues	16.8%	17.5%	-0.7 p.p.	
Ebit	**510.1**	**479.3**	**+30.8**	**+6.4%**
Ebit/revenues	8.3%	8.5%	-0.2 p.p.	
Net profit	**296.6**	**266.8**	**+29.8**	**+11.2%**
Net profit/revenues	4.8%	4.8%	+0.0 p.p.	
Net investments *	**431.8**	**396.2**	**+35.6**	**+9.0%**

* for the data used in calculating investments, see notes 13, 14, 15 and 16 of the explanatory notes and paragraph 1.01.02 of the Overview of Group management performance.

Financial APMs

Financial APMs (mn€)	Dec 18	Dec 17	Abs. change	% change
Net non-current assets	5,905.1	5,780.6	+124.5	+2.2%
Net working capital	115.4	23.2	+92.2	+397.3%
Provisions	(588.2)	(574.8)	-13.4	-2.3%
Net invested capital	5,432.3	5,229.0	+203.3	+3.9%
Net debt	**(2,585.6)**	**(2,523.0)**	**-62.6**	**-2.5%**

Operating-financial APMs

Operating-financial APMs	Dec 18	Dec 17	Abs. change
Net debt/Ebitda	**2.51**	**2.56**	**-0.1**
Ffo/Net debt	**27.0%**	**25.8%**	**+1.2 p.p.**
Roi	9.4%	9.2%	+0.2 p.p.
Roe	10.4%	9.9%	+0.5 p.p.
Cash Flow	3.2	154.7	-151.4

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.

Operating APMs and investments

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, amortisations and provisions are deducted from the special operating items which, if present, are described in the detailed table at the end of this paragraph. 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 management shown in the balance sheets from Ebit, as described above, net of special financial items which, if present, are described in the detailed table at the end of this paragraph.

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

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

Ebitda on revenues, Ebit on revenues and net income on revenues 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.

Financial APMs

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.

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.

Operating-financial APMs

The **Net debt to Ebitda ratio**, expressed as a multiple of Ebitda, is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents a measure of the operating management's ability to pay back its net financial debt.

Funds from operations (Ffo) are calculated beginning with Ebitda, subtracting provisions for doubtful accounts, financial charges, uses of provisions for risks (net of releases from provisions and increases due to changes in assumptions on future outlays following revised estimates on current landfills) and severance pay and taxes, net of the special items which, if present, are described in the detailed table at the end of this paragraph. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents an indicator of the operating management's ability to generate cash.

The Ffo/Net debt indicator, expressed as a percentage, is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents an indicator of the operating management's ability to pay back its net financial debt.

Roi, return on net invested capital, is defined as the ratio between Ebit, as described above, and net invested capital. Expressed as a percentage, this measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the ability to produce wealth through operating management, thus remunerating equity and capital pertaining to third parties.

Roe, return on equity, is defined as the ratio between net profits and net equity. Expressed as a percentage, this measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the profitability obtained by investors, recompensing risk.

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

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

(*) stated net of the effects of the different accounting policy used for financial derivatives on commodities traded on the EEX platform, whose differential is regulated on a daily basis (22 million euro), and those concerning the lists of customers of the companies Blu Ranton Srl and Sangroservizi Srl, both acquired during the reporting year.
(**) minus the effects of updating deriving from the application of accounting standards Ias 37 and Ias 19 and the profits coming from associated companies and joint ventures, plus the dividends received from the latter.
(***) amounting to 4.3 million euro.
This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the company's ability to generate cash flow and therefore its ability to finance itself.

Special item / balance sheet reconciliation

Special operating items	Dec 18	Dec 17
Amortisation, depreciation and provisions from financial statements	**-**	**(523.7)**
Goodwill write-downs		12.4
Allocations to provisions for risks and charges		6.0
Total special item amortisation, depreciation and provisions	**-**	**18.4**
Amortisation, depreciation and provisions	**-**	**(505.3)**

Special financial items	dic-18	Dec 17
Financial management from financial statements	**(91.7)**	
Financial income	(5.5)	
Financial charges	5.5	
Total financial managmenet from special items	**0.0**	**-**
Financial management	**(91.7)**	

Special tax items	dic-18	dic-17
Taxes from financial statements	**-**	**(92.6)**
Tax redemption (special item)		(19.2)
Taxes	**-**	**(111.8)**

Result from special items	**(0.0)**	**0.8**

1.01.01

Operating and financial results

Constant growth in all indicators

With this 2018 financial report, the Hera Group has reached a historical milestone: for the first time, it has met the goal of an Ebitda amounting to over one billion euro. In line with this figure, the Group's other operating results have also grown over the previous year. With Ebitda coming to 1,031.1 million euro and showing a 4.7% rise, Ebit totalled 510.1 million euro, up 6.4%, and net profits reached 296.6 million euro, up 11.2%. From a financial point of view as well, the Group's results saw an improvement compared to 2017, as a result of its solid financial structure: the Net debt/Ebitda ratio settled at 2.51, Roi at 9.4% and Roe at 10.4%.

These 2018 results confirm the Group's path of uninterrupted growth and its solid foundations, having by now consolidated its multi-business strategy, balanced between regulated and free market activities. Reaching these results, which were matched by similar ones in terms of sustainability and opportunities for creating shared value through the principles of a circular economy, was made possible by respecting the pillars of the Hera Group's strategy: innovation, efficiency, agility, excellence and growth.

The main corporate and business operations which must be taken into account in evaluating the changes with respect to 2017 are as follows:

- On 20 December 2017, effective as of 1 January 2018, 13,000 protected electricity customers were acquired in the Municipality of Gorizia through EnergiaBaseTrieste Srl, previously served by Eni gas e luce Spa.
- As of 1 January 2018, urban waste collection services for 13 Municipalities in the Forlì area are no longer managed by the Hera Group.
- Acting on the binding agreement signed on 21 December 2017, on 6 April 2018 Hera Spa proceeded to transfer its entire holding in Medea Spa to Italgas Spa.
- On 8 February 2018, a 100% holding of Blu Ranton Srl, a company operating in gas and electricity sales to end customers, was acquired by Hera Comm Marche Srl. The company serves roughly 17,000 gas and electricity customers in Teramo, Pescara and Macerata.
- On 8 February 2018, Hera Comm Marche Srl acquired a 100% holding of Blu Ranton Srl, a company selling gas and electricity to end users with roughly 17,000 gas and electricity customers in Teramo, Pescara and Macerata.

- On 7 March 2018, the respective shareholders meetings approved a project for merger by incorporation of Megas Net Spa (a company related to the Group which owns distribution networks) into Marche Multiservizi Spa; the effective date of the transaction was 1 June 2018, with accounting and tax effects retroactively set at 1 January 2018.
- On 26 March 2018, Hera Comm Srl transferred 2.88% of the share capital of Hera Comm Marche Srl to the minority shareholder Walter Sadori Srl.
- On 26 November 2018, Hera Comm Srl acquired the remaining 51% of Sangroservizi Srl, a gas, electricity and other energy product sales company with approximately 7,000 gas customers served in the Province of Chieti.

The following table shows operating results at 31 December 2018 and 2017:

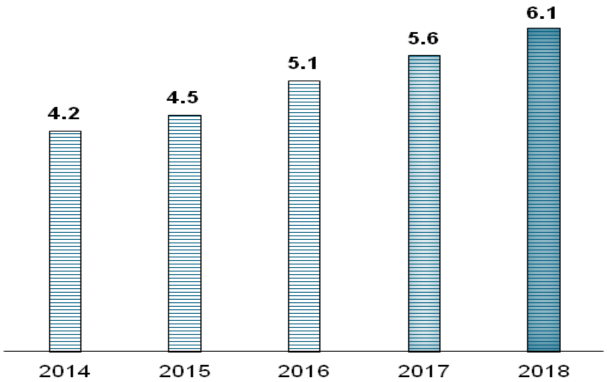
Constant and increasing growth

Income statement (mn€)	Dec 18	Inc.%	Dec 17	Inc.%	Abs. Change	% Change
Revenues	6,134.4		5,612.1		+522.3	+9.3%
Other operating revenues	492.0	8.0%	524.8	9.4%	-32.8	-6.3%
Raw and other materials	(2,984.1)	-48.6%	(2,606.8)	-46.4%	+377.3	+14.5%
Service costs	(2,040.5)	-33.3%	(1,952.2)	-34.8%	+88.3	+4.5%
Other operating costs	(62.5)	-1.0%	(84.6)	-1.5%	-22.1	-26.1%
Personnel costs	(551.4)	-9.0%	(551.6)	-9.8%	-0.2	-0.0%
Capitalised costs	43.3	0.7%	43.0	0.8%	+0.3	+0.7%
EBITDA	**1,031.1**	**16.8%**	**984.6**	**17.5%**	**+46.5**	**+4.7%**
Amortisation, depreciation and provisions	(521.0)	-8.5%	(505.3)	-9.0%	+15.7	+3.1%
EBIT	**510.1**	**8.3%**	**479.3**	**8.5%**	**+30.8**	**+6.4%**
Financial operations	(91.7)	-1.5%	(101.5)	-1.8%	-9.8	-9.7%
Pre-tax profit	**418.4**	**6.8%**	**377.8**	**6.7%**	**+40.6**	**+10.7%**
Taxes	(121.8)	-2.0%	(111.8)	-2.0%	+10.0	+8.9%
Net result	**296.6**	**4.8%**	**266.0**	**4.7%**	**+30.6**	**+11.5%**
Result from special items	**0.0**	0.0%	0.8	0.0%	-0.8	-100.0%
Net profit for the period	**296.6**	**4.8%**	**266.8**	**4.8%**	**+29.8**	**+11.2%**
Attributable to:						
Parent company shareholders	**281.9**	**4.6%**	**251.5**	**4.5%**	**+30.4**	**+12.1%**
Non-controlling interests	14.7	0.2%	15.3	0.3%	-0.6	-3.9%

Revenues increase thanks to higher volumes of energy sold and trading operations

Revenues for 2018 came to 6,134.4 million euro, with a 522.3 million euro or 9.3% increase over the 5,612.1 million euro recorded in 2017. This trend is due to a rise in trading operations amounting to roughly 215 million euro, higher revenues for gas and electricity sales owing to a larger amount of volumes sold and totalling roughly 142 million euro, a higher selling price for gas and electricity, coming to roughly 105 million euro, and higher system charges and larger volumes transmitted, amounting to roughly 50 million euro. Also note the higher revenues for the waste management area, higher revenues from the water cycle area and other services, which offset a drop in revenues from electricity generation. The end of urban waste collection services in 13 Municipalities in the Forlì area as of 1st January 2018, the transfer of Medea Spa and the acquisition of Blu Ranton Srl represent a change in the scope of operations leading to a drop in revenues coming to approximately 12 million euro.
For further details, see the analyses of each single business area.

Revenues (bn€)



6.1
billion euro in revenues

Other operating revenues fell compared to the previous year by 32.8 million euro or 6.3%. This drop is due lower revenues from energy efficiency certificates amounting to roughly 33 million euro, due to a lower unit price introduced by Inter-ministry Decree 10/05/2018, which set a limit on expected contributions and led to an equivalent impact on the market price. The lower revenues produced by changes in the scope of operations, coming to roughly 1.2 million euro, and the lower revenues for long-term commissions, amounting to roughly 1.0 million euro, were offset by higher insurance-related reimbursements and refunds.

Increase in costs for raw materials linked to higher revenues

Costs for raw and other materials rose by 377.3 million euro or 14.5% over 31 December 2017; this increase, not including changes in the scope of operations coming to roughly 1.5 million euro, is due to increased trading operations, the higher price of commodities and the higher volumes of gas and electricity sold.

Other operating expenses grew by 66.2 million euro overall (88.3 million euro in higher service costs and 22.1 million euro in lower other operating expenses). This includes higher costs for system charges and volumes transmitted amounting to roughly 50 million euro, higher costs for commissions and third-party works coming to roughly 6 million euro, higher costs for energy agent fees coming to roughly 3.0 million euro and higher costs for ICT operations coming to roughly 6.6 million euro. In the waste management area, an approximately 26 million euro increase was seen in reclamation, treatment and by-product waste outsourcing. This trend was mitigated by a 6.3 million euro fall in costs produced by the change in scope of operations, lower costs for operating efficiencies in the regulated sector, lower fees for network concessions, lower costs related to losses on credits coming to roughly 15 million euro and lower capital losses involving the 2017 financial year amounting to roughly 7 million euro.

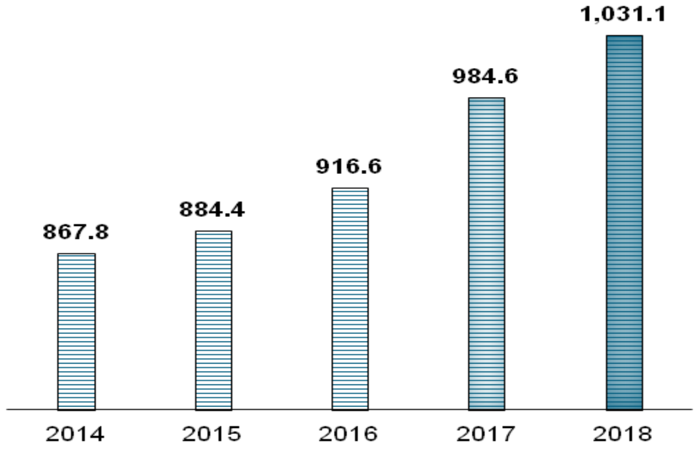
Personnel costs stable

Personnel costs fell by 0.2 million euro, essentially in line with the previous year. The increased compensation foreseen by the National labour contract was offset by a lower amount of resources due to changes in the scope of operations and a reduced average presence.

A slight rise in capitalised costs for 2018 was seen with respect to the previous year, coming to 0.3 million euro or 0.7%, owing to increased interventions on plants and work on assets belonging to the Group.

Ebitda reached 1.03 billion euro, up 46.5 million euro or 4.7% over 2017. This increase in Ebitda came from the good performance seen in almost all business areas. The gas area was mainly responsible for this growth, thanks to a result that rose by 14.8 million euro, due to higher volumes sold and higher margins on sales operations. Results were positive for the waste management, integrated water cycle and other services areas as well. The electricity area dropped by 1.0 million euro, owing to lower margins in electricity generation deriving from regulatory changes concerning actual imbalances.
For further details, see the analyses of each single business area.

Ebitda (mn€)



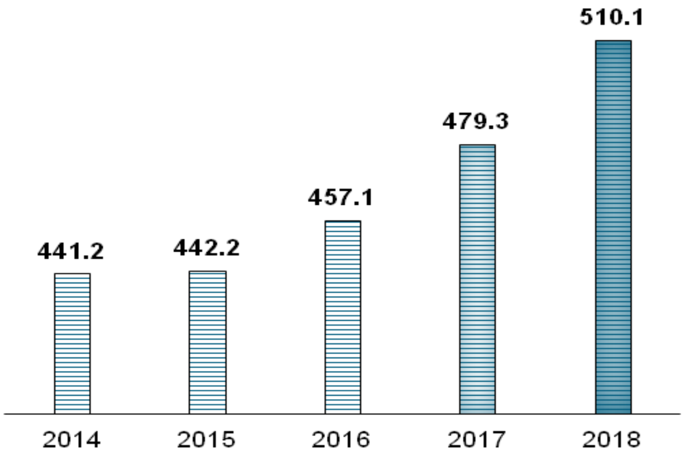
1,031.1
million euro
Ebitda (+4.7%)

Higher operating amortisation

Amortisation, depreciation and provisions rose by 15.7 million euro or 3.1%, going from 505.3 million euro in the previous year to 521.0 million euro. Amortisation rose on account of new investments in regulated distribution operations and the change in scope of operations related to the sales companies Blu Ranton Srl and Sangroservizi Srl. Allocations to the doubtful debt provision dropped, in particular in the sales company Hera Comm Srl, and were only partially offset by an increase in the AcegasApsAmga Group resulting from the application of Ifrs 9.

Ebit at 31 December 2018 came to 510.1 million euro, up 30.8 million euro or 6.4% over the 479.3 million euro seen in 2017.

Ebit (mn€)



510.1
million euro
Ebit (+6.4%)

Good performances in financial operations

The result of financial operations in 2018 came to 91.7 million euro, with a 9.8 million euro or 9.7% improvement compared to 31 December 2017. These good performances were partially due to income from the dividends paid by the affiliated company Veneta Sanitaria Finanza di Progetto coming to roughly 2.9 million.

Pre-tax results increased by 40.6 million euro, going from 377.8 million euro at 31 December 2017 to 418.4 million euro in 2018.

Tax rate falls

Taxes for the year went from 111.8 million euro in 2017 to 121.8 million euro del 2018. Further improvement was seen in the tax rate, which for 2018 came to 29.1% compared to 29.6% at 31 December 2017 (the latter, without including only redemptions, would have come to 30.9%). Contributions came from the benefits grasped in terms of large and extremely large amortisations, the latter concerning the substantial investments in instrumental goods serving a technological and digital transformation along the lines of industry 4.0 of which the Group was able to take advantage, in addition to incentives related to the patent box and tax credits for research and development.

The net result rose by 11.5%, corresponding to 30.6 million euro, going from 266.0 million euro in 2017 to 296.6 million in 2018.

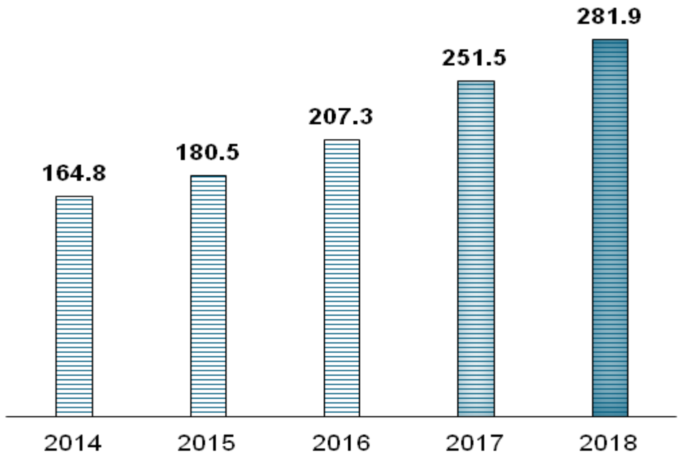
At the end of 2018, the result from financial special items amounted to zero, given that it is the sum of positive and negative entries, such as the financial capital gain for the transfer of the company Medea to third parties and the depreciations on some non-recurring financing. In 2017 the result from special items came to 0.8 million euro.

Net profit thus rose by 11.2% or 29.8 million euro, going from 266.8 million euro in 2017 to 296.6 million euro in 2018.

+11.2%
Net profit

Profits pertaining to the Group amounted to 281.9 million euro, increasing by 30.4 million euro over the figure seen in 2017.

Net profit post minorities (mn€)



281.9
million euro
net profit post minorities (+12.1%)

1.01.02

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 for the year ended 31 December 2018.

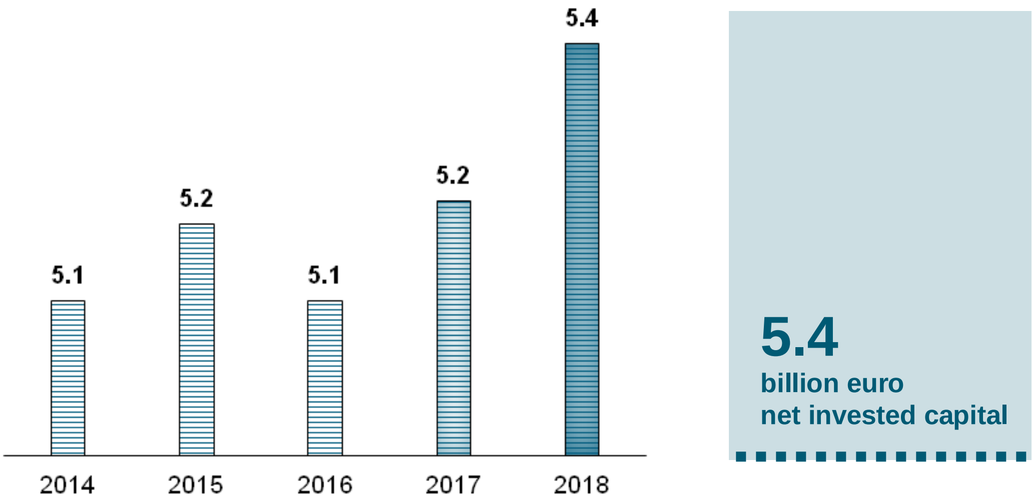
The Group's solidity increases

Invested capital and sources of financing (mn€)	Dec 18	Inc.%	Dec 17	Inc.%	Abs. Change	% Change
Net non-current assets	5,905.1	108.7%	5,780.6	110.5%	+124.5	+2.2%
Net working capital	115.4	2.1%	23.2	0.4%	+92.2	+397.4%
(Provisions)	(588.2)	-10.8%	(574.8)	-11.0%	-13.4	-2.3%
Net invested capital	**5,432.3**	**100.0%**	**5,229.0**	**100.0%**	**+203.3**	**+3.9%**
Equity	(2,846.7)	52.4%	(2,706.0)	51.7%	-140.7	-5.2%
Long-term borrowings	(2,558.8)	47.1%	(2,735.4)	52.3%	+176.6	+6.5%
Net current financial debt	(26.8)	0.5%	212.4	-4.1%	-239.2	-112.6%
Net debt	(2,585.6)	47.6%	(2,523.0)	48.3%	-62.6	-2.5%
Total sources of financing	**(5,432.3)**	**-100.0%**	**(5,229.0)**	**100.0%**	**-203.3**	**-3.9%**

At 31 December 2018, net invested capital (Nic) amounted to 5,432.3 million euro, with a 3.9% change compared to the 5,229.0 million euro recorded at the end of 2017. This higher amount is linked to the increase in net non-current assets mainly involving the significant investment policy implemented during 2018. Additional factors with a lesser influence included the merger of Megas Net into the company Marche Multiservizi Spa the acquisition of holdings in Blu Ranton Srl and Sangroservizi Srl.

The increase in invested capital is furthermore linked to a higher generation of net working capital.

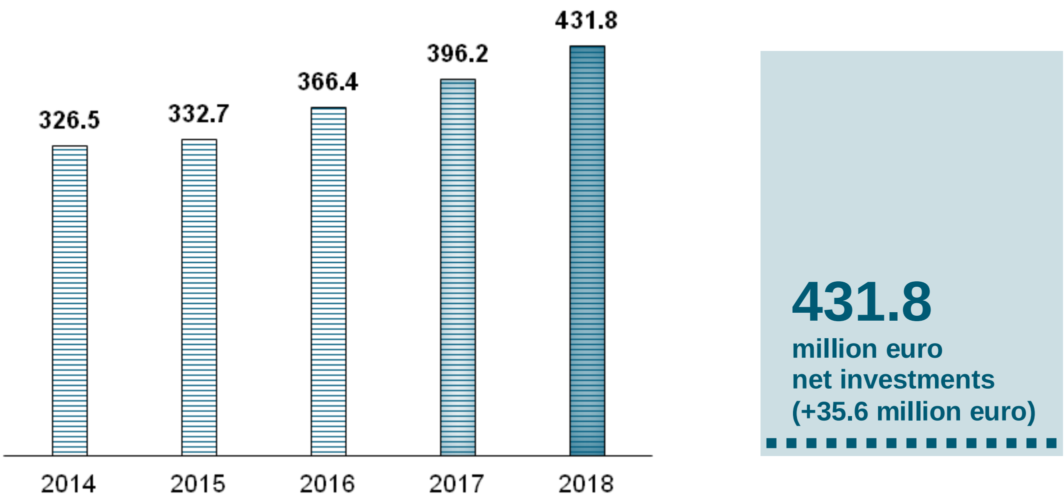
Net invested capital (bn€)



In 2018, Group investments amounted to 431.8 million euro, further benefitting from 30.8 million in capital grants, of which 12.5 million for FoNI investments as provided for by the tariff method for the integrated water service.
Including capital grants, overall Group investments came to 462.6 million euro. Net investments grew by 35.6 million euro, going from 396.2 million euro in 2017 to 431.8 million euro in 2018.

Net investments increase to 431.8 million euro, up 35.6 million euro

Total net investments (mn€)



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

Total investments (mn€)	Dec 18	Dec 17	Abs. Change	% Change
Gas area	115.4	101.5	+13.9	+13.7%
Electricity area	23.0	23.6	-0.6	-2.5%
Integrated water cycle area	157.9	156.6	+1.3	+0.8%
Waste management area	78.1	67.2	+10.9	+16.2%
Other services area	18.8	18.7	+0.1	+0.5%
Headquarters	69.1	72.4	-3.3	-4.6%
Total operating investments	**462.3**	**440.0**	**+22.3**	**+5.1%**
Total financial investments	0.3	0.5	-0.2	-40.0%
Total gross investments	**462.6**	**440.5**	**+22.1**	**+5.0%**
Capital grants	30.8	44.3	-13.5	-30.5%
of which FoNI (New Investments Fund)	12.5	8.2	*+4.3*	+52.4%
Total net investments	**431.8**	**396.2**	**+35.6**	**+9.0%**

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

The Group's operating investments came to 462.3 million euro, up 5.1% over the previous year, and mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale substitution of metres, and the purification and sewerage areas.

Remarks on investments in each single area are included in the analysis by business area.

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall, investments in structures decreased by 3.3 million euro compared to the previous year.

115.4 million euro net working capital

Net working capital amounted to 115.4 million euro at the end of 2018, showing growth over the 23.2 million euro recorded at the end of 2017. This result is due to various factors that influenced trends in 2018, including: a reduction in tax liabilities, increased surpluses in gas stocking introduced by the trading company and intended to contain costs for raw materials, and a change in the deadline for paying suppliers, now set at 60 days, that led to a reduction in trade payables. Results in terms of NWC were furthermore impacted by the higher volumes of electricity and gas sold in 2018.

588.2 million euro provisions

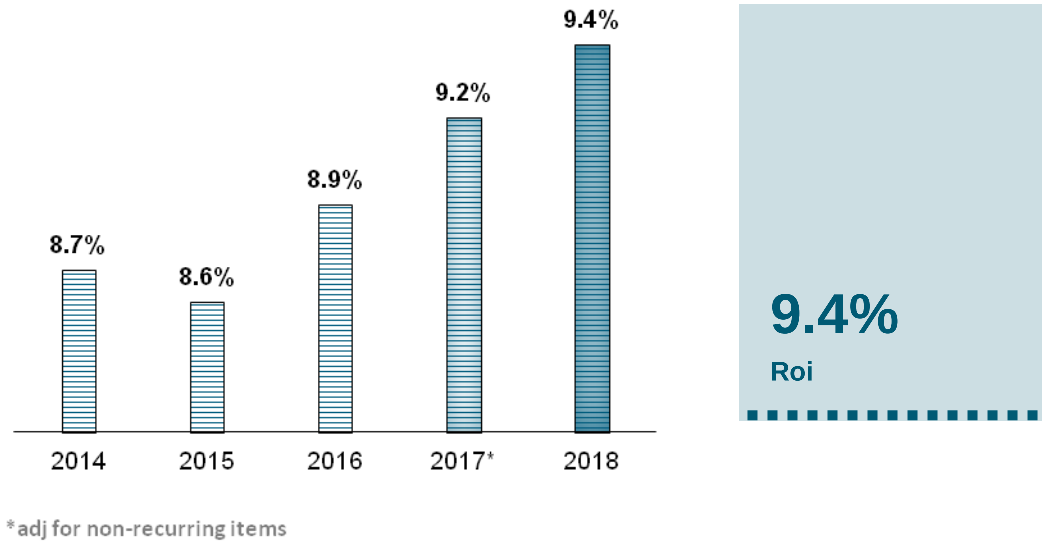
In 2018, provisions totalled 588.2 million euro, increasing compared to the amount recorded at the end of the previous year. This result is mainly a consequence of period-specific provisions, adjustments to post-mortem landfill provisions and reinstatements of third party goods due to the application of accounting standard Ias 37, which more than offset outflows for usages. For details on the transfer of provisions, see the explanatory notes.

2.8 billion euro equity

Equity rose from 2,706.0 million euro in 2017 to 2,846.7 million euro in 2018, benefitting the Group's financial structure. Equity reinforced the Group's solidity thanks to the good net result coming from management in 2018, amounting to 296.6 million euro, which not including the 152.3 million euro dividend payment recorded guarantees a self-financing coming to 144.3 million euro.

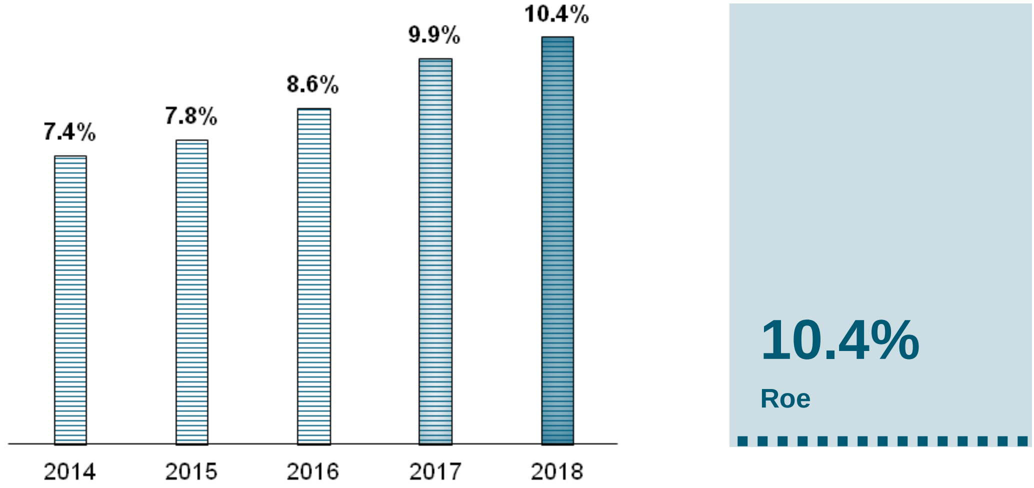
Return on net invested capital (Roi) settled at 9.4% in 2018. This result, superior to the one achieved in 2017, is a consequence of the good revenues recorded over the year, up more than proportionally compared to the increase in net invested capital.

Roi (%)



Return on equity (Roe) went from 9.9% in 2017 to 10.4% in 2018. This increase is due to the good operating and extra-operating economic results for 2018.

Roe (%)



Reconciliation between separate and consolidated financial statements

	Risultato netto	Patrimonio netto
Balances as per Parent Company's seperate financial statements	**195.1**	**2,335.2**
Excess of equity over the carrying amounts of investments in consolidated companies	**157.0**	**224.5**
Consolidation adjustments		
Measurement with the equity method of investments reported at cost in the seperate financial statement	0.9	(1.2)
Difference between purchase price and book value of corresponding portion of equity	(5.1)	107.1
Elimination of intercompany transactions	(66.1)	(4.9)
Total	**281.9**	**2,660.7**
Restoration of third-party assets	14.7	186.0
Balances as per consolidated financial statements	**296.6**	**2,846.7**

1.01.03

Analysis of net cash (net borrowings)

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

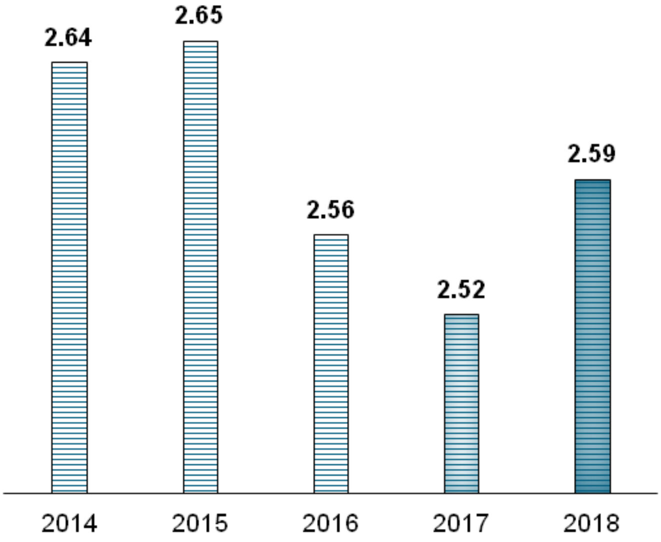
A solid financial position

mn€		Dec 18	Dec 17
a	**Cash and cash equivalents**	**535.5**	**450.5**
b	**Other current financial receivables**	**37.3**	**41.5**
	Current bank debt	(70.3)	(187.0)
	Current part of bank borrowings	(451.5)	(55.3)
	Other current financial liabilities	(76.1)	(35.3)
	Finance lease payments maturing within 12 months	(1.7)	(2.0)
c	**Current financial debt**	**(599.6)**	**(279.6)**
d=a+b+c	**Net current financial debt**	**(26.8)**	**212.4**
	Non-current bank debt and bonds issued	(2,644.3)	(2,825.3)
	Other non-current financial liabilities	(20.7)	(21.4)
	Finance lease payments maturing after 12 months	(12.2)	(13.9)
e	**Non-current financial debt**	**(2,677.2)**	**(2,860.6)**
f=d+e	**Net financial position - Consob communication no. 15519/2006**	**(2,704.0)**	**(2,648.2)**
g	**Non-current financial receivables**	**118.4**	**125.2**
h=f+g	**Net debt**	**(2,585.6)**	**(2,523.0)**

The overall amount of net financial debt came to 2,585.6 million euro, showing an increase of roughly 62.6 million euro over the previous year. The Group's financial structure at 31 December 2018 shows current debt coming to 599.6 million euro, of which 60.8 million euro in bank loans reaching maturity within 2019, 394.6 million euro in bonds reaching maturity in December 2019 and 70.3 million euro in current bank debt. The latter mainly consists of accruals for passive interest on financing, coming to 51.2 million euro, and usage of current credit lines, coming to roughly 19.1 million. The amount of non-current bank debt and bonds issued decreased compared to the previous year, owing to the amount of bonds reaching maturity, already partially refinanced with medium-term lines of credit. At 31 December 2018, medium- and long-term debt was largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (77.4% of the total), with repayment at maturity.
The total debt shows an average time to maturity of over 6 years, with 64% maturing after more than five years.

Net financial debt went from 2,523.0 million in 2017 to 2,585.6 million euro at 31 December 2018.

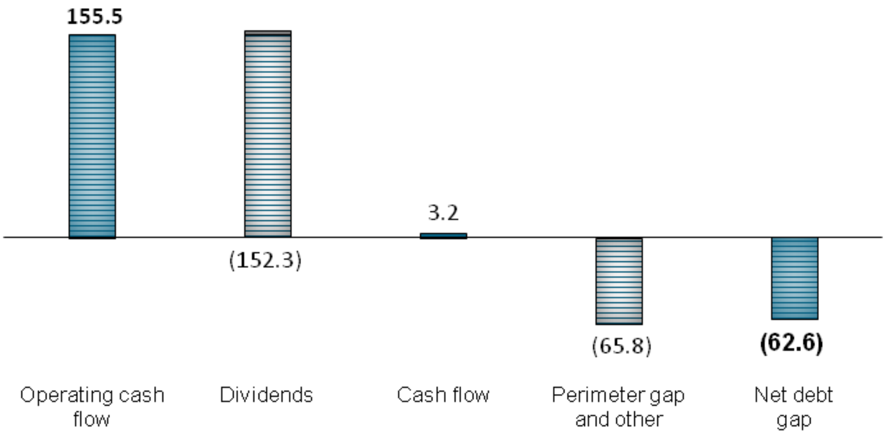
Net financial debt (bn€)



2.59
billion euro
net financial debt

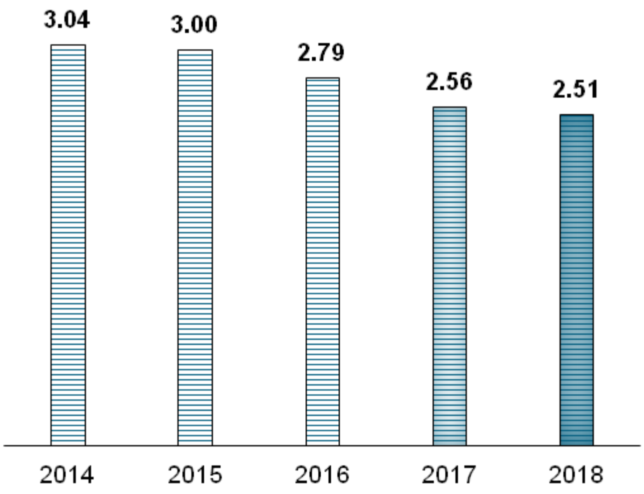
The Group's characteristic management generated positive operating cash flows coming to 155.5 million euro, down compared to the previous year mainly owing to higher outlays for investments and higher net working capital generation.
Net financial debt furthermore rose as a consequence of the acquisition operations carried out during the year, involving Megas Net Spa, Sangroservizi Srl and Blu Ranton Srl.

Cash flow (mn€)



The net debt/Ebitda ratio fell to 2.51. This result benefitted from positive operating results, whose growth was decidedly more substantial than the ensuing increase in financial debt.

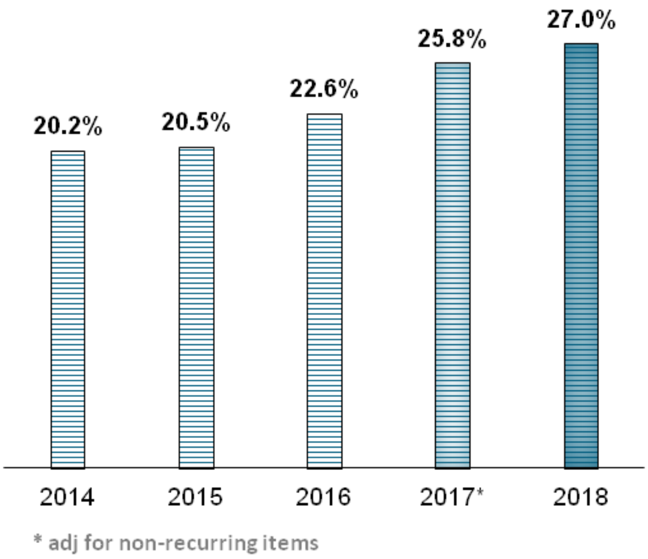
Net debt/Ebitda



2.51
Net debt/Ebitda

The Funds from operations/Net debt indicator went up compared to the result seen in 2017. This index as well, like the previous one, benefited from a positive trend in operating flows, which increased more than proportionally compared to the growth seen in net debt, confirming the Group's increasing financial solidity and its ability to meet its financial obligations.

Ffo/Net debt (%)



27.0%
Ffo/Net debt

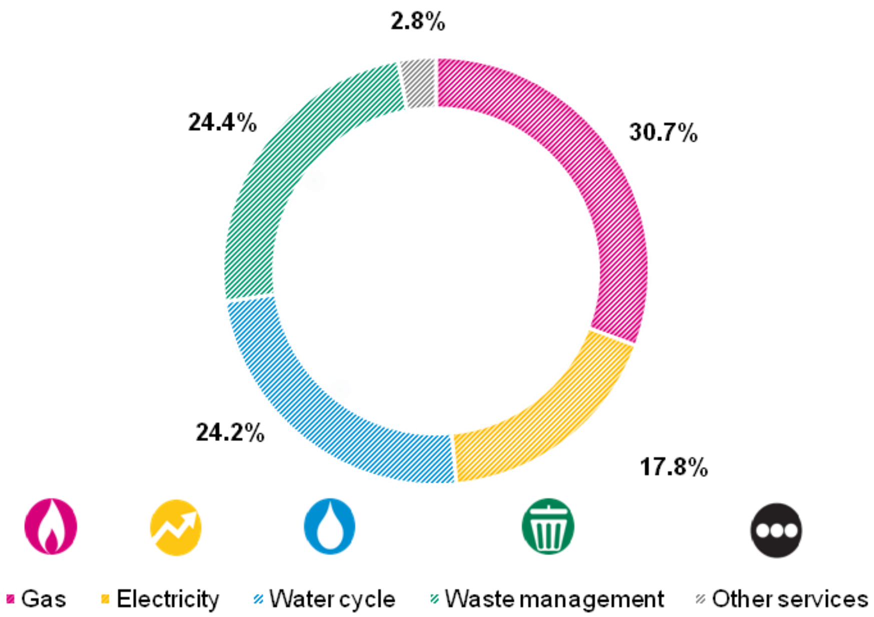
These results confirm the Group's financial solidity: the opinions provided by rating agencies are BAA2 (stable outlook) from Moody's and BBB (positive outlook) from Standard & Poor's.

1.02
Analysis by business area

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

A multi-business strategy

Ebitda December 2018



The Group's various areas contribute to its overall Ebitda in a balanced mix, reflecting its multi-business strategy

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

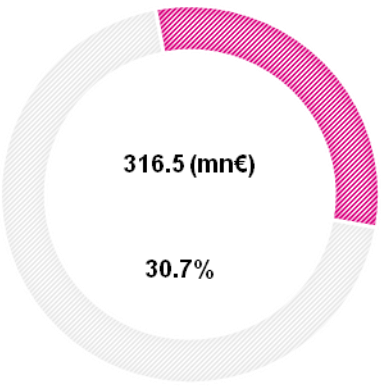
The following analyses of the single business areas take into account all increased revenues and costs, having no impact on Ebitda, related to the application of Ifric 12. The business areas affected by this accounting principle are: natural gas distribution services, electricity distribution services,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

1.02.01
Gas

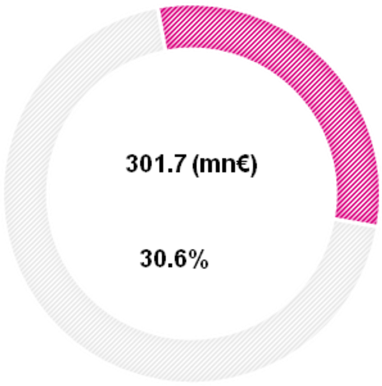
The gas area showed significant growth at 31 December 2018 compared to the same date in the previous year, in terms of both Ebitda and volumes sold. This result was achieved thanks to the colder temperatures seen during the winter months, commercial development and higher income for distribution services.

Ebitda grows

Gas area Ebitda 2018



Gas area Ebitda 2017



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

(mn€)	Dec 18	Dec 17	Abs. Change	% change
Area Ebitda	**316.5**	**301.7**	**+14.8**	**+4.9%**
Group Ebitda	1,031.1	984.6	+46.5	+4.7%
Percentage weight	30.7%	30.6%	+0.1 p.p.	

+4.9% increase in Ebitda

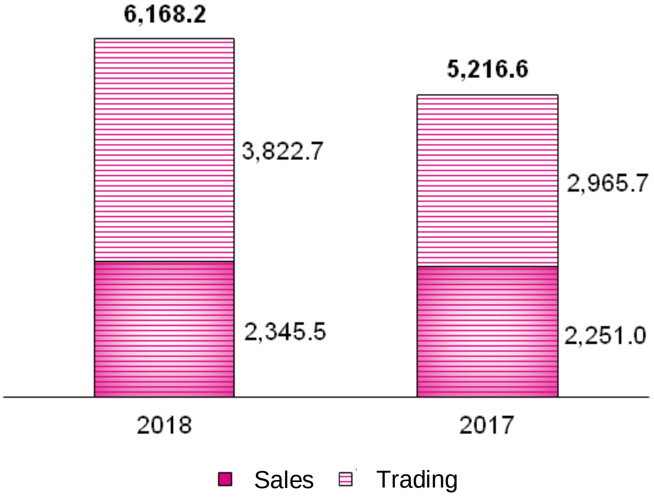
The number of gas customers rose by 59.6 thousand or 4.3% over 31 December 2017. The entry of the companies Blu Ranton srl and Verducci Servizi srl within the Group’s consolidate scope contributed with 22.6 thousand customers and the remaining growth was created through marketing initiatives and by maintaining and developing the customer base.

Customers (k)

1.5
million gas customers

Overall volumes of gas sold increased by 951.5 million m^3 or 18.2%, going from 5,216.6 million m^3 in December 2017 to 6,168.2 at 31 December 2018, with degree days (*) rising by 3% over the previous period. Trading volumes showed growth coming to 857.0 million m^3 (16.4% of total volumes), owing to a higher amount of intermediation, while volumes sold to end customers increased by 4.2% over December 2017, equivalent to 94.5 million m^3. The contribution coming from the increased customer base came to roughly 76.3 million m^3 and the company Blu Ranton srl contributed with roughly 18.2 million m^3.

Volumes sold (mn m³)



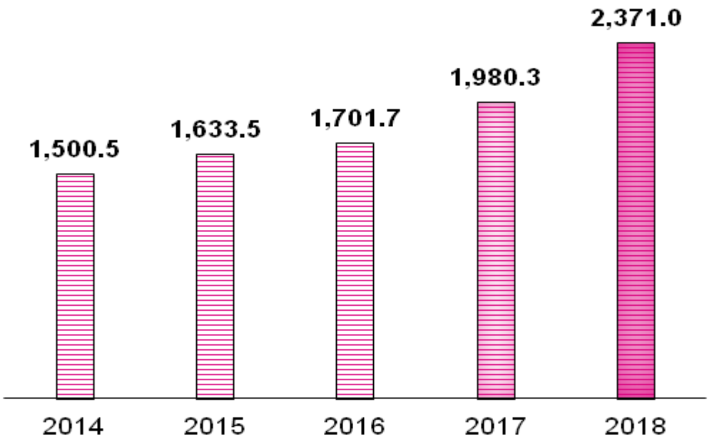
The following table summarises operating results for the gas area:

Income statement (mn€)	Dec 18	% Inc.	Dec 17	% Inc.	Abs. Change	% change
Revenues	2,371.0		1,980.3		+390.7	+19.7%
Operating costs	(1,958.2)	-82.6%	(1,584.5)	-80.0%	+373.7	+23.6%
Personnel costs	(111.2)	-4.7%	(110.3)	-5.6%	+0.9	+0.8%
Capitalised costs	14.8	0.6%	16.2	0.8%	-1.4	-8.6%
Ebitda	**316.5**	**13.3%**	**301.7**	**15.2%**	**+14.8**	**+4.9%**

Revenues went from 1,980.3 million euro in December 2017 to 2,371.0 million at 31 December 2018, with a growth of 390.7 million euro or 19.7%. The main reasons for this growth include higher revenues from trading amounting to roughly 301 million euro, owing to the higher price of the raw material gas, accounting for roughly 66 million euro, the higher volumes of gas sold, coming to roughly 25 million euro, and the acquisition of Blu Ranton Srl, accounting for 11 million euro. Revenues for companies operating abroad, in Bulgaria, rose thanks to increased commercial activities by 6.7 million euro. This growth in revenues was contained by lower revenues from energy efficiency certificates totalling roughly 31 million euro, following the 10 May 2018 Inter-Ministry Decree that set a limit on projected tariffs, which had an equivalent impact on market prices, and lower revenues for the transfer of the company Medea coming to 8.6 million euro. Lastly, revenues from long-term commissions and subcontracts rose by 9 million euro, with an equivalent effect on operating costs.

(*) This unit of measurement expresses the thermal demand of a given geographical area. High figures in degree days indicate average daily temperatures lower than the conventional reference temperature, set at 20° C.

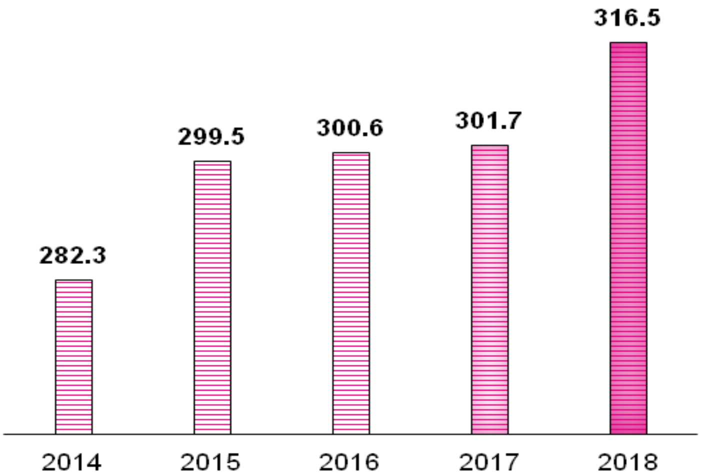
Revenues (mn€)



The growth in revenues was reflected by an increase in operating costs, which went from 1,584.5 million euro in December 2017 to 1,958.2 million euro in 2018, thus showing an overall growth of 373.7 million euro. This trend was mainly due to the higher amount of trading, higher volumes sold and the higher cost of raw materials, despite the lower cost per unit of energy efficiency certificates and the operating efficiencies set in place by the Group.

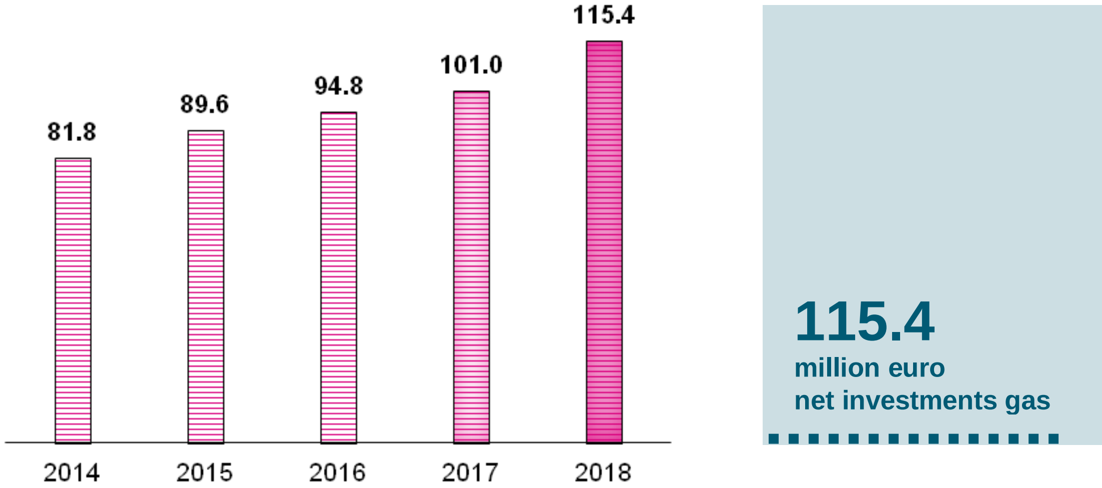
Ebitda rose by 14.8 million euro or 4.9%, going from 301.7 million euro at 31 December 2017 to 316.5 million euro at 31 December 2018, thanks to higher volumes and income from trading, the activities in Bulgaria, higher incentives for safety in gas distribution networks and higher operating efficiencies in distribution.

Ebitda (mn€)



In 2018, net investments in the gas area amounted to 115.4 million euro, up 14.4 million euro over the previous year. A 12.0 million euro increase was seen in gas distribution, due to higher non-recurring maintenance on networks and plants for cathodic protection of the steel network in the Municipality of Trieste, with 37 km of the network being completed, bringing the amount of upgrading to over 95%, in line with the indications set out by Arera.
Requests for new connections increased compared to the previous year.
Investments also increased in heat management, thanks to the activities of the companies Hse Srl and Ase Spa, falling instead in district heating as an effect of the significant work done on the Barca district heating plant in Bologna the previous year, but growing overall by 1.9 million euro compared to 2017. New connections for district heating rose over those seen during the previous year.

Net investments gas (mn€)



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

Gas (mn€)	Dec 18	Dec 17	Abs. Change	% Change
Networks and plants	92.6	80.6	+12.0	+14.9%
RH/heat management	22.8	20.9	+1.9	+9.1%
Total gas gross	**115.4**	**101.5**	**+13.9**	**+13.7%**
Capital grants	0.0	0.4	-0.4	-100.0%
Total gas net	**115.4**	**101.0**	**+14.4**	**+14.3%**

The Regulatory asset base (Rab), which defines the value of assets recognised by the authority for return on invested capital, dropped slightly compared to 2017, owing to a slightly more precise mapping of the titles owned, despite the entry of Megas Net Spa in the scope of operations of Marche Multiservizi Spa.

Rab (bn€)

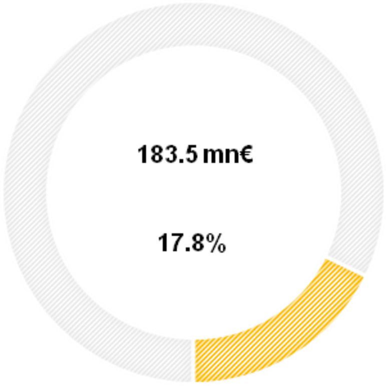
For further details on this matter, see chapter 1.06.01, Regulatory framework and regulated revenues.

1.02.02
Electricity

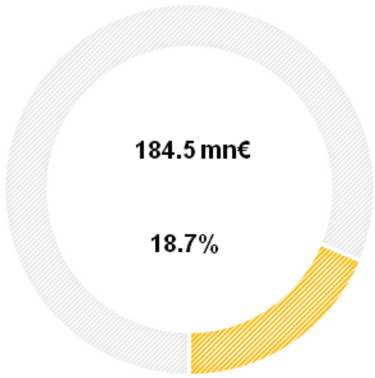
At the end of 2018, Ebitda for the electricity area fell slightly compared to the previous year. The lower result for electricity generation, caused by changes in regulations for actual imbalances, was almost entirely offset by the results coming from sales and distribution.

Slight drop in Ebitda

Electricity area Ebitda 2018



Electricity area Ebitda 2017



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

(mn€)	Dec 18	Dec 17	Abs. Change	% Change
Area Ebitda	**183.5**	**184.5**	**-1.0**	**-0.5%**
Group Ebitda	1,031.1	984.6	+46.5	+4.7%
Percentage weight	17.8%	18.7%	-0.9 p.p.	

-0.5%
Modest decrease in Ebitda

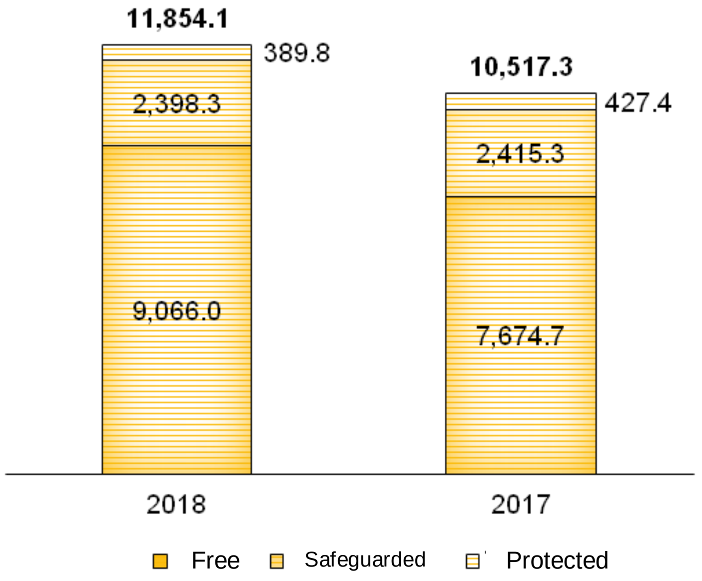
The number of electricity customers settled at 1.1 million supply points, rising by 8.9% (87.1 thousand customers) compared to 31 December 2017. This significant increase came about on the free market, now amounting to 12.1% of the total, as a result of the reinforced marketing operations introduced, in particular in regions of central Italy. The growth was able to offset the decrease in safeguarded and protected customers, despite the increased customer base in the Municipality of Gorizia, amounting to roughly 13 thousand customers.

Customers (k)

1.1
million electricity customers

Volumes of electricity sold went from 10,517.3 GWh at 31 December 2017 to 11,854.1 GWh at 31 December 2018, with an overall increase of 12.7% or 1,336.8 GWh. Volumes sold on the free market grew by 13.2% out of the total and fully offset the drop in safeguarded and protected volumes.

Volumes sold (GWh)



11.9
TWh sold

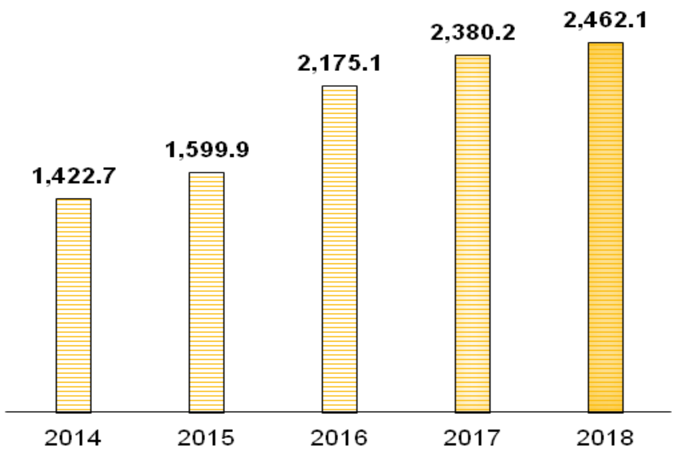
The following table summarises operating results for the area:

Ebitda falls by 1.0 million euro

Income statement (mn€)	Dec 18	Inc%	Dec 17	Inc.%	Abs. Change	% Change
Revenues	**2,462.1**		2,380.2		+81.9	+3.4%
Operating costs	**(2,244.9)**	-91.2%	(2,161.8)	-90.8%	+83.1	+3.8%
Personnel costs	**(44.9)**	-1.8%	(44.8)	-1.9%	+0.1	+0.2%
Capitalised costs	**11.1**	0.5%	10.9	0.5%	+0.2	+1.8%
Ebitda	**183.5**	**7.5%**	**184.5**	**7.7%**	**-1.0**	**-0.5%**

Revenues rose by 3.4%, going from 2,380.2 million euro in December 2017 to 2,462.1 million euro in 2018, with an 81.9 million euro or 3.4% increase. The main reasons underlying this growth are the increase in volumes sold, which created higher revenues amounting to roughly 117 million euro, higher revenues for transmission outside the grid coming to roughly 40 million euro, with no change in costs, a higher price of raw materials coming to roughly 39 million euro, higher revenues for subcontracted commissions and higher revenues for the regulated distribution service. Countering this trend, mention must go to lower revenues for trading amounting to roughly 86 million euro and lower revenues in electricity generation coming to roughly 23 million euro, mainly owing to the changes in regulations on actual imbalances.

Revenues (mn€)

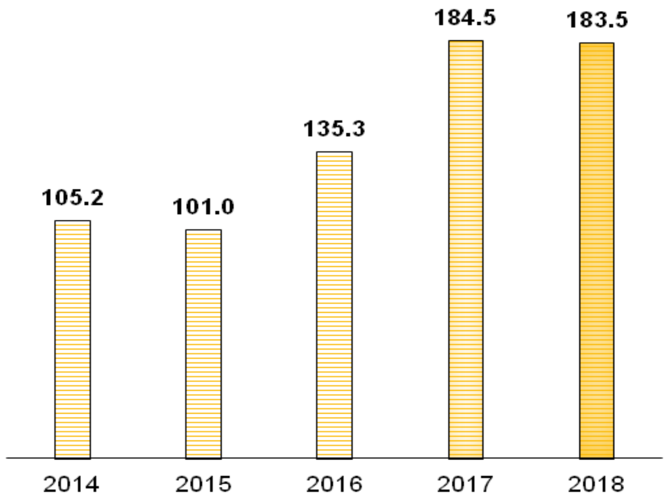


2,462.1
million euro revenues

The increase in revenues was more than proportionally reflected by a rise in operating costs, which went from 2,161.8 million euro at 31 December 2017 to 2,244.9 million euro at the same date in 2018, thus showing an overall increase of 83.1 million euro. This trend is mainly due to the higher volumes sold and the higher price of raw materials, despite the lower amount of electricity generated and the operating efficiencies introduced by the Group.

At 31 December 2018, Ebitda fell by 1.0 million euro or 0.5%, going from 184.5 million in 2017 to 183.5 million euro in 2018. This was due to lower income from electricity generation coming to 13 million euro, owing to the reasons mentioned above, despite the higher income coming from volumes sold on the free market, higher revenues in distribution and increased operating efficiencies in distribution.

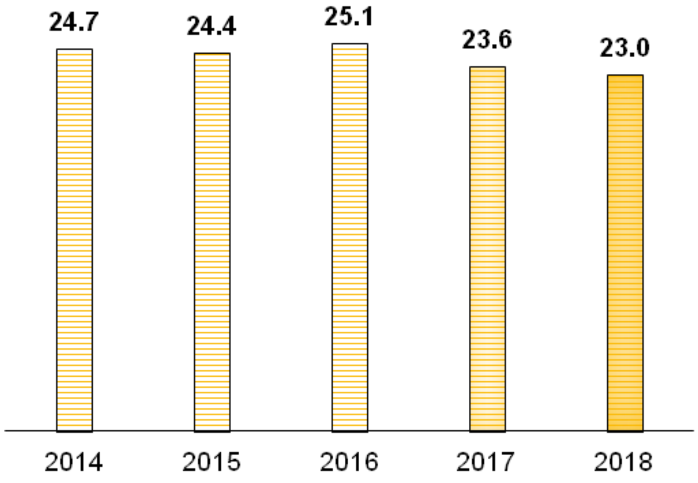
Ebitda (mn€)



183.5
million euro Ebitda

Investments made in the electricity area in 2018 amounted to 23.0 million euro, essentially in line with the 23.6 million euro seen one year earlier.
The interventions mainly concerned non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the previous year, a lower amount of network extensions and higher non-recurring maintenance on plants and networks were seen, while requests for new connections fell compared to 2017.

Net investments electricity (mn€)



23.0
million euro
net investments
electricity

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

Electricity (mn€)	Dec 18	Dec 17	Abs. Change	% Change
Networks and plants	23.0	23.6	-0.6	-2.5%
Total electricity gross	**23.0**	**23.6**	**-0.6**	**-2.5%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total electricity net	**23.0**	**23.6**	**-0.6**	**-2.5%**

Rab, which defines the value of assets recognised by the authority for return on invested capital, dropped slightly compared to 2017.

Rab (bn€)

0.37
billion euro
2018 Rab

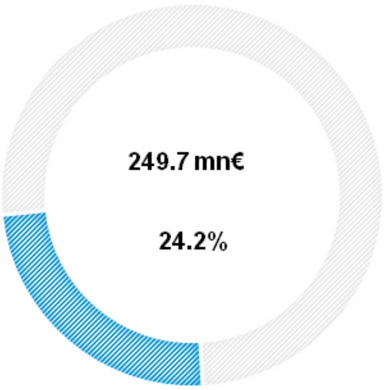
For further details on this matter, see chapter 1.06.01, Regulatory framework and regulated revenues.

1.02.03
Integrated water cycle

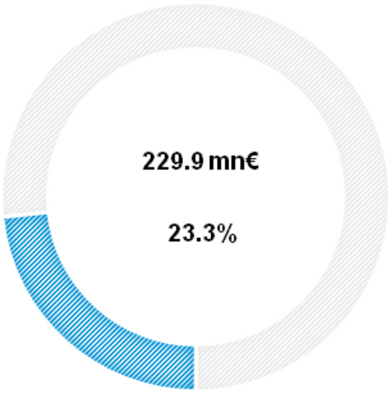
Growing results

In 2018, the integrated water cycle area recorded growth in Ebitda coming to 19.8 million euro or 8.6%. As regards regulations, note that 2018 is the third year in which the tariffary method defined by the Authority for the period 2016-2019 (resolution 664/2015) is applied, and that for both 2018 and 2017 the revenue covering the underlying cost of amortisation related to investments made is recognized on an accruals basis.

Ebitda water cycle area 2018



Ebitda water cycle area 2017



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

+8.6% Ebitda increases

(mn€)	Dec 18	Dec 17	Abs. Change	% change
Area Ebitda	**249.7**	**229.9**	**+19.8**	**+8.6%**
Group Ebitda	1,031.1	984.6	+46.5	+4.7%
Percentage weight	24.2%	23.3%	+0.9 p.p.	

The Hera Group covers all areas of the water cycle, from sourcing and treatment, with over 400 plants, to drinking water distribution, with over 35 thousand km of pipelines, to sewerage management, with over 18 thousand km of pipelines managed, to purification and environmental restoration, with over 1,000 plants and purification systems.

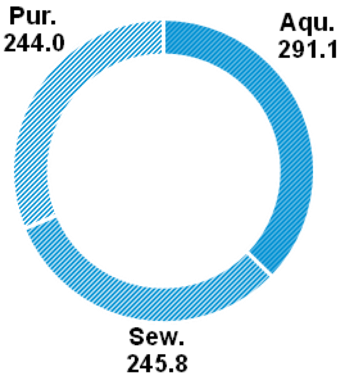
The number of water customers settled at 1.5 million, rising by 4.9 thousand or 0.3% over 2017, confirming the moderate trend towards internal growth seen in the Group’s reference areas, mainly in the Emilia-Romagna region managed by Hera Spa.

Customers (k)

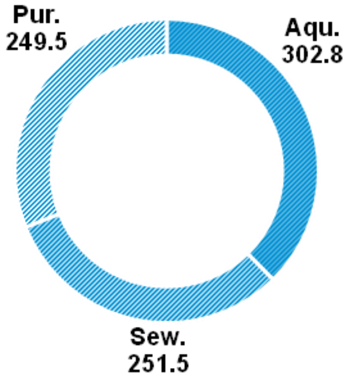
1.5
million customers integrated water cycle

291.1 million m³: quantity managed in the aqueduct

Quantity managed 2018 **(mn m³)**

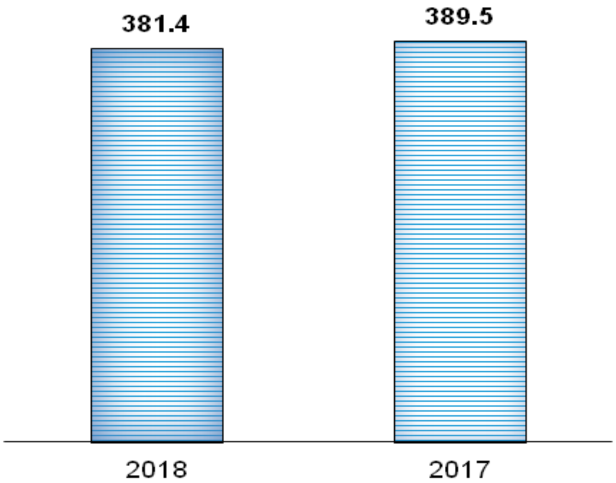


Quantity managed 2017 **(mn m³)**



The volumes dispensed through the aqueduct showed a 11.7 million m^3 or 3.9% drop, mainly linked to seasonal variations seen in 2018, consisting in a larger amount of rainfall and snowfall than occurred in the same period of the previous year, which has been defined as the driest year in the last two centuries, with precipitation below the seasonal averages for nine months out of twelve and with temperatures ranking it as the fourth hottest year ever. Furthermore, decreases were seen in the amount managed in sewerage (roughly 2.3%) and purification (roughly 2.2%) compared to the quantities recorded in 2017, owing to the lower volumes distributed. Volumes dispensed, following the Authority's resolution 664/2015, are an indicator of activity in the areas in which the Group operates and are subject to equalisation owing to legislation that calls for regulated revenues to be recognised independently from volumes distributed. Another indicator of the network's efficiency is the number of breaks per km in the network, which corresponds to ratio between the total number of breaks and the length of the network. This indicator shows a decrease compared to 2017, going from 7.4 breaks/km to 7.0, thanks to both the excellent management of repairs and investments aimed at an ever-increasing performance of the aqueduct system. On the latter point, note the Group's commitment to searching for hidden leakage, with both traditional systems and technologically evolved satellite scanning.

The electricity consumed in plants showed an 8.1 GWh decrease, going from 389.5 GWh in December 2017 to 381.4 GWh in 2018. This drop is related to both the lower volumes dispensed in 2018 resulting from the extraordinarily dry weather seen in 2017 and the Group's commitment to managing energy as a resource ever more efficiently and prudently, as results from the innovative interventions carried out on plants.



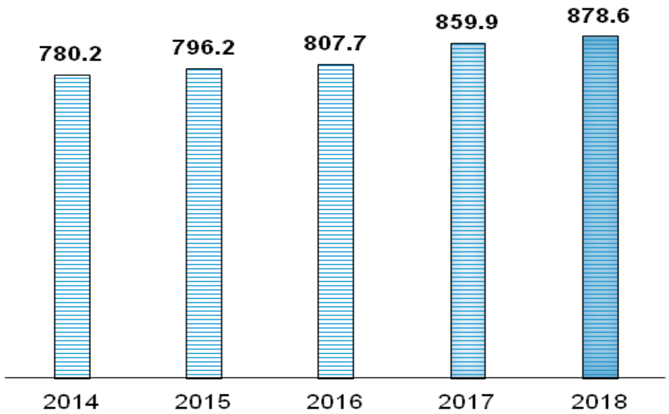
381.4
GWh of electricity consumed by plants

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

Income statement (mn€)	Dec 18	% Inc.	Dec 17	% Inc.	Abs. Change	% Change
Revenues	878.6		859.9		+18.7	+2.2%
Operating costs	(455.7)	-51.9%	(457.0)	-53.1%	(1.3)	(0.3%)
Personnel costs	(179.3)	-20.4%	(178.1)	-20.7%	+1.2	+0.7%
Capitalised costs	6.1	0.7%	5.1	0.6%	+1.0	+19.5%
Ebitda	**249.7**	**28.4%**	**229.9**	**26.7%**	**+19.8**	**+8.6%**

Revenues in the water cycle area showed an 18.7 million euro or 2.2% growth over 2017. This result is due to higher tariff revenues, which only grew by 0.6%, as an overall effect of the tariffs established by the Authority for 2016-2019, the recognition of bonuses for contract quality and the change in scope of operations ensuing from the launch of AcegasApsAmga's new Servola purifier. Furthermore, higher revenues were seen involving subcontracted works and works financed and commissioned by asset companies, amounting to roughly 12 million euro. Lastly, 2 million in higher other revenues were seen compared to 2017, mainly involving contributions received and incentives for the use of renewable sources.

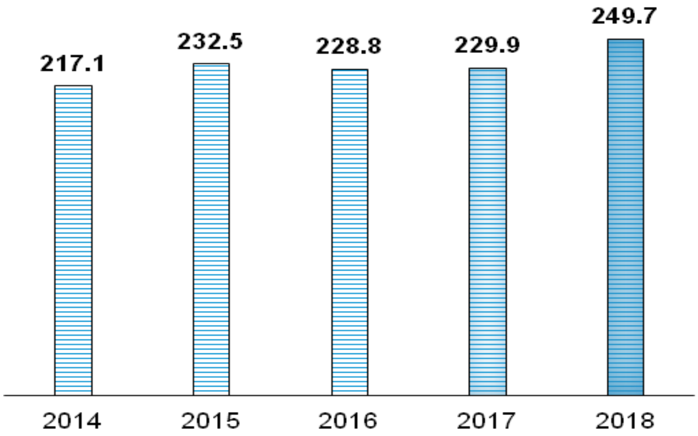
Revenues (mn€)



Operating costs increased by 1.3 million euro or 0.3% overall. Not including the higher costs involved in the works carried out as described among the revenues for 12.0 million euro overall, and the higher costs for electricity consumed by plants coming to roughly 1.4 million euro (an effect of the higher price of electricity, despite the lower volumes consumed), costs were contained by 12.1 million euro overall. This trend is due to the lower cost the raw material water, coming to roughly 5.0 million euro, while the remainder involves lower operating costs for plant and network management, only partially tied to the 2017 water emergency.

Ebitda showed a 19.8 million euro or 8.6% increase, going from 229.9 million euro in December 2017 to 249.7 million euro in 2018, mainly due to higher revenues, operating efficiencies and lower costs related to the 2017 water emergency.

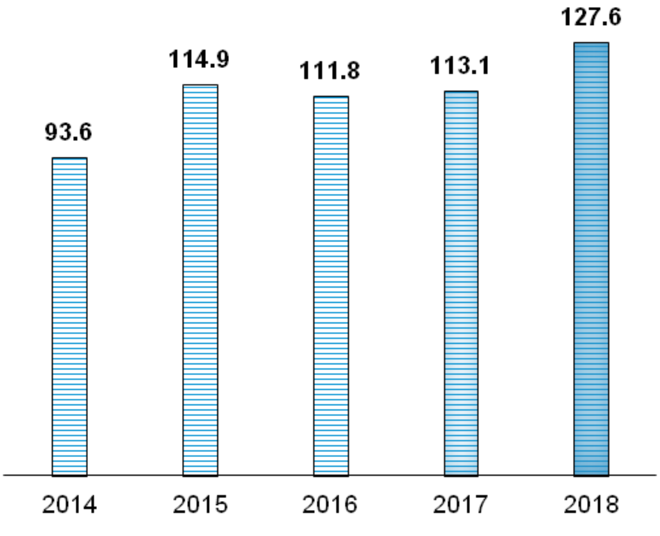
Ebitda (mn€)



249.7
million euro Ebitda

Net investments in the integrated water cycle area amounted to 127.6 million euro in 2018, up 14.5 million euro over the previous year. Including the capital grants received, which dropped by 13.3 million euro, the investments made increased by 1.3 million euro and totalled 157.9 million euro, as against the 156.6 million euro seen one year earlier.
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 81.5 million euro in the aqueduct, 49.5 million euro in sewerage and 26.9 million euro in purification.

Net investments water cycle (mn€)



127.6
million euro net investments water cycle (+14.5 million euro)

The more significant works include: in the aqueduct, the increased activity in network improvement required by Arera resolution 917/2017 on the regulation of the technical quality of integrated urban water management, upgrading interconnections in the Modena area water system, interventions aimed at upgrading hanging reservoir areas and programmed maintenance in the Padua and Trieste areas; in sewerage, continued progress was made in the important works for the Rimini seawater protection plan, in addition to redevelopment of the sewerage network in other areas; in purification, the lower investments made compared to the previous year were due to the significant work done in upgrading the Servola purifier, in the area served by the AcegasApsAmga Group, carried out during the previous year and now in their final phase.
Requests for new water and sewerage connections remained stable with respect to the previous year.
Capital grants amounting to 30.2 million euro included 12.5 million euro deriving from the tariff component called for by the New Investments Fund (FoNI) tariffary method and fell by 13.3 million euro compared to the previous year, mainly due to the portion concerning work done on the Servola purifier.

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

Integrated water cycle (mn€)	Dec 18	Dec 17	Abs. Change	% change
Aqueduct	81.5	63.8	+17.7	+27.7%
Purification	26.9	50.8	-23.9	-47.0%
Sewerage	49.5	42.0	+7.5	+17.9%
Total integrated water cycle gross	**157.9**	**156.6**	**+1.3**	**+0.8%**
Capital grants	30.2	43.5	-13.3	-30.6%
of which FoNI (Fondo Nuovi Investimenti)	*12.5*	*8.2*	+4.3	+52.4%
Total integrated water cycle net	**127.6**	**113.1**	**+14.5**	**+12.8%**

Significant operating investments in the aqueduct, sewerage and purification areas

Rab, which defines the value of assets recognised by the authority for return on invested capital, increased over 2017.

Rab (mn€)

1.49
billion euro 2018 Rab

1.02.04
Waste management

Ebitda grows

At 31 December 2018, the waste management area accounted for 24.4% of Group Ebitda, with an area Ebitda increasing over 2017. As regards waste treatment and recovery, in 2018 the Hera Group consolidated its national leadership by deploying complete and integrated marketing offers, shaping commercial partnerships with the sector's main players and remaining constantly present in calls for tenders, in addition to maintaining an avant-garde set of plants able to offer effective and sustainable solutions that support a circular economy. As examples of the latter point, note recent inauguration of the biomethane production plant in Sant'Agata Bolognese and the reinforcement of Aliplast Spa's outstanding activity in plastic recycling, which represents the key element able to bring a circular economy to completion. Environmental resource protection was confirmed as a priority goal for 2018 as well, along with optimising reuse, as is demonstrated by the Group's particular focus on promoting sorted waste in all areas served, which in 2018 showed an increase coming to almost five percentage points.

Ebitda waste management area 2018 Ebitda waste management area 2017

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

Increase in Ebitda: +2.4%

mn€	Dec 18	Dec 17	Abs. Change	% Change
Area Ebitda	**252.0**	**246.0**	**+6.0**	**+2.4%**
Group Ebitda	1,031.1	984.6	+46.5	+4.7%
Percentage weight	24.4%	25.0%	-0.6 p.p.	

Volumes marketed and treated by the Group in 2018 are as follows:

Commercial waste -5.0%

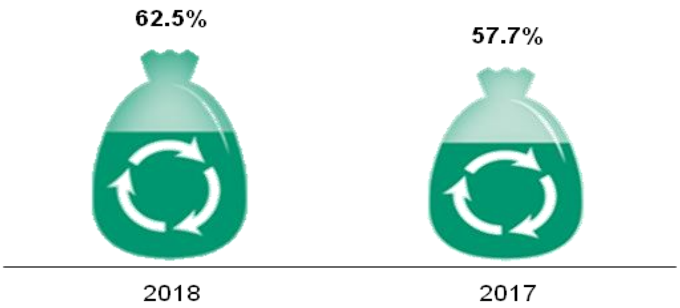
Quantity (k tons)	Dec 18	Dec 17	Abs. Change	% Change
Urban waste	2,348.0	2,310.5	+37.5	+1.6%
Commercial waste	2,142.8	2,256.5	-113.7	-5.0%
Waste marketed	**4,490.8**	**4,567.1**	**-76.3**	**-1.7%**
Plant by-products	2,802.2	2,234.5	+567.7	+25.4%
Waste treated by type	**7,293.0**	**6,801.6**	**+491.4**	**+7.2%**

As of 2018, municipal waste also includes some types of waste previously classified as commercial waste. The 2017 data for municipal and commercial waste has been restated so as to reflect the classification used for the current year.

An analysis of this data shows waste marketed falling, due to a 5.0% drop in commercial waste, partially offset by an increase in municipal waste. The decrease in commercial waste is a consequence of the temporarily lower amount of plant capacity available.
Urban waste showed an overall increase of 1.6%, owing above all to growth in sorted waste and waste form sandy shores, while the quantity of non-sorted waste decreased.
Plant by-products rose thanks to an increased production of leachate in landfills, due to the higher amount of rainfall seen in 2018 compared to the previous year, marked by an extraordinary drought.

Further progress was seen in sorted urban waste, which went from 57.7% at 31 December 2017 to 62.5% at the same date in 2018, increasing by 5.3% in the areas served by Hera Spa and 7.3% in the areas served by Marche Multiservizi Spa, while in the Triveneto region growth settled at 0.7%.

Sorted waste (%)

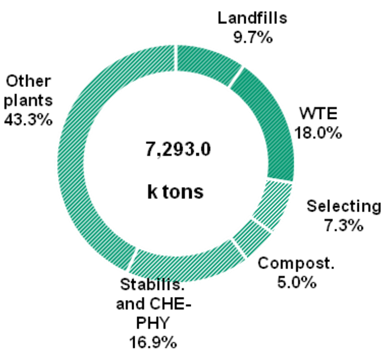


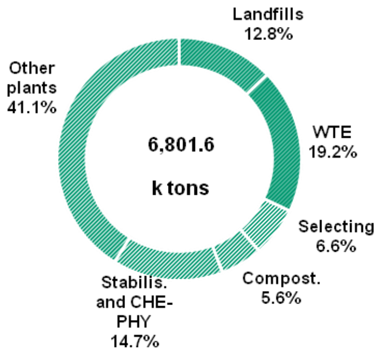
+4.8 p.p.
sorted waste

Waste disposed of by type of plant in 2018

Waste disposed of by type of plant in 2017

Lower use of landfills





Quantity (k tons)	Dec 18	Dec 17	Abs. Change	% Change
Landfills	704.3	872.3	-168.0	-19.3%
WTE	1,309.8	1,305.4	+4.4	+0.3%
Selecting plants and other	531.2	451.2	+80.0	+17.7%
Composting and stabilisation plants	361.5	379.4	-17.9	-4.7%
Stabilisation and chemical-physical plants	1,231.7	1,000.5	+231.2	+23.1%
Other plants	3,154.6	2,792.8	+361.8	+13.0%
Waste treated by plant	**7,293.0**	**6,801.6**	**+491.4**	**+7.2%**

The Hera Group operates in the entire waste cycle, with 89 plants used for municipal and special waste treatment and plastic material regeneration. The most important of these include: 10 waste to energy plants, 11 composters/digesters and 15 selecting plants.

Waste treatment showed growth coming to 7.2% over 31 December 2017. Note in particular the lower quantity in landfills, while in the chain of waste-to-energy plants the quantity treated increased slightly compared to the previous year. The larger quantity seen in selecting plants is due to the higher quantity treated, mainly in the Castiglione delle Stiviere plant. The lower quantity in composting and stabilisation plants is mainly due to planned maintenance in some plants for regulatory upgrading. The higher quantity in stabilisation and chemical-physical plants can be traced to an increase in landfill leachate due to a rise in the amount of rainfall. Lastly, subcontracted and other plants benefitted from the higher quantities treated by Waste Recycling and from an increase in by-products treated in subcontracted plants.

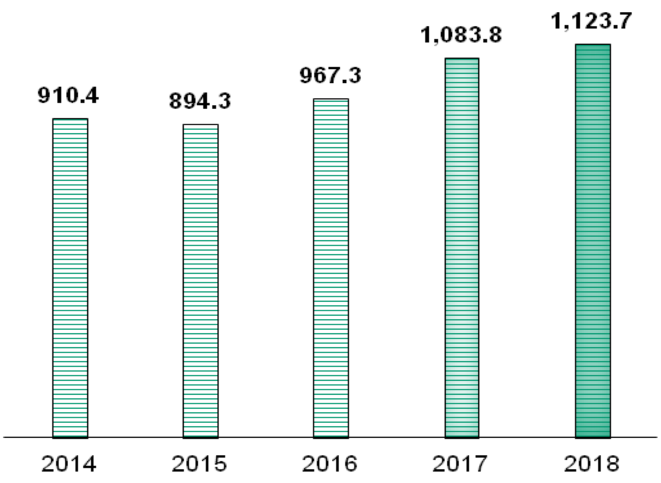
The table below summarises the area's operating results:

Ebitda rises

Income statement (mn€)	Dec 18	Inc%	Dec 17	Inc.%	Abs. Change	% Change
Revenues	1,123.7		1,083.8		+39.9	+3.7%
Operating costs	(684.3)	-60.9%	(647.5)	-59.7%	+36.8	+5.7%
Personnel costs	(196.1)	-17.4%	(198.6)	-18.3%	-2.5	-1.3%
Capitalised costs	8.8	0.8%	8.2	0.8%	+0.6	+7.3%
Ebitda	**252.0**	**22.4%**	**246.0**	**22.7%**	**+6.0**	**+2.4%**

Revenues rose by 3.7% or 39.9 million euro, going from 1,083.8 million at 31 December 2017 to 1,123.7 million in 2018. As regards waste treatment, this change is due to the positive trend seen in the price of special waste and higher revenues for electricity generation caused by an increase in the price of market energy, the CEC and the higher recognition of the percentage for the Grin in the Ferrara WTE plant obtained during the current year but with effects backdated to 2016. Lastly, a positive contribution to revenues came from an expansion in intermediation and upgrading operations, as well as in Waste Recycling Spa's customer portfolio, and from the higher quantities managed and sold by Aliplast Spa. These positive effects, along with higher revenues for increased sorted waste in urban waste collection, fully cover the change in scope of operations due to the termination of urban waste services in 13 Forlì-area Municipalities as of 1 January 2018.

Revenues (mn€)

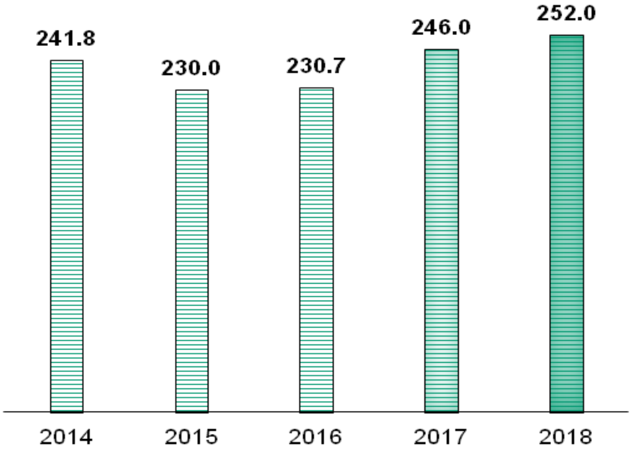


Operating costs rose by 5.7% or 36.8 million euro, going from 647.5 million euro in 2017 to 684.3 million euro in 2018. This change is due to higher costs in the waste treatment business linked to an advancement in upgrading activities, subcontracting by-product disposal and an increase in purchasing costs on the PET sustained by Aliplast Spa and related to the higher revenues mentioned above. As regards municipal waste, note the higher costs involved in developing new projects for sorted waste. These trends were mitigated by lower costs for services and maintenance of waste-to-energy plants, a reduction in the costs for electricity sustained by Aliplast Spa, as an energy consuming company, and lower costs due to the aforementioned changes in the Forlì area.

The cost of personnel, not including the transfer of resources for collection in the Forlì area, as mentioned above, showed a slight increase coming to 0.2%.

Ebitda went from 246.0 million euro in 2017 to 252.0 million euro in 2018, showing growth amounting to 6.0 million euro or 2.4%. This change was sustained by higher prices for special waste treatment, higher revenues from electricity generation and lower maintenance on plants, which were able to more than offset the exclusion of Forlì from the scope of collection and sweeping operations.

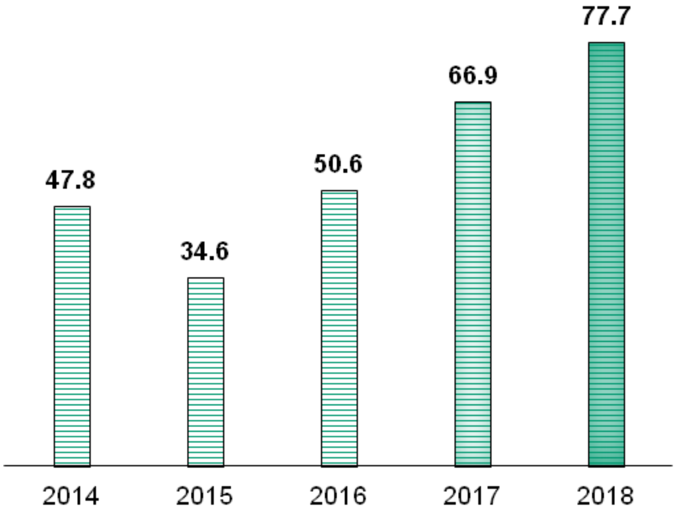
Ebitda (mn€)



252.0
million euro
Ebitda

Net investments in the waste management area concerned plant maintenance and upgrading and amounted to 77.7 million euro, up 10.8 million euro over the previous year.
The composter/digester sector showed a sharp increase in investments amounting to 9.8 million euro, mainly due to interventions on the Sant'Agata Bolognese composter involved in creating the biomethane plant Sant'Agata Bolognese, in addition to other interventions including upgrading the Tre Monti mechanical biological treatment plant.
Investments in landfills rose by 0.9 million euro, mainly due to interventions on the Cordenons plant in 2018, as well as plants belonging to the company Marche Multiservizi.
The WTE plants sector was in line with the previous year, given that the lower 2018 investments for the Pozzilli plant were basically compensated by the non-recurring maintenance done on the Bologna, Padua, Ferrara, Forlì and Trieste plants.
Increased investments in the Special waste plants sector mainly concerned maintenance interventions on the Ravenna industrial waste treatment plants.
The ecological islands and collection equipment sector showed higher investments coming to 1.0 million euro, mainly in the areas served by Hera Spa, while the 1.8 million euro decrease in the selection and recovery plants sector is largely explained by lower investments in the Aliplast Group, due to the significant interventions carried out the previous year on the company Alimpet Srl's Pet line, not entirely offset by higher investments made in the same sector of the company Waste Recycling Spa.

Net investments waste management (mn€)



77.7
million euro
net investments
waste management
(+10.8 million euro)

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

Waste management (mn€)	Dec 18	Dec 17	Abs. Change	% Change
Composting/digestors	24.5	14.7	+9.8	+66.7%
Landfills	10.8	9.9	+0.9	+9.1%
WTE	10.3	10.3	+0.0	+0.0%
RS plants	3.6	2.4	+1.2	+50.0%
Ecological areas and gathering equipment	12.3	11.3	+1.0	+8.8%
Transshipment, selection and other plants	16.8	18.6	-1.8	-9.7%
Total waste management gross	**78.1**	**67.2**	**+10.9**	**+16.2%**
Capital grants	0.4	0.3	+0.1	+33.3%
Total waste management net	**77.7**	**66.9**	**+10.8**	**+16.1%**

Operating investments increase

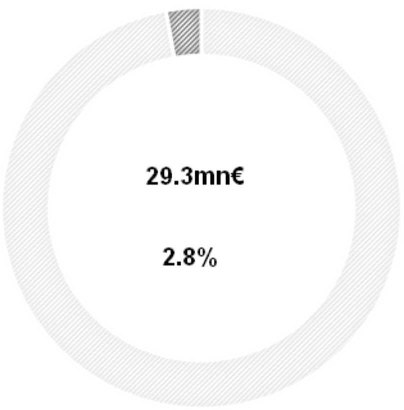
1.02.05

Other services

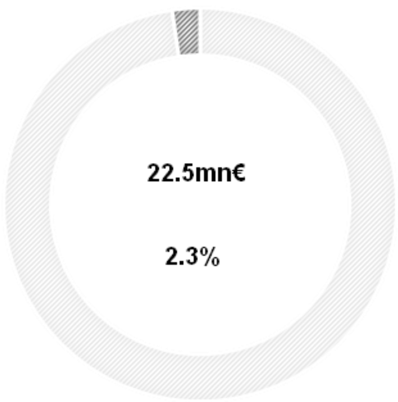
The other services area covers all minor businesses managed by the Group, including public lighting, telecommunications and cemetery services. In 2018, this area’s results showed a 30.2% increase over the previous year, with Ebitda going from 22.5 million euro at 31 December 2017 to 29.3 million euro in 2018.

Ebitda rises

Ebitda other services 2018



Ebitda other services 2017



The changes occurred in terms of Ebitda are as follows:

mn€	Dec 18	Dec 17	Abs. Change	% Change
Area Ebitda	**29.3**	**22.5**	**+6.8**	**+30.2%**
Group Ebitda	1,031.1	984.6	+46.5	+4.7%
Percentage weight	2.8%	2.3%	+0.5 p.p.	

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

Quantity	Dec 18	Dec 17	Abs. Change	% Change
Public lighting				
Lighting points (k)	534.3	522.1	+12.2	+2.3%
of which LED	14.9%	13.1%	+1.8 p.p.	
Municipalities served	176.0	163.0	+13.0	+8.0%

534.3 thousand lighting points

An analysis of the data regarding public lighting shows a growth of 12.2 thousand lighting points and a net increase of 13 municipalities served. Over the course of 2018, the Hera Group acquired roughly 19 thousand lighting points in 14 new municipalities. The most significant of these were: roughly 6 thousand lighting points in Abruzzo; roughly 4 thousand in Lombardy; roughly 4 thousand in the areas managed by Marche Multiservizi, following the entry of Megas Net Spa; roughly 2 thousand in the Triveneto region, mainly in the provinces of Udine and Pordenone; roughly 1.1 thousand in Emilia-Romagna; lastly, more lighting points managed in the municipalities already served. The increases seen during the year fully offset the loss of roughly 7 thousand lighting points and 1 municipality served in Emilia-Romagna. The percentage of lighting points using led light bulbs also increased, settling in 2018 at 14.9%, up 1.8 percentage points. This change reflects the constant attention shown by the Group towards an increasingly efficient and sustainable management of public lighting.

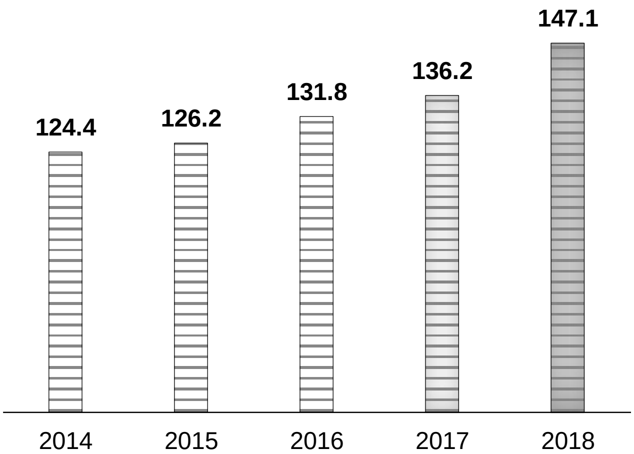
The area's operating results are provided in the table below:

Area grows

Income statement (mn€)	Dec 18	Inc%	Dec 17	Inc.%	Abs. Change	% Change
Revenues	147.1		136.2		+10.9	+8.0%
Operating costs	(100.2)	-68.1%	(96.3)	-70.7%	+3.9	+4.0%
Personnel costs	(20.0)	-13.6%	(19.8)	-14.5%	+0.2	+1.0%
Capitalised costs	2.5	1.7%	2.5	1.8%	+0.0	+0.0%
Ebitda	**29.3**	**19.9%**	**22.5**	**16.6%**	**+6.8**	**+30.2%**

Area revenues rose over December 2017 by 10.9 million euro, going from 136.2 million euro to 147.1 million euro in December 2018. This growth is mainly due to the positive contribution coming from telecommunications, thanks to increased external commercial collaborations and the digitalisation and innovation processes implemented by the Hera Group, and public lighting, due to good results from participation in public tenders.

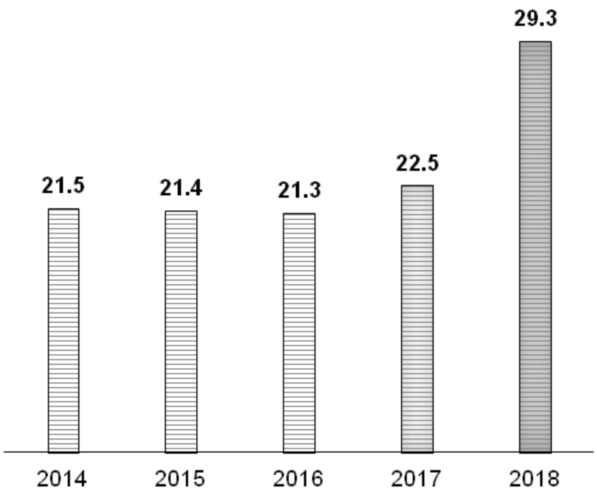
Revenues (mn€)



147.1
million euro revenues

Ebitda showed a 6.8 million euro growth over December 2017. This change is due to higher income from public lighting and telecommunications services.

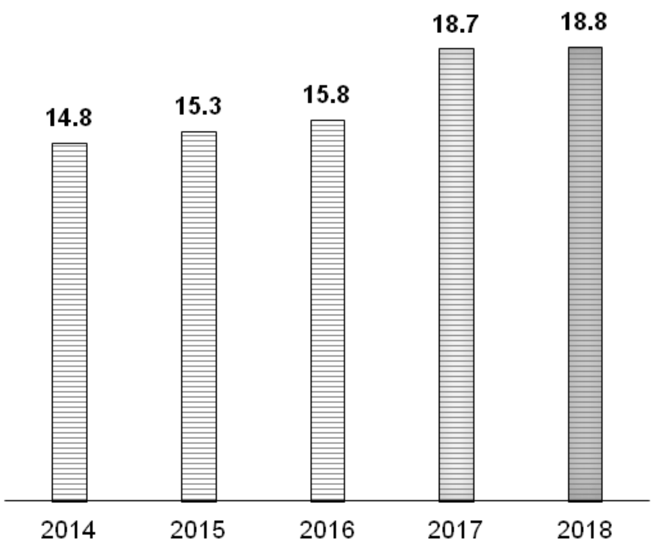
Ebitda (mn€)



29.3
million euro Ebitda

Investments in the other services area came to 18.8 million euro, essentially in line with the previous year.
Investments coming to 10.0 million euro were made in telecommunications, involving networks and Tlc and Idc (Internet data centre) services, up 0.8 million euro compared to 2017, while the 8.7 million euro of investments in the public lighting service concerned maintenance, upgrading and modernising lampposts in the areas served, with a 0.8 million decrease owing to the interventions seen during the previous year in the municipalities of Modena, Udine and Cesena, not entirely offset by investments in the Spinea and Aviano areas, and those made by the company Marche Multiservizi in the municipality of Pesaro.

Net investments other services (mn€)



18.8
million euro net investments other services

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

Other services (mn€)	Dec 18	Dec 17	Abs. Change	% Change
Tlc	10.0	9.2	+0.8	+8.7%
Lighting and street lights	8.7	9.5	-0.8	-8.4%
Total other services gross	**18.8**	**18.7**	**+0.1**	**+0.5%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total other services net	**18.8**	**18.7**	**+0.1**	**+0.5%**

1.03 Significant events occurred during the year

Blu Ranton Srl

February

On 7 February 2018, Hera Comm Marche Srl completed its acquisition of 100% of the share capital of Blu Ranton Srl, a company operating in the sector of electricity and gas sales, with roughly 15 thousand gas customers and 700 electricity customers served in the Teramo, Macerata and Pescara areas. The two companies are expected to come together through a merger by incorporation of Blu Ranton Srl into Hera Comm Marche Srl.

Sangroservizi Srl

March

On 20 March 2018, Hera Comm Srl, upon winning the public auction announced by the Municipalities of Atessa, Paglieta and San Vito Chietino, acquired from the latter 49% of the share capital of Sangroservizi Srl, a company operating in sales of natural gas, electricity and other energy products, with roughly 7 thousand gas customers served in the Province of Chieti.

Medea Spa

April

On 6 April 2018, in fulfilment of the binding agreement signed on 21 December 2017, Hera Spa transferred to Italgas Reti Spa its entire holding in Medea Spa.

Marche Multiservizi Spa

June

Effective as of 1 June 2018, the merger by incorporation of Megas Net Spa into Marche Multiservizi Spa was completed, with the latter's share capital increasing from € 13,484,242 to € 16,388,535. This operation is part of a larger framework of rationalising corporate holdings in the Province of Pesaro-Urbino and the municipalities of this area.
Following this transaction, the percentage of Marche Multiservizi Spa shares held by Hera Spa went from 49.59% to 40.80%.

Alipackaging Srl – Aliplast Spa

July

On 13 July 2018, the merger by incorporation of Alipakaging Srl into Aliplast Spa, which already held its entire share capital, was completed.
This transaction was intended to concentrate purchasing and sales of plastic materials for packaging within the acquiring company.

Ghirlandina Solare Srl

On 24 July 2018, the transfer of the shares held by Hera Spa in Ghirlandina Solare Srl, a company operating in the renewable energy sector, amounting to 33.33% of the share capital, was completed.

Amga Energia & Servizi Srl – Hera Comm Srl

September

On 17 September 2018, a document was signed stipulating the merger by incorporation of Amga Energia & Servizi Srl into Hera Comm Srl, which already held its entire share capital, effective as of 1 October 2018. This process of corporate aggregation is part of a larger project aimed at integrating the Group's sales companies within Hera Comm Srl.

Marche Multiservizi Spa

On 18 September 2018, pursuant to the outcome of a public tender concerning the transfer of 885,376 treasury shares held by Marche Multiservizi Spa, Hera Spa acquired these shares, increasing its holding in this company from 40.80% to 46.20%.

Gran Sasso Srl – Hera Comm Marche Srl

With a document stipulated on 25 September 2018, the merger by incorporation of Gran Sasso Srl into Hera Comm Marche Srl was completed, effective as of 1 October 2018, through:

Con atto stipulato in data 25 settembre 2018, si è perfezionata la fusione per incorporazione di Gran Sasso Srl in Hera Comm Marche Srl, con effetti decorrenti dal 1° ottobre 2018, previa:
transfer from Gran Sasso Srl to Hera Comm Srl of the former's "electricity sales" corporate branch;
transfer from Hera Comm Srl to Hera Comm Marche Srl of its entire holding in Gran Sasso Srl.
This transaction was intended to rationalise Group companies operating in the same economic sector, natural gas sales to end customers.

Verducci Servizi Srl – Hera Comm Marche Srl
With a document stipulated on 25 September 2018, the merger by incorporation of Verducci Servizi Srl in Hera Comm Marche Srl was completed, effective as of 1 October 2018.
This transaction as well, similarly to the merger of Gran Sasso Srl into Hera Comm Marche Srl, was intended to rationalise Group companies operating in the same economic sector, natural gas sales to end customers.

October

CMV Energia&Impianti Srl – Hera Comm Srl
CMV Servizi Srl – Inrete Distribuzione Energia Spa
On 24 October 2018, Hera Spa, CMV Energia&Impianti Srl, CMV Servizi Srl, Hera Comm Srl and Inrete Distribuzione Energia Spa signed a framework agreement concerning an industrial reorganisation of the activities carried out by CMV Energia&Impianti Srl and CMV Servizi Srl, to be implemented through:
the partial and proportional demerger of the assets and liabilities involved in CMV Energia&Impianti Srl's electricity and gas sales to Hera Comm Srl, effective as of 1 March 2019;
the partial and proportional demerger of CMV Servizi Srl's gas networks and the entire shareholding of A Tutta Rete Srl (a company entirely held by CMV Servizi Srl) to Inrete Distribuzione Energia Spa, effective as of 1 March 2019.
On the same date, 24 October 2018, the Boards of Directors of the companies involved in the transactions approved the respective demerger projects.

November

Cerplast Srl / Variplast Srl / Umbroplast Srl – Aliplast Spa
On 5 November 2018, a document was signed stipulating the merger by incorporation into Aliplast Spa of the companies Cerplast Srl, Variplast Srl and Umbroplast Srl, already entirely controlled by Aliplast Spa itself.
This transaction, whose statutory, accounting and fiscal effects came into force on 1 January 2019, was intended to concentrate activities in plastic material for packaging collection, management and selection within the incorporating company.

Sangroservizi Srl
On 26 November 2018, after winning an additional public auction called by the Municipalities of Atessa, Paglieta and San Vito Chietino for transferring the remaining 51% of the share capital of Sangroservizi Srl, Hera Comm Srl became the sole shareholder of the latter.
The company is expected to be merged into Hera Comm Marche Srl.

December

Waste Recycling Spa / Hasi Srl
On 12 December 2018, the Boards of Directors of Hasi Srl and Waste Recycling Spa approved the merger by incorporation of the latter into Hasi Srl, which will be effective as of 1 July 2019.

Significant events occurred after the reporting period

Adria Link Srl
On 14 January 2019, the liquidating company Tei Srl, a shareholder of Adria Link Srl with 33.33% of the share capital, transferred pro rata its holding to Hera Trading Srl and to Enel Produzione Spa, who therefore increased their holdings from 33.33% to 50%.

Marche Multiservizi Spa
On 1 February 2019, upon winning the public auction concerning the transfer of 81,943 shares held by Socio Unione Montana Alta Valle del Metauro, Hera Spa acquired these shares, increasing its holding in the company from 46.20% to 46.70%.

CMV Energia&Impianti Srl – Hera Comm Srl
Effective as of 1 March 2019, the partial and proportional demerger into Hera Comm Srl of CMV Energia&Impianti Srl's assets and liabilities involved in electricity and gas sales was completed.
As an effect of this transaction, Hera Comm Srl's share capital increased from 53,536,987.42 euro to 53,595,898.95 euro and the newly issued shares were assigned to CMV Energia&Impianti Srl's shareholders.

CMV Servizi Srl – Inrete Distribuzione Energia Spa
Effective as of 1 March 2019, the partial and proportional demerger of CMV Servizi Srl's gas networks and the entire shareholding in the company A Tutta Rete Srl (already entirely held by CMV Servizi Srl) into Inrete Distribuzione Energia Spa was completed.
As a result of this transaction, the share capital of Inrete Distribuzione Energia Spa increased from 10,000,000 euro to 10,091,815 euro and the newly issued shares were assigned to CMV Servizi Srl's shareholders.

1.04
Share performance and investor relations

Global financial markets negative in 2018: the Italian stock market affected by a rising spread

Over the course of 2018, all main types of investment (shares, bonds, oil, gold) across the world showed a negative return. A number of significant events (including trade wars, the rise in USA interest rates and the projected end of quantitative easing in the euro zone) weighed on their performance, introducing uncertainty as to the solidity of the growth accomplished by the global economy. In this context, no stock market was spared from sales by investors. Wall Street, which during the majority of the year was the main destination for capital leaving emerging markets, began to show negative signs in the last quarter of 2018 owing to increasing tension in the trade war between the United States and China. Stock markets in Europe, instead, suffered on account a slowdown in the German growth engine and the announcement of the end of the expansionary monetary policy sustained by the ECB. The Italian stock exchange witnessed more volatility than other European markets, with investors choosing to disinvest in Italian bonds while waiting for a better understanding of the effects of the new government's economic policies. Furthermore, a significant increase in the spread had consequences on the price of shares for those companies most exposed to trends in the national economy (such as utilities and banks).

Hera outperforms its peers and the market

Hera stock closed the period with an official price of 2.674 euro, down 8.7%; nevertheless, it showed a better performance than both the Italian stock market (-16.7%) and the average trend for comparable companies (-12.2%). This was due to the approval given by investors to the business plan presented to the financial community in January, along with the Company's solid foundations, as became clear during the year with the publication of its quarterly and year-end results.

Hera stock included in the FTSE Mib index as of 18 March 2019

In early January 2019, Hera shares quickly recovered from the negative performance recorded in 2018, bolstered by the presentation of the new business plan to 2022, which contains feasible growth targets and a highly visible return on investment. The Group's capitalisation thus reached 4.4 billion euro once again, and in the first two months of 2019 the value of trading rose by almost 60% compared to the 2018 average. The combination of these two factors led Hera to be included in the Ftse Mib index, the basket including the country's 40 leading companies in terms of capitalisation and liquidity, as of 18 March 2019.

2018 Hera stock, local utility sector and Italian market performance comparison

On 18 June 2018, Hera paid dividends coming to 9.5 cents per share, up 5.6% over the 9.0 cents paid one year earlier, confirming the uninterrupted series of increases seen since the company was listed. Following the indications set down in the business plan, in 2019 an additional 5.3% increase, reaching 10.0 cents per share, will be put to the Shareholders Meeting, corresponding to a 3.7% return compared to the final trading session of 2018.

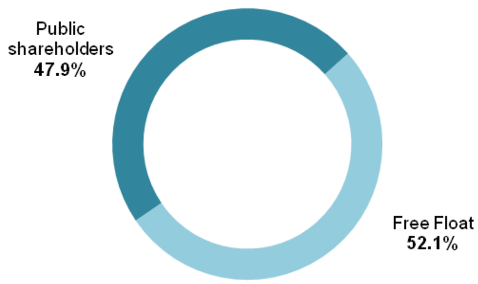
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Dps	0.04	0.05	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095

The joint effect of the continuous dividend payments made to shareholders and the rise in the price of the stock led the total shareholders' return accumulated since the company was initially listed to remain positive once again and to settle, at the end of the period in question, at over +212%.

+212%: 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 a clear prevalence of positive opinions, with almost all recommendations defined as buy/outperform and no negative opinion (sell/underperform). At the end of the year, the consensus target price came to € 3.28 euro, higher than the € 3.15 recommended at the end of 2017, up 4% based on the healthy state of the Group as appears in its quarterly reports.

Shareholder breakdown at 31 December 2018



47.9%: the share capital pertaining to the public stockholders agreement

At 31 December, the shareholder breakdown showed its usual stability and balance, with 47.9% belonging to 111 public shareholders located across the areas served and brought together by a stockholders' agreement, signed on 1st July 2018 and in force until 30th June 2021, and a 52.1% free float.

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders Meeting held on 26th April 2018 for 18 further months, for an overall maximum amount of € 200 million. 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 2018, Hera held 1.58% of its own share capital.

During the reporting period, Hera's senior management engaged in intense communication with investors, mainly involving the road show promoting the business plan in the first quarter and participation in sector conferences in the remaining nine months. In December, furthermore, the company's management took part in a conference in Australia, where it met with important infrastructure investors interested in companies similar to Hera, i.e. showing a low risk profile and an assured and visible return.

Communication with the market as an intangible asset

The 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.

Regarding the information required by article 2428, paragraphs 3 and 4, of the Italian civil code, the number and nominal value of the shares making up the share capital of Hera Spa, the number and nominal value of the treasury shares held at 31 December 2018, in addition to any changes in the latter that may have occurred in 2018, see note 24 of paragraph 3.02.05 and the table showing changes in net equity, paragraph 3.01.05, found in the parent company's separate financial statements.

1.05
Reference scenario and Group strategy

The utility sector and the Authority: rationalising the industry and liberalising the market

The public utilities sector plays a leading role within the Italian economy, accounting for approximately 7% of the country's Gross domestic product (GDP; source: Top Utility report drafted by Althesys). This result, however, is reached through levels of service and efficiency that differ greatly across the country on account of the high level of fragmentation among variously sized operators. The most recent census, carried out by the government in 2014, counted no less than 1,500 of the latter, a figure which is quite distant from the standards seen in other European Union countries. With the goal of improving the efficiency and transparency of these services, over time the government and the national Authority have therefore pursued actions aimed at rationalising the sector.

In gas distribution, for example, tenders for renewing grants are foreseen within the next five years across the entire country. These competitive procedures have been designed to promote greater consolidation among operators, while at the same time favouring the more efficient ones and those able to sustain the widest-reaching investment plans. The areas concerned by the tenders have in fact been geographically widened, now covering provinces instead of municipalities. It follows that, according to estimates made by sector professionals, a reduction should be seen in the number of companies, from over two hundred to twenty or thirty.

During 2018, the Regulatory authority for energy, networks and the environment (Arera, Autorità di regolazione per energia reti e ambiente), began preparations for a new definition of the new tariff system, which will come into effect as of 2020 and cover a period of four years. After establishing a higher degree of uniformity in tariffs and service quality nationwide, expectations are that higher efficiency will be achieved and the sector will be rationalised, turning to means including a definition of the mechanisms used in tenders for granting concessions for urban waste collection and street cleaning.

In liberalised businesses, the government's objective is to promote a higher level of market competition, to the advantage of end consumers. For this reason, an intention to completely liberalise the electricity market as of 1 July 2019 was included in the 2017 Competition Bill. At present, roughly 20 million users have not yet chosen a free market energy supplier. Launching this process thus represents an opportunity to stimulate competition and give space to companies with the best service levels and the largest scale economies.

In the sector of (free market) waste treatment, the year that has just come to a close confirmed the country's persistent undercapacity in the area of plants. This situation has become even more critical by various foreign factors, such as China's import ban on low-quality plastic waste (plastic mix) and an increase in waste exports from the United Kingdom, with the effect of saturating the continent's treatment plants, which were the destination for a significant amount of Italy's waste. In this scenario, considering the continual difficulties in building new plants over the short term, prices for waste disposal increased for the fourth consecutive year. The pace of this growth over the last year seems destined to persist in 2019, going to the advantage of operators owning plant capacities.

In the energy sales business, the government's objective is to promote a higher level of market competition, to the advantage of end consumers. To this intent, a prediction for the complete liberalisation of the electricity market as of 1 July 2020 was confirmed by the Milleproroghe Law 91/2018. At present, roughly 20 million users have not yet chosen a free market energy supplier. Launching this process thus represents an opportunity to stimulate competition and give space to companies with the best service levels and the largest scale economies.
The scenario seen in the sector is therefore marked by factors pointing towards a higher industrialisation of activities, to be achieved through increasing investment plans and involving a consolidation of smaller businesses. In this context, Hera operates with its usual development model that is geared towards making the most of scale economies and synergies (internal growth) and expanding the geographical extent of its own operations (external growth), by integrating sector enterprises. This strategy has been coherently pursued by the Group since its establishment, and its effectiveness has been proven: over the past sixteen years, its size has been quintupled and a position of national leadership has been reached in all areas of activity (the country's first operator in the waste management sector, second in the integrated water service, third in gas distribution and in energy sales to end customers).

Hera reaches its previously set targets

The results for 2018 as well are the fruit of this strategic approach, which has led the Group to reach the milestone of one billion euro in Ebitda, even exceeding the target established by the five-year business plan for 2014-2018 (1,031 million euro, as against the goal of 1,020 million, and a net debt/Ebitda ratio coming to 2.5 instead of the objective set at 2.9). All activities managed contributed to this positive result, confirming the validity and effectiveness of the Group's perfect balance between regulated and free market activities that allows it to maintain a high level of risk diversification. The portfolio's balanced mix, that combines areas with a low return but no risk (in regulated businesses) and areas with a higher return but also risks from which the Group is protected (in free market businesses), makes it possible to obtain an overall return capable of creating value; that is, this portfolio leads to rates of return that exceed the average cost of the financial resources used.

The new business plan to 2022

The new business plan to 2022, presented in early January 2019 and based on the Group's strong position and acquired leadership, is aimed at grasping the opportunities arising within the reference scenario and continuing along its path of uninterrupted growth. Ebitda is expected to increase by 200 million euro, reaching the goal of 1.185 billion euro by the end of the period in question, a target which is higher than the one set in the previous plan.

Relying on the Group's current market position and the availability of accumulated financial resources, growth will also be fuelled by an ambitious investment program coming to roughly 3.1 billion euro, increasing by 260 million over the previous plan. The Group will be able to meet this objective thanks to one of the most solid set of assets seen in the sector and its visibly growing cash generation (+30% Cagr over the last five years).

1.1 billion euro will be exclusively dedicated to growth: investments in new plants and network modernisation, tenders for renewing gas concessions and M&A operations. This strategy calls for an efficient allocation of capital, conserving the Group's current low risk profile, and confirms its objective of maintaining financial solidity, with a net debt/Ebitda target set at 2.9 that leaves further room to finance the growth opportunities not included in the plan.

Three quarters of investments will go to regulated activities: approximately 70% will go towards networks and approximately 6% to urban waste collection. It follows that most of the growth foreseen by the plan will fall into these areas, whose overall weight will increase from 51% to 55%. The balanced aspect of this mix will be guaranteed by factors including growth in free market activities. In the waste management sector, the Group – Italy's leading operator in this field – can rely on a wide and diversified set of plants, within the context of a market whose prices are continually growing due to the country's structural lack of disposal capacity. In the energy sector, the Group – which ranks third in the country – counts on expanding its customer base, making the most of both the liberalisation expected in the protected electricity market and initiatives in cross selling its services. In late 2018, tenders were also held for renewing concessions in safeguarded electricity and default gas services, and the Group confirmed its status as Italy's foremost operator for the upcoming two years, gaining roughly 70% of the market.

Creating shared value

The new plan also expects dividends to increase (from 9.5 cents in 2018 to 11 cents paid in 2023), showing uniform growth over the five years in question and testifying to a transparent dividend policy benefitting all shareholders. The Group's multi-business model, indeed, allows it to give a significant visibility to cash generation, given that it offers protection from external market factors, as is amply shown by the resilient growth constituting its track record.

The plan includes targets and projects that the Group intends to pursue in a sustainable way, creating value for all stakeholders. Its strategy has identified lines of development oriented towards pursuing the targets set out in the Un Agenda that can be applied to the activities in which it is involved (covering at least 10 of the 17 goals indicated): almost 3/4 of the growth expected over the five years covered by the plan will be sustained by projects that respond to these ten "calls to action", thus bringing shared value Ebitda to reach over 470 million euro (40% of overall Ebitda) by 2022.

1.06 Macroeconomic and competitive context

Macroeconomic context

In 2018, the global economy recorded 3.7% growth in Gdp, 0.1% lower than the previous year. The main contributions came from emerging markets in Asia (which led growth, with increases coming to over 6.5%) and the good performance seen in the United States (+2.9%). Contrasting signs with regard to the expectations expressed by major financial institutions were instead seen in Europe, where the main economies, i.e. Germany, France, Italy and Spain, witnessed a significant setback.
Growth in the eurozone in fact decreased by roughly 0.6% compared to the rate seen in 2017. One element responsible for this slowdown was the termination of the Ecb's bond-buying programme, a mechanism that had provided considerable stimulus towards economic growth in European countries in recent years. At the same time as this extraordinary financial intervention came to an end, the goal of bringing inflation in the eurozone back to 2% was not achieved; a fall in the price of energy goods recorded in the same period appears to be mainly responsible for not reaching this target.
Rising social tension and ensuing protests also fostered market uncertainty, preventing the economy's growth potential from fully coming into being. Uncertainty tied to Brexit alone weighed on the performance shown by the United Kingdom, where economic growth fell by 0.4% compared to the rate seen in 2017*.

The Italian economy showed moderate growth in Gdp (+1.0%) during 2018, in any case slowing down compared to one year earlier. This trend can largely be attributed to a drop in investments made by businesses, with household spending not showing particular signs of activity. As a whole, this phenomenon can be traced to a deterioration in the amount of confidence sensed by both categories, in particular during the second half of the year. Alongside this decrease in business confidence, the most recent data indicates the deseasonalized industrial production index dropping by roughly 3% between January and December 2018.
The overall loss of confidence in the Italian economy was also felt by foreign investors, as a result of the higher perceived risk and reflected by increases in the 10-year Btp-Bund yield differential.
Furthermore, some reinforcement was seen in consumer prices, with inflation averaging close to +1.1%, marked by a rising trend over all months of the year with respect to the figures recorded in 2017. As regards the job market, a gradual increase in the employment rate was witnessed (coming to almost 59% in December), apparently reaching the same level as before the crisis. Significantly, this figure is marked by an increase in fixed-term contracts (+7% from January to December 2018 alone) instead of permanent ones, which showed a slight drop **.

* Contextual information from the world economic outlook update, January 2019 – International Monetary Fund
** Data elaborated from the Banca d'Italia Bulletin, January 2019, and Istat

The context in terms of competition

The growing degree of competition seen in the activities managed by Italian utilities was confirmed once again in 2018, as regards both regulated and free market businesses.
In regulated businesses, progress was made in 2018 towards the early phases of the process involved in awarding service concessions for gas distribution. Judging in particular by the first tender awarded, Atem Milano 1, future developments now seem to indicate a rationalisation of the sector and an increase in the level of competition seen on the national market. A further positive sign going in this direction has appeared with tender Atem Torino 2, for which validation was given to the economic offer presented by a single party. The Hera Group is also involved in this process, with the first call for tenders concerning areas already managed being Atem Udine 2, whose deadline for presenting offers has been set at 10 May 2019.
Market competition was gradually introduced in 2018 in the urban waste sector as well. In particular, regarding localities served by the Hera Group, a presentation of offers was held for the Ravenna-Cesena catchment area.

From the point of view of free market businesses, competitive pressure increased in both energy sales and last resort markets. At the same time, the groundwork was set for developing new commercial opportunities in recovery and treatment activities.

As regards the retail market, even though the most recent official data available is found in Arera's 2018 annual report, updated to 2017, the trend towards a greater number of actors seen on the market seems to be confirmed by various factors observed by operators during 2018. In particular, it seems to be likely that, in light of the definitive end of the protected electricity regime, the growth recorded in household customers on the free market (+4.4% compared to 2016) will be confirmed by Arera's new annual report, expected to be released in mid-2019. This data is to be read as a further confirmation of an enlarged competitive arena.
Concerning last resort services – Safeguarded electricity, Default gas, Last resort gas supplier – a few factors seen in the context have contributed to increasing competition in participation in the procedures involved in their assignment. In particular, for the Default gas and Last resort gas services, the duration of the concession has been reduced to one year instead of the previous two, while in tenders for assigning Safeguarded electricity services, 2018 saw the success of a third player, compared to the two who were traditionally present.

As regards waste treatment, recovery and disposal, the current context is complex for a number of reasons, some of which have an international scope. In the early months of 2018, China, the world's leading importer of recovered portions of waste, banned imports on 24 types of raw and secondary materials destined to be recycled, in particular post-consumption plastics and pulped paper. The China Ban had an immediate effect on the market, noticeably reducing the chances for low-quality material recycling to leave Europe, which produced an increased demand for disposal (in particular, incineration).
The United Kingdom continues to be the country exporting the largest amount of urban waste. To reach its own target in reducing the use of landfills, in recent years it has constantly increased the volumes of waste going towards foreign plants. Despite launching a plan intended to significantly develop the country's set of plants, the UK's capacity gap will most likely not be filled before 2025.
The reduction in flows towards China and the situation seen in the United Kingdom give European and Italian treatment and recovery plants a higher availability of materials to be managed. At the same time, in the market sector of dangerous industrial waste an upswing can be observed in the main driving industrial sectors (in particular, the chemical and pharmaceutical sectors).

1.06.01

Regulatory framework and regulated revenues

Relevant legislation

Among the legislative measures approved in 2017 with the greatest consequences for the Hera Group, particular attention must be given to the Inter-Ministry Decree promoting biomethane and advanced biofuel use in the transport sector; the Ministry Decree correcting the system used for energy efficiency certificates (Tee); and the Decree nominating the members of the Arera board. As always, the approval of the 2019 Financial Bill was also significant.

Inter-Ministry Decree on biomethane

The Inter-Ministry Decree "Promotion of the use of biomethane and other advanced biofuels in the transport sector", approved on 2 March 2018, introduced incentive mechanisms that call for those producing biomethane injected into the natural gas network and used for transport within Italy to be given a number of biofuel consumption injection certificates (Cic). These incentives are applied to biomethane produced by plants that become functional within 31 December 2022, for up to 10 years as of the incentive's effective date.

Inter-Ministry Decree correcting the system of energy efficiency certificates (Tee)

The Ministry Decree approved on 10 May 2018 introduced changes in the guidelines for preparing, implementing and evaluating energy efficiency projects. The content of this legislation concerns both supply and demand. As regards supply, additionality has been eliminated for substitution interventions and a few types of admissible interventions have been added. As regards demand, the amount of time available to recuperate residual obligations has been set at two years and the obliged parties have been given the possibility of requesting the Energy services manager (Gse) to issue certificates even if they do not correspond to actual energy savings.

New Arera board nominated

The members of Arera's new board were nominated with Presidential decree 9 August 2018. The previous board, whose mandate expired in February 2018, continued to operate for a few months under a prorogation.

2019 Finance Bill

Law 145 of 30 December 2018, containing "Forecast state budget for the 2019 financial year and multi-annual budget for 2019-2021", was published in the Gazzetta Ufficiale on 31 December 2018 and came into force on 1 January 2019. This legislation introduced numerous changes in sectors that are critical for the Hera Group's industrial strategy, in particular:

- for the waste sector, a tax credit (36%) for businesses purchasing products made with materials coming from sorted collection of plastic packaging, and for those purchasing biodegradable and compostable packaging or packaging deriving from sorted collection of paper and aluminium foil;

- for the energy sector, an extension of the eco-bonus covering all of 2019; low-interest loans for energy and water efficiency enhancing interventions for sports facilities and publicly owned buildings used as hospitals; tax deductions for purchasing and installing infrastructures for electric vehicle charging;
- for water services, a few modifications to the criteria used in updating the national plan for interventions in the sector, with the plan expected to be updated every two years.

Gas, electricity, integrated water service, district heat and urban waste regulations

Among the new features that appear in regulations approved by Arera in 2018, those with the greatest consequences for the Hera Group include: updates in the rate of return on invested capital for infrastructure services in the electricity and gas sectors; the introduction of new installation requirements for smart gas metres; revised regulations for safeguarded electricity and last resort gas services; measures implementing the 2018 Finance Bill as regards a two-year expiry in energy supply contracts; a mechanism for recognising non-recoverable credits related to general service charges for electricity distribution companies; the effective status of the new tariffary subdivision of the integrated water service and the introduction of a water bonus for disadvantaged families. In the most recently regulated sectors, note the approval of consolidated texts on compensation for new connections and exercising the right of withdrawal and commercial quality in district heating services, and the publication of initial orientations as to tariffary regulation of integrated urban waste management services.

Updates in the rate of return on invested capital for infrastructure services in the electricity and gas sectors

As foreseen by the Integrated Text on Wacc (Tiwacc), with resolution 639/2018/R/com, approved in late 2018, Arera updated the rate of return on invested capital for infrastructure services in the electricity and gas sector, valid for the three-year period 2019-21. The Wacc approved for distribution activities in particular amounts to:

- 5.9% for electricity distribution and metering;
- 6.3% for gas distribution;
- 6.8% for gas metering.

These figures show an increase compared to 2016-2018 of 30 and 20 basis points for the electricity and gas sectors respectively, as an effect of updating the financial and fiscal parameters underlying the regulatory formulas. The rates approved for gas distribution and metering could be changed for the two-year period 2020-2021 if, for the new gas distribution regulatory period (2020), the Beta asset parameter for the sector were to be modified.

In the area of gas metering, Arera continued to adopt measures aimed at making progress in introducing G4 and G6 smart metres. Resolution 669/2018/R/gas, indeed, calls for updates in substitution requirements, according to the following outline:

- for operators with more than 200 thousand delivery points (within the Hera Group: Inrete Distribuzione Energia Spa and AcegasApsAmga Spa), the requirement set at 50% by 2018 was raised to 85% by 2020;
- for operators with between 100 thousand and 200 thousand delivery points, the requirement set at 33% by 2018 was raised to 85% by 2021;
- for operators with between 50 thousand and 100 thousand delivery points (within the Hera Group: Marche Multiservizi Spa), the requirement set at 8% by 2018 was raised to 85% by 2023.

Revised regulations for safeguarded services and last resort gas services

As regards energy markets, recalling that the end of protected regimes is expected to come into effect as of 1 July 2020, Arera proceeded to revise the tender procedures for assigning safeguarded electricity services for the two-year period 2019-2020 and to implement modified regulations in the same service (resolution 485/2018/R/eel). At the same time, Arera changed the regulations for completing the pubic procedures for selecting last resort gas service (Fui) and default gas service (Fdd) suppliers, effective as of 1 October 2018 (resolution 407/2018/R/gas) .

Two-year expiry pursuant to Law 205/2017 (so-called "large bills")

Mechanisms for assigning non-recoverable general system charges for electricity distribution and sales companies

The 2018 Finance Bill ushered in measures protecting consumers as regards balance payment invoices for the energy and water services provided, introducing, in particular, a so-called "two-year expiry" in supply contracts for household customers and microenterprises, as of 1 March 2018 for the electricity sector, 1 January 2019 for the gas sector and 1 January 2020 for water services. After issuing (resolutions 97/2918 and 264/2018/R/com) the first implementation measures for the electricity sector during the first half of 2018, in the second half of the year Arera intervened in this area by introducing fully operational measures for both energy sectors and, therefore, for the gas sector as well, effective as of 1 January 2019. In particular, with resolution 569/2018/R/com, Arera defined specific informational requirements bearing on sales companies, differentiated according to a structure defining the responsibility for delays in invoicing, as set out by the regulator. The detailed information introduced in bills, containing amounts related to consumption that occurred more than two years ago, is aimed at allowing end customers to avail themselves of the expiry. Since these legal measures establish that the two-year expiry is valid only if the lacking or erroneous collection of consumption data does not derive from an ascertained responsibility of the end customer, Arera, with consultation document 570/2018/R/com, established its orientation as to the presumptive criteria for assigning the responsibility to distributing companies in cases in which actual consumption measurements are provided to sellers with a delay.

Pending the definition of an overall reorganisation of the methods used for collecting general electricity system charges, with resolution 50/2018/R/eel Arera defined a temporary mechanism whereby credits concerning general system charges, which cannot be recovered from sellers but have been regularly deposited at the Energy and environmental services fund (Csea) and the Energy services manager (Gse), are due to distributors. The first session for awarding said charges took place on 30 July 2018. Furthermore, resolution 50/2018/R/eel, in the meantime, passed examination by the Lombardy Tar, which in November 2018 rejected the appeal requesting it to be revoked, filed by a consumer association. As regards the sellers' position, the proposals that Arera had initially contemplated in consultation 52/2018/R/eel, intended to introduce a mechanism recognising general system charges paid by them to distribution companies and not recoverable from end customers, similar to the one introduced for distributors with resolution 50/2018/R/eel, were suspended by resolution 430/2018/R/eel. The latter resolution deferred the matter to preparatory initiatives to be held at a later date, which at present have not yet been formalised.

Integrated water service: new organisation of tariffs and social bonus introduced

A new organisation of tariffs for integrated water service users came into effect in 2018 for all local areas, based on criteria that are uniform nationwide and defined by Arera deliberation 665/2017/R/idr, in any case guaranteeing that certain regionally specific features defined by Local governmental agencies (Egato) will be maintained. In the process of reorganising distinctions among tariffs, two new aspects were introduced for household customers: on the one hand a per capita subsidised tariff for the aqueduct service, and on the other a difference drawn between tariffs for residents and non-residents. One must note that this reform expects the entire tariffary reorganisation to be based on equalised regulated revenues due respectively for 2018 and for 2019, as defined pursuant to the "two-year balance payment" described in resolution 918/2018/R/idr.
Furthermore, as regards resident household customers undergoing economic and social hardship, the new social water bonus (resolution 897/17/R/idr) came into effect in 2018, whose conditions for access are similar to those in effect in the energy sectors. These tariff concessions are defined on the basis of the subsidised tariffs defined by each Egato and are financed by an equalising tariff component which increases fees for the aqueduct service (UI3). The Emilia-Romagna Egato furthermore introduced, once again in effect as of 2018, an additional social bonus, financed by an extra local tariff component, the so-called Op social.

District heating: comprehensive texts approved for regulating new connections and withdrawals (Tuar) And commercial quality regulation (Rqct)

As regards district heating regulations, with resolution 24/2018/R/tlr, Arera approved the Comprehensive text for regulating criteria in defining fees for new connections and procedures for users to exercise the right of withdrawal for the regulatory period 2018-2020 (Tuar), which defines the criteria and procedures for establishing new connections to the network and exercising the right to deactivate supply and disconnect, for the period between 1 January 2018 and 31 December 2020. The Comprehensive text calls for a limit on revenues to be implemented as regards fees defined for new connections, effective as of 1 October 2018 (as established by the subsequent resolution 277/2018/R/tlr) and the ensuing reporting requirements pertaining to operators. Appropriate informational obligations are also included, notifying customers as to the procedures for presenting requests and establishing new connections. This provision furthermore gives customers the possibility to withdraw from the supply contract without paying any penalties, calling for a payment to be made protecting operators in the event that the user withdraws from the contract within three years of its signing, in addition to a safeguarding clause for contracts signed on the effective date of the resolution. With resolution 661/2018/R/tlr, Arera furthermore approved the Comprehensive text for regulating the commercial quality of district heat (Rqct), effective from 1 July 2019 to 31 December 2021. Similarly to other regulated sectors, general performance standards and other specific standards were introduced. Obligations require the Manager to record the various phases along which a commercial quality request is processed and later implemented, as well as requirements calling for periodic reporting to Arera.

Arera's initial orientation in defining compensation for the integrated urban and assimilated waste management service

Arera now having regulatory powers over the waste cycle (2018 Finance Bill), during 2018 the Regulator carried out an initial phase of research on sector regulations, succeeding in involving the various stakeholders and publishing consultation text 713/2018/R/rif, which contains preliminary orientations as to the criteria used in defining compensation for the integrated waste management service. The road map set out foresees additional consultation texts on specific regulatory profiles, calling for the new tariff method to come into force as of 2020, when a four-year period of tariff regulation will be introduced. In this context, the first regulatory semi-period (2020-21) will involve uniform nationwide criteria for assigning costs, with the goal of pursuing regulatory certainty and stability, while the second semi-period will witness the introduction of mechanisms more specifically aimed at making costs more efficient and the service offered more effective. The criteria used in assigning costs are expected to methodologically reflect those used in sectors whose regulations are more advanced, in particular setting out rates of return on capital, defined and updated in line with the market's financial parameters, without losing sight of the risks found in the sector, the tax regime and trends seen in inflation. Arera's orientations point towards a multi-level governance layout similar to the one currently in force for water services and, respecting the prerogatives of the institutional parties involved, meet the systemic goal of promoting an efficient and industrial organisation of the service, in line with the environmental and developmental objectives of a circular economy.

Gas distribution: tariffary framework

2018 was the second-last year of the fourth regulatory period (2014-2019) of the gas distribution and metering tariff system, governed by resolution 775/2016/R/gas.
The tariff system is consistent with the previous year and entitles each distributor to a certain amount of restricted total acknowledged revenues (Vrt), defined by Arera and not dependent on variations in volumes distributed. This result is obtained by specific tariff equalisation mechanisms whereby distributors, through the Energy and environmental services fund (CSEA), adjust the differences between their own permitted revenue and the revenue ensuing from invoicing to sales companies (defined by applying to customers the obligatory tariffs set by the Authority for the various macro-regional areas).
This amount is intended to cover both capital costs and operating costs borne by the managing company. In particular, Arera has established that:

- recognised invested capital (Rab) pertaining to tariffs in year t (2018) includes investments made until year t-1 (2017), and takes into account updated inflation. This capital is then remunerated by applying the rates of return set by the Authority for distribution and metering services, which came to 6.1% and 6.6% respectively for 2018 (resolution 583/2015/R/com). Distributors are furthermore entitled to an amount of tariff amortisation calculated on the basis of the regulatory useful lives;
- recognised operating costs are defined according to certain parameters and differentiated according to the size of the enterprise and customer density, and are updated annually by applying the price cap method (monetarily re-evaluated and adjusted for efficiency by applying an x-factor set by Arera)

Based on these principles, with resolution 177/2018/R/gas the Authority approved the provisional reference tariffs for 2018 (based on an estimate of investments made in 2017), while approval of the definitive reference tariffs, which will take into account investments recorded in 2017, is due to be completed within the first quarter of 2019. Within the consolidated scope of the Hera Group, at 31 December 2018 the companies Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa operate in gas distribution and metering.
In the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2018 is recognized on an accrual basis.
Based on the elements described above, in 2018 revenues in gas distribution and metering for the Hera Group increased slightly over the previous year and amounted to 234.8 million euro. This estimate already includes an anticipation of the definitive reference tariffs and therefore reflects a reasonable estimate of the effects of tariff equalisation. Volumes distributed also rose over the previous year.

Gas distribution and metering - regulated revenues	31 Dec 2018	31 Dec 2017	% Change
Hera Group consolidated			
Revenue (mn€)	234.8	234.3	0.2%
Volumes (mn m^3)	2,994	2,951	1.4%
Average revenue per unit (€cent/m^3)	7.84	7.94	-1.2%

Revenues here refer to a 31 December 2018 Rab coming to roughly 1,086 million euro, pertaining to assets owned by the Hera Group.

Electricity distribution: tariffary framework

No new elements in tariff regulations were seen in 2018, the third year of the so-called Npr1 (2016-2019) and the first of the two semi-periods in which Arera subdivided the fifth regulatory period, governed by resolution 654/2015/R/eel, with which it approved the comprehensive texts for electricity transmission, distribution and metering. The criteria used for tariffs in Nprl1 are largely consistent in their method with regulations in force until 2015, barring a few innovations: the regulatory lag was reduced to one year as regards return on capital, the recovery of investments through tariffs became slower for electricity lines and connections due to their longer useful lives, and lastly investments in commercialisation and low-tension metering were recognised on a unit basis. Operating costs recognised are updated annually by applying the price-cap method, monetarily re-evaluated and adjusted for efficiency by applying an x-factor set by the Authority with the aim of gradually including the production recovery achieved in the third and fourth regulatory period.
The rate of return on invested capital for electricity distribution and metering services came to 5.6%, in line with the regulations introduced by the Tiwacc (resolution 583/2015/R/com), with no change compared to the previous year.

In the context described hereto, for the Hera Group companies concerned (Inrete Distribuzione Energia Spa and AcegasApsAmga Spa), Arera:

- definitively set, with resolutions 150/2018/R/eel and 174/2018/R/eel, the reference tariffs for 2017 distribution and metering (completing them, compared to the provisional tariffs approved the previous year, by including definitive investments recorded for 2016 instead of the estimates priorly stated);
- approved, with resolutions 175/2018/R/eel and 176/2018/R/eel, the temporary reference tariffs for 2018 distribution and metering which are based on the provisionally stated 2017 investments;
- approved, with resolution 76/2019/R/eel, the definitive reference tariffs for 2018, including the effects of investments stated for 2017 and the contributions communicated to the regulator with the latest Rab data collection.

In the context described hereto, the Hera Group's 2018 revenues for electricity transmission, distribution and metering amounted to 93.0 million euro, in line with those seen in 2017. Volumes distributed showed a slight increase. The revenues indicated include the revenue covering the underlying cost of amortisation related to investments made in 2017 and 2018, on an accrual basis.

Electricity distribution, metering and transmission - Regulated revenues	31 Dec 2018	31 Dec 2017	% Change
Hera Group consolidated			
Revenues (mn€)	93.0	92.8	0.2%
Volumes (mn kWh)	3,078	3,046	1.1%
Average revenue per unit (€cent/kWh)	3.02	3.05	-0.8%

Revenues here refer to a Rab for electricity distribution and metering estimated at roughly 374 million euro, predominantly related to assets owned by the Hera Group.

Water cycle: tariffary framework

2018 was the third year of the four-year tariff period Mti-2, defined by the Authority with resolution 664/2015/R/idr. National tariffary regulation of the water system was introduced by the Authority beginning in 2012, with an initial two-year period (2012-2013) consisting of transitory regulations (Mtt), a following, fully functional two-year period (2014-2015; Mti) and a second regulatory period, 2016-2019 (Mti-2). Regulations for 2016-2019 are in line with those for 2014-2015; each operator is assured a revenue (Vincolo ricavi del gestore - Vrg) defined on the basis of the operating (adjustable according to efficiency, and exogenous) and capital costs according to investments made, making revenues independent from changes in volumes distributed; this is ensured by a tariff balancing mechanism that allows operators to recover (in the Vrg for the following two years) the differences between the recognised Vrg and the amount actually invoiced, based on the volumes sold.

Recognised operating costs are subdivided into:

- endogenous costs (for which an efficiency factor has been included);
- exogenous and updatable costs, mainly concerning the cost of electricity and fees.

The former refer to 2011, applying the Foi inflation rate published by Istat; the latter are updated by referring to the appropriate tariffary year and act as a balancing element, to recover any deviations between the figures included within the Vrg and that which was actually sustained and recognised.
Capital costs refer to investments made until two years earlier, and cover the costs of amortisation as well as financial and fiscal charges.

In this financial statement, the revenue covering the underlying cost of amortisation related to investments made as of 2016 is recognized on an accrual basis.
In 2014, furthermore, owing to provisions included in the Authority's tariffary resolution 643/2013/R/idr, the Emilia-Romagna local agency for water and waste services (Atersir) defined the tariff balancing entries relating to periods prior to 2012 and not already considered in the calculation of previous tariffs; those entries are expected to be recovered as of 2015 and will end in 2018.
Revenues from tariffs rose compared to 2017 by 0.6%, as an effect of 2018 tariff adjustments, which also include changes in the scope of operations of AcegasApsAmga deriving from the operational status of the new Servola purifier.

Hera Group consolidated water cycle - revenues from tariffs	31 Dec 2018	31 Dec 2017	% Change
Revenues from tariffs (mm€)	629.4	625.5	0.6%
Volumes (mn m^3)	291	303	-3.8%
Average revenue per unit (€cent/m^3)	216.0	206.6	4.6%

Urban waste: tariffary framework

The service of urban waste management is offered on the basis of conventions established with locally defined Agencies that regulate, in addition to the forms and organisation of the service, the economic aspects of contracts. The sum pertaining to the operator for services offered is defined annually, in line with the provisions of Dpr 158/1999, integrated, beginning in 2013, by regulations concerning first the Tares and then the Tari and Tcp (Tariffa corrispettiva puntuale; unit pricing).

Through the tariffs applied to citizens, single Municipalities (if the Tari is applied) or operators (if the Tcp is applied) purchase resources covering costs sustained in carrying out services in sweeping, collection and disposal; in Tari application, control and payment collecting were assigned to Municipalities who, in some cases, entrusted them to Hera.
Out of respect for the principle of continuity in public services, and according to conventions currently in force, the operator is required to continue offering services in areas in which the deadline for assignment has already passed, until new assignments are made; for expired concessions, the locally defined agencies responsible have already initiated the procedures for new assignments.

At 31 December 2018, urban waste management services were offered in 174 municipalities, 28% of which chose to entrust Tari controls and payment collecting to the Hera Group, with 5% choosing to pass over to the Tcp.

A comparison between the uniform and consolidated data of the Hera Group shows the following figures:

Hera Group consolidated urban waste - revenues from tariffs	31 Dec 2018	31 Dec 2017	% Change
Revenues from tariffs (mn€)	518.0	534.4	-3.1%
Inhabitants served	3,135	3,310	-5.3%
Average revenue per unit (€/inhabitant)	165.2	161.4	2.4%

Revenues regulated by the Sgrua fell by 3.1%, mainly owing to the change in scope of operations concerning 13 Forlì area Municipalities no longer served by Hera Spa as of 1 January 2018.

1.06.02

Trading and procurement policy

-3.5%: gas consumption falls

In 2018, a change of course was seen in natural gas consumption, which went from 74.7 billion m^3 in 2017 to 72.1 billion m^3, showing a 3.5% drop. More specifically, the most significant part of this decrease in gas consumption is due to a fall in demand from thermoelectric plants, which only reached 23.4 billion m^3, with a remarkable -8.1% drop compared to the previous year. This was due to increased production in French nuclear production as of the beginning of the year, which boosted electricity imports, and a sharp rise in hydroelectric production. A modest reduction (-1%) was seen in both large industry and household consumption, which represented 45% of overall gas demand.

An optimised portfolio

Trading operations were oriented on the one hand towards optimizing the portfolio, with a view to balancing short-term positions, and on the other towards negotiating and managing new supply contracts for the 2018/2019 thermal year.

Going into further detail, short-term adjustments, supported by an efficient prediction of upcoming demand, were implemented through purchase or sales agreements at the Virtual exchange point (Psv-Italy), the Virtual trading point (Vtp-Austria), the Title transfer facility (Ttf-Holland) and Net Connect Germany (Ncg-Germany). The conditions for these transactions were generally favourable and allowed objectives in terms of expected economic results to be met.

As of April, Hera Trading initiated gas procurement aimed at both filling the storage capacity purchased by auction, with roughly 0.40 billion m^3, and providing gas destined to the free market for the Group's sales companies for the 2018/19 thermal year, with roughly 1.2 billion m^3, sourcing it directly from the spot and futures markets.

During the month of April, as in the previous year, negotiations also took place for modulated gas intended for the protected market delivery points (so-called Remi) of the Group's sales companies. The total amount reached roughly 1.0 billion m^3 for the 2018/19 thermal year, as per the supply conditions resolved by Arera beginning in October 2013. This negotiation allowed particularly favourable terms to be obtained in terms of both prices and payment conditions.

Electricity consumption showed slight growth in 2018 over the previous year. According to the preliminary data elaborated by the national network transmission company (Terna), the total amount of electricity requested in Italy in 2018 came to 322.2 billion kWh, with a 0.6% increase over 2017.

This increase did not change significantly among the country's various regions.

Domestic generation accounted for 88.5% of the demand seen in 2018, falling by 1.6% compared to 2017 and coming to 280.5 TWh, while the foreign balance settled at 43.9 TWh (+16% over 2017). Renewable sources showed a 6.4% rise, coming to roughly 110.2 TWh and bringing the total amount of consumption accounted for by renewables to 34.2%. This result is due to hydroelectric generation, which increased by 32.1% to 49.6 TWh, while a significant drop was recorded in photovoltaic generation, falling to almost 22.9 TWh (-7.7%). Generation from bio-energy also fell to 15 TWh (-12.2%), while greater stability was seen in wind power (-1.2%; 1.7 TWh) and geothermal generation (-1.3%; 5.7 TWh). Among fossil fuels, a significant drop was seen in electricity generated from coal, coming to 28.8 TWh (-18.1%), while gas-driven thermoelectric generation showed no significant changes (-1.7%; 124 TWh).

Income from thermoelectric plants, in Teverola and Sparanise in particular, remained essentially in line with the previous year, taking into account the lower availability. The main contributions to this result came from Terna's greater usage of the Dispatching services market (Msd).

+0.6%
rise in electricity consumption

A lower amount of generation came from the Teverola and Sparanise power plants in 2018. On 11 August 2017, a fire broke out in Unit 1 of the Sparanise plant, damaging this unit's air intake due to the combustion of shrubs and bushes in the area of land bordering with the plant. Work on repairing the unit involved led it to be re-commissioned on 27 March 2018 and it returned to full production as of 1 April 2018. As regards the Teverola power plant, problems emerged during the "major maintenance" that began on 8 January, which had a notable impact on the time required for the plant to be re-launched. Temporary repairs allowed for production to resume on 15 June 2018. The Ortona plant's performance continues to be problematic, located as it is in an area with scarce demand on the Msd, even though its results improved compared to the previous year.

Electricity trading performance

As regards electricity and environmental certificate trading, an increase in earnings was seen in 2018 compared to 2017. The management/optimisation of Hera Comm Srl's purchasing portfolio, through transactions on the Exchange and on Over the counter (Otc) platforms, was particularly effective.

Commodity and exchange risk management also proved once again to be particularly appropriate, allowing for a unitary and efficient management of price risk, which supported commercial activities in the gas and electricity areas, in compliance with Group policies.

Compliance with MiFID II requirements

EU Directive 201/65/UE MiFID II became effective as of 3 January 2018. This directive increases interactions between the world of finance and commodity markets, extending to energy sector operators a series of obligations typical of financial instruments. In particular, the notion of a financial instrument has been further enlarged to include quotas and derivatives on commodities settled physically even if negotiated in organised trading facilities (Otf). The result is that trading these goods, priorly not regulated, will be subject to the authorisation, governance and capitalisation requirements foreseen by regulations for financial intermediation services.
A few exemptions are however envisaged in the application of regulations on financial intermediation for parties operating on quotas and derivatives on commodities on their own account, or providing other investment services in commodity derivatives or quotas to customers or suppliers of their main activity.
The Group companies falling within the scope of application of these regulations, Hera Trading Srl in particular, have taken measures to adapt, in terms of instruments and procedures, in order to meet the foreseen requirements.

1.06.03
Financial policy and ratings

High market volatility

The end of 2018 was marked by rather volatile fixed-income markets, with interest rates dropping sharply at the beginning of the new year but then quickly recovering ground. The 5-year swap rate reached 0.14% at the beginning of the year, only to rebound to 0.22% and later stabilise at around 0.20%. This volatility was caused by both disappointing macro-data on the eurozone and geopolitical uncertainties (USA shutdown, Brexit, USA-China trade war).

ECB: no change in interest rates

Once quantitative easing had come to an end in December, considering the economic and financial scenario, the Ecb decided, as was expected, to maintain interest rates unchanged and confirmed its forward guidance. As regards unconventional monetary policy measures, the Ecb intends to keep reinvesting, in full, capital payments for maturing securities as part of its asset purchase programme, for a prolonged period of time, beyond the date when it will begin to raise the reference interest rates, and in any case until necessary to maintain favourable liquidity conditions and a considerable amount of monetary accommodation. The increase in rates was however postponed, and will not be seen until late 2019.

Fed: 4 rises in rates over 2018, but a cyclic slowdown expected until 2020

The United States is currently undergoing a peculiar phase: the only large economy not slowing down compared to the cycle seen globally, it is actually at the peak of a growth period. At the same time, however, it is beginning to show signs of deceleration, which is expected to fully emerge in 2019 and 2020. This can also be detected in the Fed's choice of monetary policy which, after the rise in the cost of money reaching 2.25-2.5% seen in 2018, incorporates only one raise in the second quarter of 2019, while it will later enter a phase of stability, accompanying the cyclical slowdown until 2020. Indeed, the market is no longer pricing in a rise in the cost of money for the remainder of 2019, with hypotheses indicating instead a cut in interest rates at roughly the end of the year.

10-year Btp-Bund Spread vs. Hera Spread

Hera's 10-year spread felt the effects of all this, recording an increase, less than proportional to the sovereign spread however, of roughly 42 bps compared to the previous year. The consolidated trust shown by investors and the Group's positive credit standing maintained its spread roughly 112 bps lower than the Btp-Bund spread over the same time period.
The 10-year Btp-Bund spread, a benchmark for measuring the cost of new long-term funding, after almost a full year of regular trends, saw a sharp increase in May, due to political uncertainty in Italy. The upward trend continued during the entire second half of the year, peaking in November at 330 bps. Following approval of the Finance Bill, the spread moved slightly towards previous levels, remaining close to 260.
The state of politics in Italy and the country's economic stagnation also had an impact on the trends seen in the spread concerning the bonds held by Hera in its portfolio. In particular, Hera's 10-year spread felt the repercussions of this scenario and recorded its highest peak in December at 175 bps. Nonetheless, in the eyes of markets and the banking and financial sector, Hera presents a risk that is much more contained than Italy's sovereign risk. Indeed, the consolidated confidence shown by investors and the Group's positive credit standing both confirm that the spread of the bond maturing in 2028 is lower than the 10-year Btp-Bund spread by roughly 98 bps on average.

10Y Btp-Bund spread vs. 10Y Hera spread

Financial risk management strategy

Efficiency and sustainability

The Group constantly pursues a financial management capable of maximising its yield profile while maintaining a cautious risk strategy. The average cost of debt is continually optimised through forms of liability and financial risk management aimed at seizing favourable market opportunities.

Eib financing for the waste cycle

In January, the Group completed a € 110 million financing contract with the European investment bank (Eib) aimed at sustaining the investment programme for 2017-2021 involving projects related to the waste cycle sector. More specifically, the credit line will be used to further improve the performances seen in waste management services, in particular increasing the percentage of sorted waste indicated in the regional objectives of the areas served, to additionally increase the efficiency of the operating processes involved in waste treatment, recycling and recovery, and to improve sustainability standards in plants.
To support liquidity risk indicators and optimise the costs/convenience of funding, the Group has obtained committed credit lines amounting to 300 million euro. In May, 200 million euro in committed lines were renegotiated with a new sustainable revolving credit line for an equal amount but with a postponed maturity date (2023), thus bringing the average date to maturity to over 4 years. The new credit line, named "Esg Linked RCF Facility", introduces elements of sustainability through incentives based on meeting specific environmental, social and governance (Environmental social governance, hereinafter Esg) targets. For this purpose, a number of Esg performance measures were defined, thanks to which the Group will be able to benefit over time from more favourable rates.
In December, 350 million euro in medium-long term credit lines were stipulated in order to refinance the debt maturing at the end of 2019, thus allowing the Group to define a favourable spread scenario within a highly volatile market context, also in light of the high credit risk linked to the spread to which it is potentially exposed.

A list is provided hereunder of the policies and principles involved in financial risk management and control, including liquidity risk with the related default risk and debt covenants, interest rate risk, exchange rate risk and rating risk.

Liquidity risk

Proactive liquidity management

The Group attempts to match the maturities of its assets and liabilities, linking its investments to sources of funds that are consistent in terms of maturity and manner of repayment, taking into account the refinancing requirements of its current debt structure.
Liquidity risk refers to a company's potential failure to meet its financial obligations, due to an inability to obtain new funds or sell assets on the market.
The Group's objective is to ensure such a level of liquidity as to make it possible to meet its contractual obligations under both normal and critical conditions by maintaining available credit lines, liquidity and a timely start of negotiations on maturing loans, optimizing the cost of funding on the basis of current and future market conditions.

The table below shows the 'worst case scenario', where no consideration is given to assets (cash, trade receivables etc.) and emphasis is placed on financial liabilities, in their principal and interest, trade payables and interest rate derivatives. All demand loans are called in while other loans mature on the date when repayment can be demanded.

Adequate liquidity for a worst case scenario

Worst case scenario	31 Dec 18			31 Dec 17		
(mn€)	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years
Bonds	38	471	70	38	76	471
Debts and other financial liabilities	78	65	63	191	63	59
Trade payables	1,360	0	0	1,396	0	0
Total	**1,477**	**536**	**133**	**1,625**	**139**	**530**

Average term to maturity: 7 years, with 64% maturing after over 5 years

In order to guarantee sufficient liquidity to meet every financial obligation for at least the next two years (the time limit of the worst case scenario shown above), at 31 December 2018 the Group had 535 million euro in liquidity, 300 million euro in unused committed lines of credit, 350 million euro in medium-long term lines of credit stipulated in December, of which 100 million euro used, and a substantial amount that can be drawn down under uncommitted lines of credit (roughly 686.5 million euro).
The lines of credit and the corresponding financial assets are not concentrated on a specific lender, but distributed among major Italian and foreign banks, with a usage much lower than the total available.

The Group's financial structure is both solid and well-balanced in terms of its composition and time to maturity, bringing liquidity risk to a minimum even in the event of particularly critical scenarios.

The amount of debt maturing within the year comes to 15.5% and the amount of long-term debt comes to roughly 84.5% of total financial debt, of which approximately 77% consists in bonds with repayment at maturity. The average term to maturity is approximately 7 years, of which 64% maturing beyond 5 years.

The table below shows cash outflows broken down by annual maturity, within and beyond five years.

Debt nominal flow mn€ (*)	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22	31 Dec 23	Over 5 years	Total
Bonds	395	0	290	0	68	1,867	2,620
Bank debt / due to others	132	53	156	59	58	309	766
Total	**526**	**53**	**446**	**59**	**126**	**2,176**	**3,386**

* Rolling year with respect to the date of the financial statements

Default risk and debt covenants

No financial covenants

This risk is related to the possibility that loan agreements entered into contain clauses whereby the lender may demand accelerated repayment of the loan if and when certain events occur, thus giving rise to a potential liquidity risk.
At 31 December 2018, a significant portion of the Group's net borrowings was covered by loan agreements containing a number of clauses, in line with international practices, that place some restrictions. The main clauses guarantee equal treatment of all debt holders with respect to the company's other non-guaranteed debts (pari passu) and a commitment towards bondholders preventing it from granting to subsequent lenders, with the same seniority status, better security and/or liens on its assets (negative pledge).
As to acceleration clauses, there are no financial covenants on debt except a corporate rating limit, specifying that no amount of debt coming to roughly 150 million euro can be rated below investment grade (BBB-) by even one rating agency.

Change of control & investment grade

On the remainder of the debt, the acceleration clause is triggered only in case of a significant change of control of the Group, a withdrawal of concession event or a sale of assets event that entails a downgrading to non-investment grade, or lower, i.e. the termination of the publication of the rating.

Interest rate risk

A model of active and prudential interest rate risk management

The Group uses external funding sources in the form of medium- to long-term financial debt and various types of short-term credit lines, and invests its available cash primarily in immediately realizable highly liquid money market instruments. Changes in market interest rates affect both the financial costs associated with different technical types of financing and the revenue from different types of liquidity investment, thus impacting the Group's cash flows and net financial charges.
The Group's financial policy has been designed to identify an optimal mix of fixed- and floating-rate funding, in line with a prudential approach to interest rate risk management. The latter aims to stabilize cash flows, so as to maintain the margins and certainty of cash flows deriving from its characteristic management.
Interest rate risk management entails, from time to time and depending on market conditions, a specific combination of fixed-rate and floating-rate financial instruments as well as derivative products.
The Group's exposure to interest rate risk, including the effect of derivatives, comes to 15% of total borrowings, while the remaining 85% is at fixed rates.

The Group applies an approach to financial management based on risk mitigation, adopting a risk hedging policy that leaves no room for the use of derivatives for speculative purposes, derivatives being a perfect hedge of the underlying debt instruments.

85% of debt at fixed rates

Gross borrowings (*)	31 Dec 18			31 Dec 17		
(mn€)	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
Fixed rate	2,808	2,824	85%	2,692	2,714	86%
Floating rate	508	491	15%	454	431	14%
Total	**3,316**	**3,316**	**100%**	**3,146**	**3,146**	**100%**

* Gross borrowings: does not include cash and cash equivalents, other current and non-current financial receivables

Exchange risk unrelated to commodity risk

The Group adopts a prudential approach towards exposure to currency risk, in which all currency positions are netted or hedged using derivative instruments (cross-currency swaps). The Group currently has a bond outstanding for 20 billion Japanese yen, fully hedged by a cross currency swap.

Ratings

Ratings confirm the strong points built up by the Group over time: positive outlook from S&P

Hera Spa has been given a long-term 'Baa1 negative outlook' by Moody's and a 'BBB positive outlook' by Standard & Poor's (S&P).
On 13 March 2018, as part of its annual review, S&P improved the Group's outlook from stable to positive, with no change in long- and short-term creditworthiness, defined as BBB/A-2.
S&P noted that the Group's good prospects for growth, confirmed by the expectations of its latest business plan, could allow it to stably improve its rating, as long as Group management maintains its growth strategy, improvements in cash flow and a well-disciplined policy in remunerating shareholders.

Moody's rating one notch above the sovereign rating

In October the rating given to Hera by Moody's went from 'Baa1 negative outlook' to 'Baa2 stable outlook', following the downgrade in Italy's rating. This is because, even though the Group's creditworthiness indicators are in line with the credit metrics required by this agency to maintain a Baa1 level, the Group cannot have a rating two notches above the sovereign rating.
The Group's risk profile has been positively evaluated by Moody's, in terms of the solidity and good balance of the portfolio of businesses managed, as well as the Group's good operating performance, its lack of liquidity risk and its resilient creditworthiness indicators, thus maintaining its rating higher than the sovereign rating. And yet, the Group's rating is closely related to Italy's since the majority of its Ebitda derives from domestic business and is thus exposed to the country's macroeconomic trends and its political scenario.
Given the current context and the prolonged uncertainty as to the prospect of sovereign risk, the Group's actions and strategies are always particularly prudent and aimed at guaranteeing that adequate ratings are maintained and improved.

1.07
Sustainability Results

Once again this year the Group confirms its commitment to informing stakeholders about the results it has achieved in terms of sustainability by preparing the sustainability report, available at bs.gruppohera.it in the section "social responsibility", which represents the consolidated non-financial statement of the Hera Group prepared in compliance with Legislative Decree no. 254/16 and which constitutes a report separate from this management report, as required by article 5 paragraph 3, letter b) of Legislative Decree 254/16.
The sustainability report also includes indicators on and information about the environment, personnel and research and development activities.
The following is a summary of the main results outlined in the 2018 sustainability report.

Over the course of 2018 the Group made further improvements in relation to social and environmental sustainability, both in terms of the results it achieved and the number of initiatives and projects it launched, and in terms of measuring sustainability and communicating about it with the public. With regard to the latter, two elements have enhanced the Group's accountability profile:

- the publication of a new issue-specific sustainability report (the 5th, after those dedicated to energy, water, waste, and quality of service) focused on goal 17 of the UN Agenda and therefore on the initiatives Hera uses to engage, involve and collaborate with local communities in order to generate tangible and measurable environmental and/or social outcomes for the local area;
- the introduction of "local views" in the 2018 Sustainability Report (already built in 2016 and thus two years earlier than required by GRI standards) with new pages dedicated to presenting the results for each area served.

The 2018 Sustainability Report consolidates the innovative form of content representation introduced in 2017, focused on creating shared value (CSV), following the Group's strategic approach inspired by the suggestions put forward by Porter and Kramer. The results achieved and objectives set for the future thus continue to be accompanied by a summary of the scenario surrounding the three drivers identified for the creation of shared value: (i) the intelligent use of energy, (ii) the efficient use of resources, (iii) innovation and contributing to the development of the local area. These points thus represent Hera's positioning and response to the major environmental and socio-economic challenges that characterise future development. The three CSV drivers are also the focus of three chapters in the 2018 financial statement, which represent the most significant part of the report.
One of the strengths of innovative CSV reporting is the quantification of "shared value" EBITDA, that is, the share of gross operating margin that derives from business activities designed to meet the objectives of the global agenda, namely those calls to action proposing a shift towards sustainable growth laid out in more than 60 policies at the global (including the UN agenda), European, national and local levels, proposals that Hera has carefully analysed and summarized in the three drivers mentioned above. In 2018, this shared-value EBITDA amounted to 375.2 million euro, up 14% from the previous year and accounting for 36% of the total. This result is thus in line with the trajectory laid out by the 2018-2022 business plan, designed to ensure that by 2022 approximately 40% of EBITDA

stems from business activities that match the priorities of the global sustainability agenda pertaining to the Group's activities.
In keeping with this perspective, in 2018 as well the Hera Group actively participated in the activities of the CE100 programme organized by the Ellen MacArthur Foundation, the network of companies most globally committed to transitioning to a circular economy. Of particular note is the Group's participation in the New Plastics Economy Global Commitment, pursued by explicitly including specific targets for increasing plastics collection and recycling by 2025 and drafting the first report as part of the Cities and Circular Economy for Food systemic initiative, which identifies Ferrara as an example of best practices for technological innovation in support of the development of sorted waste collection.

Smart use of energy: a 4.4% reduction in energy consumption; 15% of customers with energy efficiency services; carbon footprint down 16%

The ISO 50001 measures developed by Hera Spa, AcegasApsAmga Spa and Marche Multiservizi Spa (incorporated into the energy improvement plan) and already implemented have enabled us to reduce energy consumption by about 10,300 Tep, equalling a 4.4% decrease from 2013 levels. The improvement plan lays out further energy efficiency steps (of approximately 2,000 Tep) that will bring about an overall reduction of 5.3% as compared to energy consumption in 2013, thus exceeding the 5% target set for 2020.
Numerous energy efficiency measures are also carried out with customer/partner companies, to which the Group offers its know-how: in 2017, 27 new agreements were signed with sector associations and local companies effective in late 2018. Initiatives to promote energy efficiency among residential customers include commercial offers such as Hera LED, Hera thermo and Hera ContaWatt, in addition to our consumption analysis report, a free service that Hera makes available to its gas, electricity and district heating customers making it possible for the customer to compare their energy consumption with those of a similar family. At the end of 2018, almost 15% of customers are taking advantage of Hera Comm's energy efficiency services.
Moreover, Hera spa's activities in relation to the GSE for the purposes of obtaining white certificates are another example of moves in this direction: there were 10 new energy efficiency initiatives with final results presented in 2018. Of these, 5 are "behavioural measures" that promote the spread of informed and virtuous behaviours towards energy consumption, an area which represents a current and future field of analysis and development for the Group.
In confirmation of the Group's commitment to the intelligent use of energy, the contents of the dedicated sustainability report "Valore all'energia" or "Granting value to energy" published beginning in 2015 and verified by a third party, were expanded in 2018: in addition to reporting objectives and results in the field of energy efficiency, it now also includes Group activities and initiatives aimed at reducing CO2 emissions. The choice to purchase 100% renewable electricity to power the business activities of Hera Spa, AcegasApsAmga and Marche Multiservizi is part of this commitment, as is the launch of biomethane production from the organic component of waste being carried out in the Sant'Agata biorefinery in the province of Bologna, along with the production of 600 GWh of renewable energy and the 16% reduction in the carbon footprint of energy production as compared to 2015. The total tonnes of greenhouse gas emission avoided thanks to the Group's initiatives can be estimated at 1.8 million.

Efficient use of resources: 62.5% sorted waste collection; 70% recycling rate for packaging; Servola (TS) purification plant now fully operational

During 2018 there was a further increase in sorted waste collection, bringing the level up to 62.5% (Italian 2017 average: 55.5%) and a simultaneous reduction in the use of landfills for the disposal of municipal waste, down 4.5% (Italian 2017 average: 26%). Concerning this aspect, Hera is nearly 20 years ahead of the EU target on circular economy and is ranked with the best-performing European countries. The commitment to improving sorted waste collection has also been extended to areas which are less quantitatively significant but nevertheless important from the point of view of environmental sustainability: roadside containers for the collection of vegetable oils almost doubled in 2018, bringing the amount collected to 850 tonnes. In this vein, in November 2018 an agreement was signed for the recovery of the oil collected by Hera, an agreement that involves their being converted into biodiesel which, in turn, will be used to fuel part of the waste collection vehicle fleet.
In November of last year Hera issued the 7th edition of the "Tracing waste" report, certified by DNV-GL, thereby providing citizens with factual evidence that materials are being recovered from sorted collection, which totals 94.6%. The report includes the positioning of the area served by Hera with respect to the recycling targets recently updated by the EU as part of the circular economy package: the overall rate of recycling, within which Hera with its rate of 48% occupies a good position in relation to the target of 55% set for 2025, and the recycling rate for packaging, where the Group's rate of 70%

is already better than the target set for 2030. In terms of waste prevention, the Group has worked on numerous projects in partnership with over 50 local non-profit organisations to recover medicines that have not yet expired and are still in good condition, as well as food that is still edible. In 2018 alone, as part of these projects, not-yet-expired pharmaceuticals worth 550,000 euro were recovered while 580 tonnes of discarded bulky goods were reused and 11,000 meals were salvaged.
On the industrial waste front, there was an increase in the proportion of waste recovered by HASI, bringing it to 41.6% in 2018, and in the recycled plastic products sold by Aliplast, which exceeded 84 thousand tonnes in 2018 (up 4% as compared to 2017).
In 2018 as well the Group continued with its deep commitment to the sustainability of the sewage-purification sector. The main actions were focused on Rimini (7 interventions carried out, of the 14 comprising the recovery plan, supplemented by additional interventions aimed at mitigating hydraulic risk) and upgrading the Servola water treatment plant in Trieste (fully operational since June 2018). Furthermore, the Group continued its multi-annual adaptation of urban centres with more than 2,000 inhabitants: by the end of 2018, 95% of centres were judged up to date (100% in Emilia-Romagna).

Innovation and contributing to local sustainable development: 62.4 million euro invested in innovation and digitization; 1.9 billion euro of economic value dispensed to the local are; local suppliers accounting for 69% of the value

The Group achieved significant results in 2018 in the CSV areas of local economic and employment development, innovation and digitization, and the protection of air and soil.
The total economic value distributed to the local area amounted to 1,913 million euro, equal to 78% of the total economic value, marking a rise of 4% as compared to 2017. The share distributed to local providers amounted to 69% and totalled 632 million (up 7% from last year), while the estimated employment spin-off equals about 8,100 people, all data which confirms the Group's primary role in local-area development. With regard to employment opportunities, one result of note is the employment of disadvantaged individuals (numbering 816), which further increased this year and was linked to supplies from social cooperatives amounting to 62.2 million euro in 2018.
In the field of innovation, investments amounted to approximately 62.4 million euro dedicated to projects in four areas: smart city, circular economy, utility 4.0 and customer experience. Among these, smart city results of note include smart sorted waste collection and recycling areas, monitoring of environmental quality, a sustainability analysis and monitoring dashboard for Municipalities, and energy maps. Other developments worth noting are Hera's circular economy projects, aimed at recovering materials or energy from sewage sludge, reusing water on its way out of purifiers and the 2.0 Biorefinery project to produce biomethane from yard waste and agricultural by-products. Another 2018 initiative in the circular economy field involved establishing partnership projects with Bio-on aimed at producing biodegradable plastic from organic components of waste, CO2 and hydrogen.
As regards digitization, in addition to numerous projects aimed at further optimizing operating processes in part through cutting-edge data analysis tools with a view to the improved security and continuity of services, the quality of work and internal efficiency, in 2018 the Group continued its efforts to develop digital channels for communicating with customers. After the launch of the apps Acquologo and Rifiutologo (which have a total of 300 thousand active users and more than 39 thousand visual reports being sent in by citizens, up 31% from 2017), in 2018 the new MyHera app dedicated to residential customers reached 100 thousand downloads. The digitization of customer relations is also characterised by a constant rise in the procedures managed via internet: customers registering for online Services rose to 20.7% in 2018, whereas applications for electronic billing rose to 23.7%. in 2018 the Group's engagement on this front, together with its attention to local communities, manifested in the second edition of its campaign to promote electronic billing, called "Digi e Lode", allocating a further 100 thousand euro in financial incentives for the digitalization of local schools.
As far as air protection is concerned, the Group's 10 waste-to-energy plants once again had positive results in terms of environmental performance, again in 2018 recording levels of atmospheric emissions that were very low and averaged 86% lower than legal limits; the same was true of the Imola cogeneration plant, with average PM10 concentrations 98% lower than legal limits. Fleet modernization also continues: vehicles powered by fuel with a lower environmental impact now account for 22.8%. Finally, as regards soil protection, it should be noted that the projects designed by HeraTech in 2018 involved land reuse totalling 68% of the total area.

The results achieved in terms of shared value generated by Hera complement results relating to the following areas, which round out the Group's social responsibility and sustainability profile.

- Thanks to awareness-raising programs and the adoption of the OHSAS 18001 certification, which covers 87% of the Group's workers, in 2018 the injury frequency index dropped further, to 15.7 (it was 17.1 in 2017). The reduction also holds true even if the analysis is limited to the population of manual workers. In 2018, the Hextra welfare system was used by workers in the amount of 4.2 million euro (up 27% as compared to 2017); the number of workers who signed up for it is now 98.5%. Training levels remained high: in 2018, an average of nearly 30 training hours were provided per capita (up from nearly 29 the year before). The proportion of sustainability objectives increased as part of the balanced scorecard system associated with the incentive scheme covering all Hera management: in 2018, 30% of the variable remuneration paid to Group executives and middle-managers was linked to sustainability projects, with sustainability projects aimed at creating shared value having a weight of 17%.

- Hera Comm's customer contact quality standards stayed high again in 2018: the average waiting time at the call center equalled 36 seconds for residential and 31 seconds for business customers. The average waiting time at branches was 9.6 minutes in 2018, with a reduction in all local areas and the most significant reduction in the Triveneto area. The 2018 survey on the quality of the services provided by the Group (more than 6,500 interviews conducted with residential customers) recorded a customer satisfaction rate that is quite high (71/100) and has improved from the previous year.
- In 2018, when selecting its suppliers, the Group prioritized the most profitable bid method in 94% of public calls for tenders and in 73% of overall assignments (in terms of value). In both cases, the average score for social and environmental aspects amounted to 32/100. Hera's monitoring of suppliers focused on their social responsibility in relation to workers continued in 2018 as well, along with its monitoring of the accident rate of its main suppliers (those involved accounted for 75% of the value of the most pertinent services and works in terms of workplace safety).
- As part of dialogue with the local community, in 2018 the new HeraLAB model was launched in Ferrara and Ravenna, a tool that Hera makes available to the local areas in which it operates to open a structured channel of listening and dialogue with local communities. Each LAB is made up of 12 local stakeholder representatives appointed by the Hera Board of Directors. The LABs met 5 times during 2018, co-designing together with Hera 12 local initiatives that will be implemented in the 2019-2020 two-year period.
- Finally, in 2018 Hera was once again at the forefront in adopting "sustainable" financial instruments. After having launched the first Italian green bond in 2014, in May of last year Hera signed a new 200 million euro credit line called "ESG Linked RCF Facility" which introduces elements of sustainability through a reward mechanism linked to the achievement of specific environmental, social and governance goals. The indicators have been pinpointed in two CSV areas (intelligent use of energy and efficient use of resources), the areas required by the GRI Standards contained in the sustainability report and subjected to external verification.

1.08
Information systems

Standardization of systems in other companies

As part of the extension of Group information systems to new companies (IT harmonization), the multi-year plan for AcegasApsAmga Spa has now been completed. In fact, the gas distribution and geo-business intelligence systems have been rolled out. For the Marche Multiservizi Spa company, feasibility studies were completed for adopting the systems related to the integrated water service and gas distribution, including remote reading and remote meter management systems; implementation activities started in December 2018 and are expected to be completed at the beginning of 2020.

Regulatory adjustment

During the year, numerous project initiatives were developed and implemented to adapt Hera Group systems to current regulations. The main ones include the power contribution (resolution 786/16), the TARI for the collections management by Municipalities (Legislative Decree 225), free-price offers under equivalent conditions of protection (resolution 555/17), improving the performance of the natural gas measurement service (resolution 522/17), revising the structure of the general charges associated with the electricity system (resolutions 923/17, 922/17, 921/17, and 867/17), managing the termination of electricity contracts (resolution 783/17) and switching gas reform (resolution 77/18).

Efficiency and supporting business

Developments in terms of the efficiency of processes and supporting business continue to be made. The most significant initiatives are: the end-to-end rationalization and digitization of Heratech Srl processes; the renewal of the treasury platform to ensure more efficient management of administrative and financial processes; new commercial offers for district heating services; the new platform for managing the assignment, implementation and finalization of emergency work on networks and facilities; the introduction of a new tool for managing settlement aimed at reconciling active and passive cycles; and the setting up of virtual account, a virtual IBAN that uniquely identifies each end customer, to make bank transfer payment processes more efficient and simplify reconciliation. In the last quarter of the year, a digital workplace pilot project was launched, aimed at evolving workstations with a view to increasing efficiency, full cooperation and internal sharing in compliance with safety requirements.

Updating information systems

As part of the process of continuous technological innovation and improving the performance of the Group's information systems, various platforms were upgraded. Most significantly, the technological overhaul of the entire Group infrastructure in the main Imola data centre as well as the secondary data centre for disaster recovery, both managed by Acantho Spa, was completed.

Information system safety

Our commitment to preventing and monitoring potential cyber attacks is ongoing, through a periodic vulnerability assessment of the network and web application penetration tests for every planned introduction of a new system/service that renders data vulnerable on the internet. Since January 2018, a security operational centre service has been activated to monitor the security events produced by Hera applications and systems with a view to detecting any attacks, attempted attacks or anomalies in terms of cybersecurity.

Quality certification and Auditing

A third party audit (BVI certification body) was successfully performed in April to renew the certification of the Group's ISO standards. The inspection encompassed all the processes within the Information Systems Department's remit. Furthermore, the same department was subject to an in-depth audit carried out by the Internal Auditing division, focused on the activities carried out in the 2015 - 2017 three-year period. The final report did not find any high impact and/or probability risks. It instead assessed some medium-impact and/or probability risks, and measures to improve these risk areas were initiated.

1.09
Personnel structure

Human resources

Hera Group's employees with open-ended contracts as of 31 December 2018 numbered 8,622 (consolidated scope) and are distributed by role as: executive managers (149), middle managers (536), office clerks (4,648), and workers (3,289). For 2018, this structure ensues from 438 entries and 450 exits as well as changes in the company scope that led to a reduction in the amount of 49 fewer units (with the environmental services branch of Forlì going to Alea Ambiente Spa and Medea Spa; and the integration of Blu Ranton Srl and Megas Net Spa). Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

Organisation

Industrial and operational integration The Hera model

The Hera model stands out in the multi-utility industry for implementing industrial and operational integration under one leading holding company, through central departments tasked with setting guidelines and carrying out checks, which ensures an overall governance for the Group.
The management of business units is entrusted to the individual departments and companies that are under the control of Hera's top management and, as far as energy, integrated water services and environmental services are concerned, are coordinated by the General Operations department.

The utility sector is increasingly characterized by rapid changes, with competitive dynamics and a specialty-oriented regulatory setting, as well as certain key elements of change in terms of sector legislation (water and environmental services), service allocation tenders and regional regulations. In short, it is a field in which growth depends on the ability of enterprises to continually introduce innovations in both free-market activities and industrial processes, taking advantage of synergies associated with economies of scale and ensuring the maximum efficiency of services.

Innovation and streamlining of operating processes to enhance agility

In response to this competitive context and in line with the Group's strategic guidelines, organizational development initiatives were developed in 2018 that further consolidated our model through measures aimed at simplifying and streamlining processes, identifying possible opportunities for synergy, and continuously pursuing agility and service excellence.

In particular, beginning in the third quarter of 2018, the Hera Group has further developed its organizational agility model by prioritizing measures to simplify organizational branches, redesigning processes with a view to favouring internal cooperation and consequently valorising people and professional roles in the sense of approaching all company processes with a view to greater growth, in part by investing in fostering the conditions for continuous learning. This approach is interpreted as a strategic lever for making Hera more and more reactive in tackling the changes underway in the competitive context, technology, and the regulatory framework and in guaranteeing enhanced adaptability and ever-faster response times. The objective is thus to add qualities of speed and adaptability while ensuring stability, thereby creating an invaluable source of competitive advantage in today's volatile, uncertain, complex and ambiguous conditions.

Main developments in the General Operations Department

In detail, beginning July 1st 2018 an organizational evolution was implemented leading to the further rationalization of the Heratech Srl organizational model through the simplification of the company's fundamental organization and by bringing all activities related to the design, budgeting and construction of electrical energy facilities together within Inrete Distribuzione Energia S.p.A.
With regard to Inrete Distribuzione Energia S.p.A., with effect July 1st 2018, the company's fundamental organization was rationalized by further specializing of distribution activities by business branch (gas and electricity) and by focusing standardization activities, project development, and metering and remote management within one single transversal organizational area.
With effect beginning January 1st 2018, Atersir assigned the integrated urban waste management service in the Forlì-Cesena province basin area, managed by Hera Spa, to Alea Ambiente Spa according to a procedure of in-house providing.

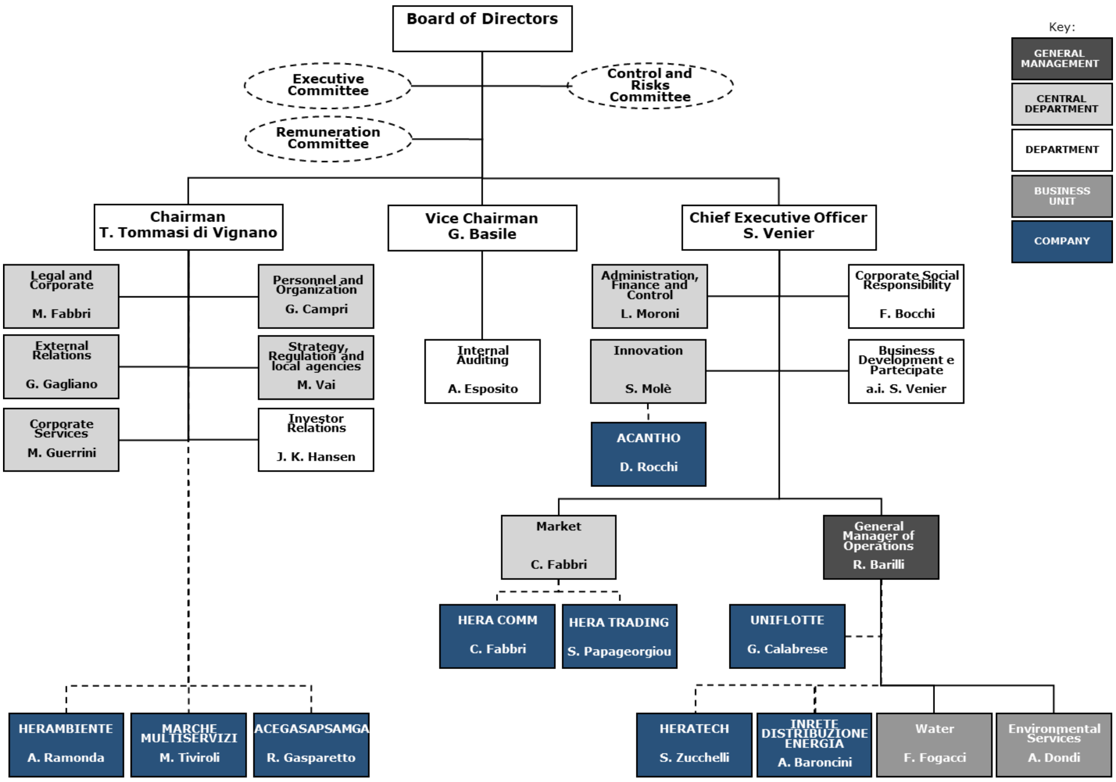
Main developments in the Herambiente Group

During 2018, the organizational model of the Industry Market Department of Herambiente S.p.A. was modified by integrating Waste Recycling S.p.A. activities and business processes within Herambiente Servizi Industriali Srl. The rationale behind this reorganization was to further focus the commercial structures on the basis of the market segments served, with a view to improving the overall customer experience.
At the same time, in order to enhance the overall effectiveness and efficiency of the processes being managed and simplify relations with Herambiente S.p.A. top management, an important evolutionary step was taken in relation to staff functions that led to phasing out the Operational Services division and relocating its associated activities and human resources to Herambiente S.p.A.

Main developments in the Market Central Department

In particular, the changes involved placing the Quality, Safety and Environment division as part of the Managing Director staff, and bringing the Homologation business unit into the Authorization and Environmental Monitoring division and the Waste Acceptance business unit into the Logistics division.

Hera - organizational macrostructure



As regards the Central Market Department, the following changes of note occurred:

- with effect beginning October 1st 2018, the merger by incorporation of Amga Energia & Servizi Srl into Hera Comm Srl with the associated organizational integration, and the creation of the Clienti Friuli Venezia Giulia and Vendita Friuli Venezia Giulia structures dedicated to managing commercial activities in these specific territories;
- with effect beginning January 1st 2019, the revision of the fundamental organizational structure of Hera Comm Srl by phasing out the Commercial and Marketing Department and Customer Experience Management Department and establishing the new General Management department.

Main developments in Central Bodies

In terms of Central Bodies, the following developments are worth mentioning:

- with effect beginning November 1st 2018, the simplification of the organizational structure of the Administration Department by integrating and consolidating the Taxation and Key Accounts Consolidated Financial Statements and IFRS Principles into a single new business unit, with a view to agility and the pursuit of possible operational synergies;
- with effect beginning December 1st 2018, the organizational revamping of the External Relations Central Department geared towards agility and logics of simplification. This move is meant to ensure, on one hand, the effective monitoring of core processes and, on the other hand, the maintenance of a locally tailored perspective through the identification of media contacts in each of the various territorial areas served.

With regard to the Innovation Central Department, with effect beginning August 2018 the Development division was reorganized with the aim of strengthening the focus on core technology scouting processes and project definition and development, as well as accelerating the company's development on data analytics and digital innovation issues.

The committees: Management and Business Review

In addition to the internal committees, appointed directly by the Board to perform an advisory and proactive role in specific areas of expertise, the Group's management provides for two collegial committees:

- Management Review, which deals with examining and sharing corporate policies, strategies, goals and operational planning group-wide, as well as with fostering integration between corporate entities.
- Business Review, whose duty is to report on periodic operating performance to each of the corporate business areas, and to assess the progress of specific budget unit actions set forth under the budget and business plans.

1.10
Risk and uncertainty factors

The Group's approach to risk management

As part of the overall framework of risk management, Hera has adopted the Enterprise Risk Management (ERM)best practice in order to establish a systematic, consistent approach to risk control and management, and to create an effective guidance, monitoring and representation model, aiming to the adequacy of management processes and to their consistency with the final administration targets.
This approach has been endorsed with the Board of Directors' approval of the Group risk management policy, which defines the group's stance on risk issues and identifies its risk management framework; this is detailed through

- the Risk Model, identifying the reference scope for all risk management analysis carried out by the Group
- the Group's risk appetite, which defines acceptable risk levels consistently with a given risk management strategy, through the identification of key risk scales, risk metrics and their associated limitations
- risk management activities, classified as Enterprise Risk Management, aimed at examining the evolution of the Group's overall risk profile, developing mitigation strategies and monitoring their implementation, which for specific risks requires a persistent sector-specific approach entrusted to dedicated risk Specialists / risk Owners as part of the specific risk policies in question.

Following approval by the Board of Directors through the Group's Risk Management Policy, risk management strategies then translate into specific operational guidelines and into analysis, monitoring and control by the Risk Committee. For more information on the bodies involved in the corporate governance of risks in the Hera Group, please refer to the corporate governance report.

Risk type and applicable management
Hera's operational business risks, managed under ERM, are summarized in the following risk drivers, based on the Risk Model adopted by the Hera Group:

Internal Risks
Classified into various risk categories - operational, organizational, ICT - these specifically relate to the running of services that employ human, technological and environmental resources and which can cause service disruption, delays in building new facilities or in delivering services, fraud, intrusion, accidents and disasters. Such risks, which emerge group-wide and cover several activities, are controlled and managed by specialized teams. Major risks concern work safety, facility/site compliance with environmental regulations, as well as ICT risks (especially those affecting logical information, the safety of the communication network and information systems, and remote control system reliability; all of these are necessary to ensure adequate levels of customer service and operational security in all of the Hera fluid and electricity distribution networks). Their management is planned according to the specific areas in which operational risks emerge. Generally, pro-active investments aiming at a lower frequency of harmful events and at measures to curb their severity play a significant role.

Risks associated with environmental impact regulations
The Group manages to tackle environmental hazards by constantly monitoring potential pollution factors (also ensuring transparency in the surveys), as well as through substantial investments in sewage and reclamation plants that ensure water quality in compliance with the norms established by law.

Risks associated with regulations on workers' health and safety
On-the-job injury risk has seen a steady reduction in accident rates, owing to measures promoting better monitoring as well as to the enhancement of protection and prevention practices.

Risks associated with logical and physical safety
Actions continue to be carried out to ensure that the information managed by the Group is available, intact and confidential. The Group continues to engage in interventions to ensure the integrity and availability of Hera systems and assets more generally, aimed at ensuring an adequate risk profile.

Risks associated with service disruption
To manage these risks, the Group makes significant investments to ensure the effectiveness and efficiency of the distribution system and carried out constant monitoring and maintenance of networks in order to guarantee the safety, quality and continuity of services even in the event of a temporary breakdown in one or more distribution lines. To safeguard business continuity, the Disaster Recovery

and Business Continuity project is now fully operational in the ICT sector to provide technology infrastructure hosting at a secondary site.
More generally, in matters of operational risk management Hera has also resorted to external risk transfer, through optimal insurance coverage supplied by leading international insurance companies.

Strategic Risks
Such risks are associated with long-term planning, with the group's financial sustainability, with the involvement in strategic initiatives and with appropriate investment decisions. They involve Hera Group as a whole and affect the soundness of strategic planning. Hera has developed a well-organised strategic risk analysis model designed to gauge the soundness of the assumptions underlying the business plan against a variety of adverse risk scenarios (the macroeconomic scenario, competitive context, and internal levers, thereby also enabling the analysis of relevant external and internal risks), which supports an integrated risk projection from an enterprise-wide viewpoint.

External Risks
Risks that include a broad spectrum of variables; these are analysed by type below.

Competitive-regulatory risks
These involve rate and market structure adjustments set forth by industry authorities and lawmakers, government incentives on renewables and industry laws, regulated businesses linked to local and national authority concessions, and failure to obtain authorizations, permits and licenses. They also ensue from the impact of macroeconomic changes, from market structure and liberalization, and from demand/supply evolution in the energy and environment industry, with all the potential impact these factors may have on the group's business.
With regard to the macro-economic scenario and the market components, risks affect mainly electricity and gas sales (resulting from competitive dynamics and an evolution of demand) and waste disposal, whose volumes depend on the variability of the economic cycle. To mitigate the risk, the Group has faced the liberalization challenge through an innovative, timely commercial offer, and by increasing its presence and customer base in the open market through cross selling. The Group has also gradually increased customer management proactivity, meeting customer expectations in terms of service quality.

To adequately address the macroeconomic risk impacting on energy consumption and on the volumes of disposed waste, the Group has maintained flexibility in the energy supply sources, at the same time as developing hedging activities to minimize exposure to operating risks from electric generation (not among the Group's core activities) and to long-term gas supply contracting ("Take or Pay" provisions). As to waste disposal, some older systems have been replaced with state-of-the-art plants with more efficient and high-performing technology, also in terms of environmental impact.
With reference to regulations, competitive and regulatory risks arise when creating or altering the economic, organizational and IT requirements to be met by Hera; such risks stem from potential market structure changes induced by them. They have an impact on the network business (water, gas and electricity supply), where regulatory risks ensue from the Authority's definitions of rate processing and market criteria (electricity and gas sale). To address these risks, there is a Group structure that liaises with national and local authorities, carries out extensive consultation with institutional stakeholders, actively partakes in working groups established by authorities and adopts a transparent, co-operative, proactive approach towards regulatory instability.
With regard to waste collection, electricity and gas distribution, integrated water supply and public lighting - whose concessions are granted by local or national authorities -risk stems from the failed renewal of expired licenses or from renewal in conditions other than those in force, entailing an adverse economic and financial impact. In the event of failed renewals, such risk is limited by a refund mechanism in favour of the outgoing operator, in the amount of the residual industrial value of the concession. Finally, risk associated with authorization processes is mitigated through regular monitoring of the above processes and by proactively partaking in working groups to ensure permits, licenses and authorizations are granted.

Risks associated with weather and climate variability
These risks stem from the impact of weather and climate variability in relation to the electricity and gas demand. To manage such risks, the group can rely on advanced demand forecasting tools that ensure an optimal use of the available sources, as well as on adequate flexibility in the sources of supply of energy commodities.

Financial risks associated with the energy market
These are related to variations in energy, gas and other fuel prices, which affect the final result in the purchase and sale of electricity and gas. To handle these risks, processes have been structured for effective procurement and hedging, with a clear-cut focus on the skills involved. The Group's approach provides for a single interface for "risk to market" management, namely Hera Trading, which covers the group's risk positions through specific portfolios for fuel and electricity, ensuring that risk management is unified under the terms of the respective policies. There are many advantages to the approach the Group has adopted in terms of higher levels of coverage, cost optimization by resorting less to the

market (through position netting) as well as greater flexibility in structuring procurement and supplying customers. The implemented process continued to show adequate strength in 2018 as well, in terms of both risk assessment and risk control, while ensuring compliance with the limits set by the group's top management.

Financial risks associated with the debt market
These are related to variations in interest rate, liquidity, credit spread and exchange rate. The Group's centralised financial management, provided by the Direction of Administration, Finance and Control, meets the group's funding and liquidity management needs while arranging and implementing procedures aimed at optimal financial risk control and management. This is attained through a close monitoring of the group's major financial indicators, through constant coverage of the relevant markets, as well as by profiting from the best opportunities, in order to minimize the impact of rate volatility and to deliver efficient debt service through structure optimization. Procedures complying with Law 262/05 have also been suitably arranged and implemented in order to ensure reliability as to financial reporting. .

Financial risks associated with counterparties
These risks arise from counterparties failing to fulfil their obligations, i.e. failing to comply with the economic terms or with any contract provisions; credit risk affects the group across all of the various areas where the company operates. Hera employs a structured origination process, set forth for specific credit risk management procedures, which allows an adequate selection of the counterparties through credit checks and /or requests for guarantees where applicable. In addition, the counterparties' positions are regularly monitored, while articulated, proactive actions are planned, including external risk relocation- where appropriate -through optimal credit transfer.

With regard to information having to do with relations with related companies, as required by article 2428, 3rd paragraph, n. 2 of the Civil Code, please refer to the financial statement formats contained in sections 2.04 and 3.04, prepared pursuant to Consob resolution 15519/2006, relating to the consolidated and separate financial statements, respectively, of Hera S.p.A.; finally, it is to be noted that these financial statements do not contain atypical or unusual transactions.

1.11
CORPORATE GOVERNANCE REPORT

1 Issuer profile

The Hera Group's entrepreneurial and organizational model, unique in this sector, makes it possible to combine strong territorial roots with the need to grow in size, in order to offer increasingly efficient services while remaining open to new partners.
Since its inception, Hera has developed a trajectory of growth both organic and along external lines.
Its development strategy entails actions to support organic growth in the businesses already served, but also consolidation and acquisition operations to expand the current perimeter of operations, maintaining the Group's solid financial structure in the context of a shared industrial vision.
On the internal front, Hera addresses all possible opportunities for developing activities in its businesses, leveraging innovation, efficiency and excellence.
The strategy for external lines of growth is based on three cornerstones:

- mergers and consolidation with other multi-utility companies, activities in which the Group has a long and successful track record;
- the acquisition of companies in the individual supply chains it serves, with the aim of accelerating the growth of its customer base and supplementing its facilities-industrial structure;
- participation in tenders for awarding concessions for the provision of regulated services.

Over the years, the Hera Group has, however, implemented a plan to rationalise its shareholdings, reducing their number significantly and more effectively merging the various companies by business area and geographical contiguity.
Hera is also committed to acting every day to enhance the experience and develop the skills of its employees, and to promote cooperation and the exchange of knowledge, so that work is a source of satisfaction and pride for people as well as an important factor for the success of the company.
Hera's goal is to become the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates, while respecting the local environment.
As early as 2003, Hera included Corporate Social Responsibility in its strategy, a concept which has since evolved into the broader perspective of shared value, regarding this as an effective tool for increasing competitiveness and a key factor for achieving sustainable development. The Mission and Values outline the guidelines for corporate behaviour already contained in the Code of Ethics and shape every action taken by and relationship maintained by the Group. Mission, values and shared conduct represent the strategic and cultural framework within which the industrial plan is formulated, results are reported transparently through the Sustainability Report, and economic planning is defined on an annual basis.
Hera grants special attention to dialoguing with its stakeholders and the local area in which it operates, consolidating positive results achieved in terms of creating value and demonstrating the Group's ability to grow despite the current complex economic conditions.

2 Information on the ownership structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Finance Act (TUF)) as at March 27th 2019.

a) Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the TUF)
The share capital is 1,489,538,745 euro, fully subscribed and paid-up, and consists of 1,489,538,745 ordinary shares with a par value of 1 euro each.

Share Capital Structure

Type of share	no. of shares	% of share capital	Listed	Rights and Obligations
Ordinary shares	1,489,538,745	100%	Mta Borsa Italiana	Ordinary shares grant their holders the property and administrative rights established by law

b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b) of the TUF)
Article 7 of Hera's Articles of Association to stipulate that the majority of voting rights in the company be held by Municipalities, Provinces and Consortiums established in accordance with Article 31 of Legislative Decree 267/2000, or by other Public Authorities, or consortiums or joint-stock companies including Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree 267/2000, or other Public Authorities hold, even indirectly, the majority of the share capital. Article 8.1 of the Articles of Association prohibits the holding of more than 5% of the company's share capital by any shareholder other than those indicated above.
c) Significant equity interests (pursuant to Article 123-bis, paragraph 1, letter c) of the TUF)
The parties that directly or indirectly hold more than 3% of the share capital of the Company represented by shares with voting rights, are as follows, based on communications made pursuant to article 120 of the TUF, as well as any other data in the possession of the Company.

d) Shares that confer special rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)
The shareholder's meeting of 28 April 2015 authorized, pursuant to the limits established by Article 6 the institute's Articles of Association, an increased vote, whereby individuals who are registered for a continuous period of at least 24 months in the special list established beginning in 1 June 2015, will be entitled, for every share they hold, to two votes in shareholders deliberations regarding: i) the amendment of Articles 6.4 and/or 8 of the Articles of Association, ii) the appointment and / or revocation of the Board or its members, iii) the appointment and / or revocation of the Board of Statutory Auditors or its members.
On 13 May 2015, Hera's Board of Directors in order to define the criteria and procedures for keeping the special list, approved the special list regulations for eligibility for increased voting rights, in implementation of the provisions of applicable law and Hera's Articles of Association.

Declarant	Direct shareholder	share % of s.c.	share % of c.s. with voting rights
Municipality of Bologna	Municipality of Bologna	9.530%	9.530%
Municipality of Imola	Con.Ami	7.293%	7.293%
Municipality of Modena	Municipality of Modena	6.519%	6.519%
Municipality of Ravenna	Ravenna Holding Spa	5.151%	5.151%
Municipality of Trieste	Municipality of Trieste	3.731%	3.731%
Municipality of Padua	Municipality of Padova	3.097%	3.097%

e) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)
Article 8.6 of the Articles of Association stipulates that the voting rights of parties other than public authorities who hold more than 5% of the share capital will be limited to an overall maximum of 5%.

f) Shareholder agreements (pursuant to Article 123-bis, paragraph 1, letter g) of the TUF)
In accordance with Article 14 of the Articles of Association, 122 of the TUF, the following shareholders' agreement are in effect:

- First-level Shareholders' Agreement, between 111 public shareholders, concerning the procedures for exercising voting rights and the transfer of the shareholdings held in Hera by members, signed on June 26th 2018, with a duration of three years, from July 1st 2018 to June 30th 2021;
- Second level Shareholders' Agreement between 32 public shareholders of Hera belonging to the Bologna area, concerning the rules governing the exercise of voting rights, the transfer of the shares held in Hera by members, as well as the appointment of the members of the Board of Directors, stipulated on June 26th 2018, whose effects start on July 1st 2018, and last until June 30th 2021;
- Second level Shareholders' Agreement between 20 public shareholders of Hera belonging to the Modena area, concerning the rules governing the exercise of voting rights, the transfer of the shares held in Hera by members, as well as the appointment of the members of the Board of Directors, stipulated on June 26th 2018, whose effects begin on July 1st 2018, and last until June 30th 2021;
- Sub-agreement between the municipalities of Padua and Trieste, having as its object the constitution of a consultation and voting syndicate functional for the realization of some provisions regarding the corporate governance of Hera in implementation of the provisions of the first level Shareholders' Agreement, stipulated on June 26th 2018 and with a duration of three years starting from the signing date.

The main identifying elements of the aforementioned Agreements, which can be found in the Corporate Governance section of the company's website at www.gruppohera.it, are provided below.

1) First-level Shareholders' Agreement

The Agreement concerns 710,008,407 shares conferred to the voting trust, corresponding to 47.66633% of the share capital of Hera, 1,402,598,242 voting rights conferred to the voting trust, corresponding to 61.73837% of the total voting rights making up the share capital and 572,267,488 blocked shares corresponding to 38.41911% of the share capital.

Content and bodies of the Agreement

Voting trust

In order to realize the decisions of the voting trust, the Parties have established a voting trust deliberative body (the "Voting Trust Committee") composed as follows: a member designated by the Municipality of Bologna, to whom seven votes are assigned, a member designated by the minor shareholders of the Bologna area, to whom two votes are assigned, a member designated by Holding Ferrara Servizi Srl, to whom one vote is assigned, a member designated by Ravenna Holding S.p.A., to whom five votes are assigned, a member designated by CON.AMI, to whom six votes are assigned, one member designated by Rimini Holding S.p.A., to whom one vote is assigned, one member designated by the Municipality of Cesena, to whom one vote is assigned, one member designated by the shareholders of Modena, to whom six votes are assigned, one member designated by the Municipality of Padua, to whom three votes are assigned, one member designated by the Municipality of Trieste, to whom three votes are assigned, and one member designated by the Municipality of Udine, to whom two votes are assigned.

For the duration of the Agreement, the number of votes assigned to each principal shareholder through its committee member is allocated on the basis of one vote for each 1% of blocked shares held, rounded down if the surplus was less than 0.50%, or up if the surplus was equal to or greater than 0.50%, of the blocked shares. The percentage of blocked shares is calculated as follows:

$$\%\ \text{shares} \quad \frac{\text{Number of shares blocked by main shareholder}}{\text{Hera share capital}} \quad \text{X}\ \ 100$$

The number of votes cast by each of the main members was verified at the opening of the first meeting of the Committee and definitively ascertained by the Chairman of the Committee.

The Voting Trust Committee remains in office until the end of the Agreement.

Decisions will be made through a yes-vote by at least 65% of the total votes assigned to the members of the Voting Trust Committee present at that meeting, except for decisions for which the Agreement requires a different majority.

The Voting Trust Committee will meet at least one day prior to:

any meeting of the shareholders that includes any of the following items on its agenda:

1) liquidation of the Company;
2) merger or division of the Company;
3) changes in Article 6 ("Shares and Increased voting rights"), 7 ("Public majority shareholding"), 8 ("Limits on shareholdings"), 14 ("Validity of Shareholders' Meetings and rights of veto") 17 ("Appointment of the Board of Directors"), 21 (Validity of resolutions), and 23.4 (Exercise of powers - matters falling within the exclusive competence of the Board of Directors) of the Articles of Association.

The Parties undertake to ensure that their vote at the Shareholders' Meeting conforms to the resolutions adopted by the Voting Trust Committee and indicated in this section (i). In the event that a vote in favour of the resolution to be adopted pursuant to this Paragraph (i) is not reached in the Voting Trust Committee, every Party to the Agreement shall express a vote in the Shareholders' Meeting against the adoption of that resolution.

any meeting of the Board of Directors that includes any of the following items on its agenda:

1) the establishment of the Hera Executive Committee, whose powers will be determined by the Board of Directors. The Executive Committee will be composed of the Chairman, the CEO, the Vice-Chairman and a Director appointed jointly by the Municipality of Padua and the Municipality of Trieste;
2) within the limits of the law and the Articles of Association, the appointment (i) of the Chairman of the Board of Directors, who will be appointed on recommendation by the Shareholders of the Romagna Territorial Area; (ii) of the Chief Executive Officer, who will be appointed on recommendation by the Shareholders of Bologna. The Shareholders of the Romagna Territorial Area and the Shareholders of Bologna will consult each other before proceeding to appoint the Chairman and the Chief Executive Officer; (iii) the Vice Chairman of the Board of Directors will be appointed - within the limits of the law and the Articles of Association - from among the members indicated by the Municipality of Modena;

the deadline for the submission of the List of Directors and the List of Statutory Auditors.

The Voting Trust Committee shall meet: (i) at least once a year, by the date of the Hera Shareholders' Meeting convoked to approve the financial statements, in order to verify any plans for the sale of Hera Shares not subject to the voting trust blocking provided for by each Party; (ii) whenever one or more members of the same make a written request to the Chairman of the Voting Trust Committee.
In addition, the Voting Trust Committee will be responsible for:

a) the collation and formation of the List of Directors. The number of members to be included in the List of Directors indicated by each group of contracting parties is allocated on the basis of one member designated for each 3% of shares blocked by that group of contracting parties, and therefore, the list of Directors will be composed as follows: three members designated by the Shareholders of Bologna and Municipality of Ferrara, also in the interest of the Shareholders of Ferrara; four members designated by the Shareholders of the Romagna Territorial Area; two members designated by the Municipality of Modena, also in the interest of the Shareholders of Modena; one member designated by the Municipality of Padua; and one member designated by the Municipality of Trieste;
b) the collation and formation of the List of Statutory Auditors. The List of Statutory Auditors shall indicate as many candidates as there are members of the Board of Statutory Auditors, to be elected by the majority, and shall be determined according to the following procedures: a) the Shareholders of Bologna and the Municipality of Ferrara, also in the interest of the Shareholders of Ferrara, shall have the right to designate the candidates to be included in the second and third places on the list (one Statutory Auditor and one Alternate Auditor); b) the Shareholders of Romagna Territorial Area shall have the right to designate the candidate to be included in the first place on the list (one Statutory Auditor);
c) the resolution to request the penalty by paid by the defaulting Party; the main shareholder accused of such a default will not be allowed to participate in the discussion and will not have the right to vote on the respective resolution;
d) resolutions concerning the coordination and execution of plans to sell the shares as well as the related preparatory and consequent acts, with all the widest powers to implement them, also invested in the person of the Chairman individually or jointly with other members of the Voting Trust Committee, including, among other things, the power to carry out in the name and on behalf of the Selling Parties procedures for the selection of consultants, placement agents, trust companies and to identify , negotiate, sign and, if necessary, modify the relative contracts, commitments and mandates in the name and on behalf of the Selling Parties, as well as to implement them.

Stock Blocking Syndicate

The Parties undertake and agree, for the entire duration of the Agreement, to not transfer the shares allocated to the Blocking Syndicate (the "blocked shares"). Under the terms of the Agreement, "Transfer" or "to transfer" refers to any legal transaction, even free of charge (including sale, donation, exchange, contribution to a company, forced sale, block sale, merger, demerger) that has the direct or indirect result of transferring to third parties ownership or bare ownership of the shares or investing third parties with real rights (pledge and usufruct) on the Shares in the event that the voting right belongs to the pledgee or usufructuary.

The Parties undertake to maintain on the list established by Hera in accordance with Article 6.4 of the Hera Articles of Association (the "Special List") the number of blocked shares determined in each instance pursuant to the Agreement. The Parties may also register in the Special List a greater number of shares than the number of blocked shares.

The Agreement identifies the number of shares blocked for the entire duration of the Agreement with respect to each Party.

The Parties have agreed that, in any event, the total number of blocked shares may not be less than 38% of the share capital of Hera until the expiration of the Agreement. If the total number of blocked shares does not comply with the above mentioned indefectible condition, the Parties, for this purpose, grant the Chairman of the Committee a mandate to adjust, without delay and on the basis of a principle of proportionality, the number of blocked shares. If the above condition is not satisfied due to the non-performance of a Party, the provisions relating to non-performance and penalties shall apply.

The contracting Parties will be free to transfer blocked shares to public shareholders (Municipalities, Consortiums established in accordance with Article 31 of Legislative Decree 267/2000, or to other Public Authorities, or consortiums or joint-stock companies of which Municipalities or Consortiums established in accordance with Article 31 of Legislative Decree 267/2000 or other Public Bodies or Authorities hold, even indirectly, the majority of their share capital), including the other Parties, or to consortia formed between public bodies or to companies with share capital, also in consortium form, controlled by a Party to the Agreement, also jointly with other Parties to the Agreement, on the condition that the aforesaid company, at the time of the transfer made in its favour, has adhered to the Agreement. The Parties will be free to transfer, even to third parties, the option rights on the blocked shares. Transfers of blocked shares will be permitted only on the condition that the transferring entity, by the date of the Transfer made to it, has entered into the Agreement by accepting it in writing and allocating the transferred shares to the Blocking Syndicate.

Each Party undertakes to inform the Chairman of the Syndicate Committee in writing, in a timely manner and in any case no later than the fifth day following the transfer, of any change in the blocked shares held by that Party.

The non-transferability constraint applies only to blocked shares. In any case, the Parties undertake to sell, in an orderly manner, shares other than blocked shares which they intend to transfer in order to allow for the orderly conduct of trading, in particular: a) each Party that intends to sell shares on the market (without prejudice to the prohibition on the sale of blocked shares), in a total amount greater than 3 million shares in each calendar year, undertakes to coordinate in advance with the Committee, and its Chairman on its behalf, during the annual meeting and, where appropriate, also tto request further meetings, and to implement a method of sale completed through a single transaction; b) if at the annual meeting: (i) the total number of shares to be offered for sale, even individually, is greater than 10 million, the sale will be carried out in a coordinated manner; (ii) the total number of shares to be put up for sale does not exceed 10 million, each Party may proceed with the sale independently, without prejudice to the provisions of point a) above.

The annual meeting will also be aimed at verifying whether the intentions of each Party to sell shares are lower than the number of shares held by that Party not subject to the Blocking Syndicate. In this case, extra shares not already subject to the Blocking Syndicate may be subjected to the Blocking Syndicate and the shares of other parties to the Agreement that need to be disposed of may be unblocked. Coordination will be carried out by the Committee on the basis of the principle of proportionality. Once shared, changes to the number of shares subjected to the Blocking Syndicate will be incorporated into the Agreement, it being understood that the total number of blocked shares may not be changed except as provided for in the preceding sections.

Each Party has the right to transfer, for any reason whatsoever, its shares to any joint-stock company, even in consortium form, controlled by itself or jointly with other Parties, provided that the aforesaid company, at the time of the transfer made in its favour, has adhered to the Agreement. In this case, all the rights and obligations of the Parties will be placed in the hands of the transferee company, without prejudice to the obligation of the Party to the Agreement that made the transfer to then repurchase a number of shares equal to those transferred, if the company (i) is no longer controlled by the transferor, or (ii) the controlled company is subject to bankruptcy proceedings of any kind, or (iii) in the event of a merger, demerger or any other form of transformation of the controlled company.

For the entire duration of the Contract, the Parties undertake not to set up, directly or indirectly, including through third parties or through subsidiaries and/or connected parties or with third parties acting in concert with them, as defined in article 109 of the TUF, acts and/or facts and/or transactions, including transfers, which involve or may involve the obligation to make a mandatory public offer for the purchase of Hera shares ("OPA"). The defaulting Party shall take all necessary and appropriate actions to remedy the occurrence of OPA and, where possible, benefit from the exemptions provided for by applicable legislation, for example it shall undertake to transfer the shares to unrelated parties, or reduce the excess voting rights within twelve months and not to exercise these rights pursuant to letter e) of Article 5(1) 49, paragraph 1) of the Issuers' Regulations and/or it must waive the allocation of the increased voting rights pursuant to and within the terms of applicable legislation.

Bodies of the Agreement
In addition to the Voting Trust Committee, the bodies of the Agreement are the "Chairman" and "Secretary".

Chairman
The Voting Trust Committee is presided over by the Committee Chairman or, in his/her absence, the oldest individual among its members. The Chairman is assisted by the Secretary. In its first meeting, the Voting Trust Committee will appoint the Chairman, to be the person who, among the members of the Committee, has obtained the highest number of overall votes assigned to the members of the Committee present at that meeting. The Chairman performs the following tasks: a) convenes and chairs the Committee, preparing the agenda; b) carries out all the activities entrusted to him by the Committee and by the Agreement; and c) adjusts the Agreement and its Annexes by removing from the text the names of persons who may not have signed the Pact, and making any further changes that follow from this.

Secretary
In its first meeting, the Voting Trust Committee will appoint a Secretary, whether or not he/she is a member of the Voting Trust Committee who, unless the position is revoked or resigned, will remain in office for the entire duration of the Agreement. The Secretary is responsible for the following tasks: a) preparing the minutes of the meetings of the Voting Trust Committee; b) keeping the minutes of the meetings of the Voting Trust Committee; c) performing all the operational and executive functions

necessary for the proper functioning of the Agreement, in support of the activities of the Voting Trust Committee and the Chairman, entrusted to him/her by the Chairman.

Nature of the Agreement and persons exercising control over the Company through the Agreement

In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letters a) and b) of the TUF.

In view of the nature of the Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

Penalties

The Party that is in breach of certain provisions of the Agreement shall be liable to pay a penalty of (a) 5 million euro or (b) the lesser value to be calculated as follows: number of shares held by the Party that is in breach at the time of the breach, multiplied by three times the value of the share resulting from the arithmetic mean of the official stock exchange prices of the security during the 15 trading days prior to the date of the breach. The amount referred to in this paragraph, point (b), may not be less than 3 million euro and, therefore, if application of the above calculation results in less than this amount, the penalty will be 3 million euro. This is without prejudice to the right of each of the non-defaulting parties to bring a lawsuit for damages. The penalty shall be requested and collected, upon a resolution by the Voting Trust Committee made without the vote of the defaulting party, by the Chairman of the Voting Trust Committee in the name and on behalf of the non-defaulting parties, and shall be paid to the non-defaulting parties in proportion to the shares held by each of them.

If, as a result of breaches of the provisions of the Agreement, one or more Parties, individually or jointly, become obliged to launch a takeover bid, the defaulting party(s) shall indemnify and hold harmless the other Parties from all costs, expenses, charges, liabilities and damages related to or otherwise arising from such conduct, including those relating to the mandatory public tender offer for the Company's shares and related payment obligations. In addition, in such a case, the amount of the applicable penalty referred to in points (a) to (b) shall be applied in duplicate, except in the case of greater damages. This penalty will be applied, for the entire duration of the Agreement, in the event of a breach of the prohibition on the transfer of blocked shares resulting in a reduction in the total number of blocked shares below 38% of the share capital of Hera.

Any Party that does not default may automatically terminate the Agreement in relation to the defaulting Party in accordance with Article 1456 of the Italian Civil Code and with retroactive effect, and, where necessary, request that the Arbitration Board, in accordance with the procedure established therein, pronounce the Agreement terminated by right against the defaulting Party, without prejudice to the application of the rules on penalties for non-performance.

Agreement duration and modifications

The Pact shall take effect on July 1st 2018 and shall remain in force until June 30th 2021. In view of the expiry of the Agreement, the parties undertake, in accordance with the principles of good faith, to do everything in their power, and in compliance with current legislation, to renegotiate new shareholders' agreements in accordance with the spirit of the Agreement. From the date of effectiveness of this Agreement, any previous shareholders' agreement between the same parties concerning the shares and signed by the same parties will cease to be effective.

The Agreement may be amended with the written agreement of the Parties which together hold at least 65% of the shares subject to the Blocking Syndicate. Changes to the Agreement shall be communicated to all Parties at least 30 days prior to the date such changes come into effect. In this case, the dissenting Parties shall have the right to withdraw immediately by means of a notice sent no later than the fifteenth day prior to the date on which the modifications to the Agreement come into effect.

2) Second-level Shareholders' Agreement, Bologna area

The Agreement concerns 182,969,676 ordinary Hera shares conferred to the voting trust, with a nominal value of 1 euro, corresponding to 12.28365% of the share capital of Hera, held by a total of 32 public shareholders, and 357,087,568 voting rights, equal to 15.71798% of the total voting rights that make up the share capital.

Content of the Agreement

Voting trust

In order to take on the decisions made by the Voting Syndicate, the Parties have established a deliberative body of the Voting Syndicate (the "Agreement Assembly") composed of the pro-tempore legal representatives of each Party or their delegates.

The Agreement Assembly meets:

(i) at least three days before each meeting of the Voting Trust Committee, as per the Voting Trust Agreement;

(ii) at least five days before each meeting of the Hera S.p.A. shareholders that includes any items on its agenda different from that covered by the Voting Trust Committee as outlined in point i) above;
(iii) at least 30 days before each meeting of the Hera S.p.A. shareholders that includes on its agenda the nomination of components of the Board of Directors and/or Board of Statutory Auditors;
(iv) Any time the Municipality of Bologna, or 14 Parties other than the Municipality of Bologna make a written request to the Chairman of the Agreement Assembly.

The decisions of the Agreement Assembly are validly made by a majority of those present, provided that a yes vote has been expressed by the Municipality of Bologna and at least eight other Parties.
The Parties to the Agreement undertake to ensure that their vote at the Shareholders' Meeting conforms to the resolutions adopted by the Agreement Assembly.

Identification of the members of the Hera Board of Directors
With reference to the process of drawing up the majority list for appointing the Board of Directors of Hera S.p.A., the Parties themselves undertake to define and approve, as follows, with due regard for the balance between genders, the list containing the names of directors:

- maximum two components - in accordance with the agreements that may be entered into with the Municipality of Ferrara, also in the interest of the shareholders of the Ferrara area - indicated by the Mayor of the Municipality of Bologna;
- one component indicated by the Parties, excluding the Municipality of Bologna, in the Agreement Assembly.

Finally, the Parties undertake to ensure that the Directors appointed by them, at the first meeting of the Board of Directors of Hera S.p.A., proceed with appointing the office of Chief Executive Officer, it being understood that they will consult each other before the name of the candidate is formalized.
Before the name of the candidate for Chief Executive Officer of the Board of Directors of Hera S.p.A. is formalised, the Mayor of the Municipality of Bologna or a person appointed by him, in the interest of the Parties, will consult with the common representative of the shareholders of the Romagna Territorial area and will inform the Chairman of the Voting Trust Committee.

Rules for transfers of blocked shares
For the duration of the Agreement, the parties to the Agreement undertake not to transfer the Hera S.p.A.shares subject to the Blocking Syndicate ("blocked shares") referred to in the first-level Shareholders' Agreement.

Rules for non-blocked Hera shares
The Party that intends to sell Syndicated shares that are not blocked shares, and therefore not subject to the non-transferability restriction, for total amount of less than 3 millionshares during each calendar year, must pre-emptively offer the Shares to be sold in advance to all the other Parties, under the same conditions, in proportion to the shareholding held by each Party in Hera, without prejudice to the right of growth of each Party.
In the event of non-compliance with the above provision, the acts of disposal of the shares shall be null and void and shall be unenforceable in relation to the Parties and Hera S.p.A.

Penalties
The Party in breach of the provisions of the Agreement will be required to pay a penalty, for each individual, confirmed violation, of 500 thousand euro, without prejudice to compensation for any potential additional damage.

Agreement duration
The Pact shall take effect on July 1st 2018 and shall remain in force until June 30th 2021.
In view of the expiry of the Agreement and if the Voting Trust Agreement is in turn renewed, the parties undertake, in accordance with the principles of good faith, to do everything in their power, and in compliance with current legislation, to renegotiate new shareholders' agreements.

Nature of the Agreement and persons exercising control over the Company through the Agreement
In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letters a) and b) of the TUF.
In view of the nature of the Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

3) Second-level Shareholders' Agreement, Modena area
The total number of voting rights conferred on the voting syndicate is 235,626,166 and the relative percentage of the total voting rights that make up the share capital of Hera is approximately 10.37159%.

Content of the Agreement

Voting trust

In order to take on the decisions made by the Voting Syndicate, the Parties have established a deliberative body of the Voting Syndicate (the "Shareholders' meeting of the Voting Trust") composed of the pro-tempore legal representatives of each Party or their delegates.
The Shareholders' meeting of the Voting Trust meets:

(i) at least one day before each meeting of the Voting Trust Committee, in accordance with the Hera Agreement, that includes on its agenda one of the resolutions and activities referred to in Article 4.3 of the Hera Pact;

(ii) at least one day before each meeting of the Hera S.p.A. shareholders that includes any items on its agenda different from that covered by the Committee as outlined in point i) above;

With reference to the process of drawing up the majority list for appointing the Board of Directors of Hera S.p.A., if under the Hera Pact:

(i) only one member of the majority list for the Board of Directors elections is reserved for the parties to the Modena pact, the Shareholders' meeting of the Voting Trust shall arrange for it;

(ii) the parties to the Modena agreement are assigned the right to designate two members of the majority list for the Board of Directors election, the Municipality of Modena will be in charge of designating who will be proposed as vice chairman of the Board of Directors, while the second member will be designated by the Shareholders' meeting of the Voting Trust;

(iii) more than two members of the majority list for the election of the Board of Directors are to be appointed by the Parties to the Modena agreement; the Municipality of Modena will be responsible for appointing two thirds of the members, rounded up to the nearest whole number, including the one who will be proposed as vice president, while the other members will be appointed by the Shareholders' meeting of the Voting Trust.

The Shareholders' Meeting of the Voting Trust shall resolve on the basis of the number of Hera shares blocked under the Hera Pact held by each Party, with reference to the total number of Hera shares blocked under the Hera Pact held by the Parties as a whole: for resolutions to be valid, there must be present a number of Parties holding at least 4/5 of the blocked shares and a yes vote by a number of Parties holding at least 4/5 of the blocked shares in relation to those held by the Parties present.

Rules for blocked Hera shares

The Modena agreement does not provide for a specific Blocking Syndicate,; rather, it refers to the Hera pact for the regulation of the blocked shares covered by it.

Rules for non-blocked Hera shares

The Modena agreement refers to the Hera pact for the regulation of the transfer of non-blocked shares. It also states that the Parties undertake to define, in advance and jointly, at the Shareholders' Meeting, the number of shares to be transferred.

Agreement duration

The Modena Agreement, in effect beginning July 1st 2018, shall remain in force until June 30th 2021. The parties have undertaken to renegotiate the Agreement in good faith, with due respect for the spirit of the Agreement and with a view to its expiry.

Nature of the Agreement and persons exercising control over the Company through the Agreement

In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letters a) and b) of the TUF.
In view of the nature of the Modena Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

Penalties

The Party that is in breach of the provisions of the Agreement shall be liable to pay a penalty equal to five per cent of the value of the Hera shares held at the time of the breach, calculated as the arithmetic mean of the official stock market prices of the Hera share during the 15 trading days prior to the date of the breach.

4) Sub-agreement between the Municipalities of Padua and Trieste

The sub-agreement concerns 103,096,159 ordinary Hera shares, equal to 6.92135% of the current share capital of Hera, held in total by the two participating municipalities, and 204,792,318 voting rights, equal to 9.01437% of the total voting rights that make up the share capital.

Content of the Sub-agreement

The purpose of the Sub-agreement is to establish a consultation and voting syndicate that will be instrumental to ensuring the realization of certain provisions regarding Hera's corporate governance in implementation of the provisions of the Agreement.

Specifically, the Sub-agreement regulates the procedures for the joint appointment of a member of the Hera Executive Committee, providing that the Parties confirm their mutual commitment to consulting in good faith in order to identify and agree which of the two directors elected to the Company's Board of Directors, upon their appointment, should be the director to be appointed as member of the Hera Executive Committee.

As provisionally agreed to by the Parties, with effect from November 2018 and until the natural expiry of the Board of Directors of Hera, the director designated by the Municipality of Padua has assumed the position of member of the Executive Committee in place of the member representing the Municipality of Trieste, previously in office.

Duration of the Sub-agreement

The Sub-agreement has a duration of three years from the date of its signing (June 26th 2018).

In view of the expiry of the Sub-agreement, the parties undertake, in accordance with the principles of good faith, to do everything in their power, and in compliance with current legislation, to renegotiate new shareholders' agreements in accordance with the spirit of this Sub-agreement.

Nature of the Agreement and persons exercising control over Hera S.p.A. through the Sub-agreement

In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letter a) of the TUF.

In view of the nature of the Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

g) Mandates to increase share capital and authorisations to purchase treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the TUF)

The shareholder's meeting of 28 April 2018 authorized, pursuant to the limits established by Article 2357 of the Italian Civil Code, to purchase, within 18 months of the date of the resolution, on one or more occasions, up to a revolving maximum of 60 million ordinary Hera shares with a par value of 1 euro each, equal to approximately 4.03% of the ordinary shares making up the share capital, in accordance with the following conditions:

(i) purchase price not lower than the par value and not more than 10% higher than the reference price recorded on the stock-market trading day preceding each individual purchase;

(ii) the purchases and all the deeds concerning the treasury shares may occur at a price that does not involve negative economic consequences for the company, and must occur in compliance with the laws, regulations and provisions established by the supervisory body and/or Borsa Italiana S.p.A., involving a maximum increase in investment of 180 million euro.

(iii) use of the treasury shares purchased within the scope of transactions representing investment opportunities or other transactions involving the allocation or disposal of treasury shares;

It should be noted that the buy-back authorisation only concerns the purchase of ordinary shares, thus excluding the possibility of purchasing derivative financial instruments, and that the number of treasury shares in portfolio at the end of the 2018 financial year was 23,584,475.

3 Compliance (pursuant to Article 123-bis, paragraph 2, letter a) of the TUF)

Hera abides by the provisions of the Corporate Governance Code (hereinafter referred to as the "Code"), which contains a detailed series of recommendations concerning principles and rules for the management and control of listed companies, in order to increase the clarity and concreteness of persons and roles, particularly with regard to the independent directors and the internal committees of the Board of Directors.

Although adoption of the principles contained in the Code is not demanded by any legal obligation, the Company agreed to the principles of the Code, and to the modifications and integrations so as to reassure investors that a clear and well-defined organisational model exists within the company, with appropriate divisions of responsibility and powers and a correct balance between management and control, as an effective tool for enhancing and protecting the value of its shareholders' investment. The full text of the Code is available to the public on the Committee for Corporate Governance website, at:
https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2018clean.pdf

4 Board of Directors;

Hera has an ordinary/traditional system of governance. The following paragraphs describe the composition and functioning of the Board of Directors and the Board of Statutory Auditors.

a) Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter l) of the TUF)

List voting

The appointment of the Board of Directors is subject to the "list voting" mechanism, in order to guarantee that the Board of Directors includes Directors designated by minority shareholders, in compliance with current legislation on gender balance.
Specifically, Articles 16 and 17 of the Articles of Association govern the terms and conditions for filing and publishing lists, as well as the related documentation, in compliance with current regulations.
The lists presented by shareholders must include at least two candidates satisfying the independence requirements established for the statutory auditors by Article 148, paragraph 3 of Legislative Decree 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A., together with the candidates' CVs, a declaration of the individual candidates stating that they accept the office and certifying the non-existence of any ineligibility and/or incompatibility provided by law and any applicable declaration of satisfaction of the independence requirements established for statutory auditors by Article 148, paragraph 3 of the TUF and those established by the Civil Code.
The lists must be filed, in accordance with article 17.5 of the Articles of Association, at the registered office at least 25 days before the Shareholders' Meeting, and made available to the public at the registered office and on the website www.gruppohera.it at least 21 days before the meeting.
The terms and conditions for the filing of lists are indicated by the Company in the Shareholders' Meeting notice of call. Each shareholder may submit or participate in the submission and voting of only one list. Subscriptions and votes cast in violation of this prohibition shall not be attributed to any list.

Eligibility to submit lists and their composition

Lists for the appointment of members of the Board of Directors may be submitted by shareholders representing at least 1% of the share capital with voting rights at the Ordinary Shareholders' Meeting, unless otherwise provided for by current legislation, to be indicated in the notice of call.
In this regard, it should be noted that, on the occasion of the last renewal of the administrative body which took place at the Shareholders' Meeting of April 27th 2017, the shareholding required for presenting lists of candidates for the election of the sitting administrative body was identified by Consob (through Resolution No. 19856 of January 25th 2017) to be 1%, equal to the percentage provided for in Article 17.4 of the current Articles of Association.
In order to demonstrate ownership of the number of shares necessary for presenting lists, shareholders must file the appropriate certification proving ownership of the number of shares represented at the registered office within the deadline set by the Company for posting the lists.

In addition, in order to ensure the election of the minimum number of independent directors, pursuant to article 17.3 of the Articles of Association, at least two candidates on each list must meet the independence requirements established for Statutory Auditors by article 148, paragraph 3 of Legislative Decree 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A.
It is also required, in accordance with Law 120/2011, and Article 17 of the current Articles of Association, that:

- lists with less than three candidates must include at least one candidate of the less-represented gender;
- lists with three or more candidates must include a number of candidates of the less-represented gender that equals not less than one third of the number of candidates.

If the list voting system does not ensure the minimum gender quota required by law, the candidate of the most represented gender positioned last on the list of candidates elected from the list with the highest number of votes shall be replaced by the candidate of the less-represented gender who was positioned first among the non-elected candidates on the same list and so on, up to the minimum number of directors belonging to the less-represented gender. If the minimum number of directors belonging to the less represented gender still has not been reached even after applying this criterion, the replacement criterion indicated will be applied to the minority lists, starting from the list that received the highest number of votes.

Appointment mechanism

The members of the Board of Directors are appointed in accordance with the provisions of Articles 16 and 17 of the Articles of Association, and therefore:
the company is managed by a Board of Directors composed of 15 members;
The members of the Board of Directors are appointed on the basis of lists in which the candidates are marked with a progressive number and, in any case, number no more than the number of members to be elected:

- 11 members taken from the list that obtained the highest number of votes according to the rank order in which they were listed, of which at least 4 must be of the less-represented gender;
- for the appointment of the remaining four members, the votes obtained by each of the lists other than the majority list, and which have not been presented or voted for by shareholders connected to the shareholders who presented or voted for the same majority list in accordance with the regulations in force at the time, are subsequently divided by one, two, three and four; The quotients deriving from this division are progressively assigned to the candidates on each list, in the order provided for by the list. Candidates are then arranged in a single descending ranking, according to the quotients assigned to each candidate. The candidates elected shall be those who the highest quotients, in relation to the remaining members to be elected, of which at least one must be of the less-represented gender.

Replacement of directors

In accordance with Article 14 of the Articles of Association, 17.10 of the Articles of Association, if one or more directors appointed on the basis of the list voting system should leave office during the course of the financial year, their places will be filled by means of the co-opting, pursuant to Article 2386 of the Italian Civil Code, of the first unelected candidates from the list to which the departing directors belonged who have not yet been members of the Board of Directors, respecting the principles of gender balance set forth by the law. If, for any reason, no candidates are available, the Board, in compliance with the principles of gender balance set forth by the law, and again pursuant to Article 2386 of the Italian Civil Code, will carry out the co-opting. The directors thus appointed will remain in office until the next Shareholders' Meeting, which will deliberate in accordance with the procedures established for the appointment.

Plans of succession

The Board of Directors, as regards executive director nomination procedures, that are determined by public shareholders and the evaluations that can be traced to the latter, does not consider it necessary to elaborate a plan of succession for the aforementioned directors. If the mandate of the directors were to end, the function of Chairman as legal representative, will be taken over by the Vice-Chairman. The Board of Directors will have the authority to co-opt new directors to replace those who stepped down and deliberate on the allocation of proxies. The Board of Directors will have the authority to co-opt new directors to replace those who stepped down and deliberate on the allocation of proxies.

b) Composition (pursuant to Article 123-bis, paragraph 2, letter d) and d-bis, of the TUF)

The shareholder's meeting held 27 April 2017 has appointed for three financial years a Board of Directors, whose mandate lasts from now until the approval of the financial statement for the 2019 financial year, composed of 15 members, including:

- 11 members taken from the list that obtained the highest number of votes according to the rank order in which they were listed, of which at least 4 of the less-represented gender;
- 4 members taken from the lists that were not the one that obtained the highest number of votes and which were neither presented nor voted on by shareholders associated with the shareholders who presented or voted for the majority list, of which at least 1 of the less-represented gender;

This appointment was thus made on the basis of the list voting system, in order to ensures that at least 1/5 of the directors are appointed from the minority list in compliance with the provisions of Article 4 of Decree-Law 332 of May 31st 1994, converted from Law no. 474 of July 30th 1994.
At the Shareholders' Meeting of April 27th 2017 mentioned above, three lists of candidates were presented, listed below along with an indication of their proposing Shareholders:

List no. 1, presented by the shareholders Municipality of Bologna, Municipality of Casalecchio di Reno, Municipality of Cesena, Municipality of Modena, Municipality of Padova, Municipality of Trieste, Municipality of Udine, Con.Ami, Holding Ferrara Servizi Srl, Ravenna Holding S.p.A.and Rimini Holding S.p.A., who, together with 107 other public shareholders, were at the time parties to the "Shareholders' Agreement on Voting and Share Transfer Rules" of June 23rd 2015, and who together hold 666,023,417 Hera shares, corresponding to 44.71% of the voting shares of Hera S.p.A., a list that was voted for by 61.327607% of the share capital present, containing the names, in ranked order, of the following candidates:

1. Tomaso Tommasi di Vignano
2. Stefano Venier
3. Giovanni Basile
4. Giorgia Gagliardi
5. Stefano Manara
6. Danilo Manfredi
7. Giovanni Xilo
8. Sara Lorenzon
9. Marina Vignola
10. Aldo Luciano

11. Federica Seganti

List no. 2, presented by the shareholders Arca Fondi S.G.R. S.p.A., manager of the Arca Azioni Italia fund ; Eurizon Capital SGR S.p.A.manager of the following funds: Eurizon Progetto Italia 40, Eurizon Progetto Italia 20, Eurizon Azioni Italia, Eurizon Azioni PMI Italia and Eurizon Progetto Italia 70; Eurizon Capital SA manager of the following funds: Equity Italy, Equity Small Mid Cap Italy and Equity Italy Smart Volatility; Fideuram Asset Management (Ireland) manager of the following funds: Fideuram Fund Equity Italy and Fonditalia Equity Italy; Fideuram Investimenti S.p.A., manager of the Fideuram Italia fund; Interfund Sicav Interfund Equity Italy; Legal & General Assurance (Pensions Management) Limited; Mediolanum Gestione Fondi SGR S.p.A., manager of: Mediolanum Flessibile Italia and Mediolanum Flessibile Sviluppo Italia funds; Mediolanum International Funds - challenge fund - challenge fund Italian Equity; Pioneer Investment Management SGRpa, manager of the Pioneer Azionario Crescita fund; Pioneer Asset Management SA, manager of the PF Italian Equity and PF European Potential funds, together holders of 19,140,764 Hera shares, corresponding to 1.285% of the voting shares of Hera S.p.A., a list that was voted for by 23.625290% of the share capital present, containing the names, in ranked order, of the following candidates:

1. Erwin P.W. Rauhe
2. Francesca Fiore
3. Duccio Regoli
4. Sofia Bianchi
5. Silvia Muzi

List no. 3, presented by the shareholder Gruppo Società Gas Rimini S.p.A., owner of 30,771,269 Hera shares, corresponding to 2.065825% of the voting shares of Hera S.p.A., a list that was voted for by 14.642686% of the share capital present, containing the names, in ranked order, of the following candidates:

1. Massimo Giusti
2. Bruno Tani
3. Fabio Bacchilega
4. Valeria Falce

Following the Shareholders' Meeting vote, as well as the subsequent meeting of the Board of Directors held on the same date for the appointment of Chairman, Corporate Executive Officer and Vice Chairman, the administrative body is composed as follows:

1. Tomaso Tommasi di Vignano (Chairman);
2. Stefano Venier (Chief Executive Officer);
3. Giovanni Basile (Vice Chairman);
4. Giorgia Gagliardi;
5. Stefano Manara;
6. Danilo Manfredi;
7. Giovanni Xilo;
8. Sara Lorenzon;
9. Marina Vignola;
10. Aldo Luciano;
11. Federica Seganti;
12. Erwin Paul Walter Rauhe;
13. Massimo Giusti;
14. Francesca Fiore;
15. Duccio Regoli.

It should also be noted that, following his appointment, and more specifically with effect from October 5th 2017, Director Aldo Luciano resigned from office; the Board of Directors of Hera S.p.A., pursuant to article 17.10 of the current Articles of Association of Hera S.p.A. and pursuant to article 2386 of the Italian Civil Code, at its meeting of November 8th 2017, by a resolution approved by the Board of Statutory Auditors, appointed Alessandro Melcarne to co-opt for Aldo Luciano, specifying that the co-opted director would remain in office until the next Shareholders' Meeting which, on April 28th 2018, confirmed his appointment.
Here below is outlined the current composition of the Board of Directors, please refer to Table 1 (attached) for more detailed information on the composition and functioning of the Board of Directors, as well as to the specific section on the company's website which provides information about the personal and professional characteristics of each director.

Name, last name	Position	Category
Tomaso Tommasi di Vignano	Chairman	Executive Director
Stefano Venier	Chief Executive Officer	Executive Director
Giovanni Basile	Vice Chairman	Non-executive, independent director
Francesca Fiore	Director	Non-executive, independent director
Giorgia Gagliardi	Director	Non-executive, independent director
Massimo Giusti	Director	Non-executive, independent director
Sara Lorenzon	Director	Non-executive, independent director
Stefano Manara	Director	Non-executive, independent director
Danilo Manfredi	Director	Non-executive, independent director
Alessandro Melcarne	Director	Non-executive, independent director
Erwin P.W. Rauhe	Director	Non-executive, independent director
Duccio Regoli	Director	Non-executive, independent director
Federica Seganti	Director	Non-executive, independent director
Marina Vignola	Director	Non-executive, independent director
Giovanni Xilo	Director	Non-executive, independent director

Diversity criteria and policies

The appointment of the Board of Directors took place during the Shareholders' Meeting of April 27th 2017, following the presentation of three lists, one majority and two minority, which ensured, in accordance with the provisions of regulations on gender balance, that at least one third of the members of the Board of Directors is made up of the less-represented gender (five members of the less-represented gender out of a total of 15 directors).

Of the current 15 directors, five are between 30 and 50 years of age, eight are between 50 and 60 years of age and two are over 60 years of age, with a total average age of about 52.

The directors have proven expertise in financial, economic and legal fields, sustainability, and social and environmental matters.

The Board of Directors has expressed a high level of appreciation for its composition, the characteristics of its members and its functioning.

Hera also maintains as a priority the goal of ensuring equal treatment and opportunities between the genders, including within the company organisation as a whole, on the assumption that:

- differences in gender, culture and background are now universally recognised as a value and should therefore be managed in the best possible way;
- an atmosphere in which people feel equal and included at work generates cooperative behaviour and fosters a co-organisational approach that in turn facilitates the more effective sharing of company culture.

As early as 2011, in order to further promote the development and dissemination of a company policy on equal opportunities and equality at work, the position of Diversity Manager was established with the aim of promoting the implementation of this company policy on equal opportunities and the enhancement of diversity.

The mission of Diversity Management can be outlined in a series of macro-points:

- spreading a culture of inclusion among public, private and civil society, and sharing best practices with institutions and companies in the area to strengthen the social web;
- supporting management in enhancing plurality within the company;
- strengthening the role of the Hera Group in developing a culture of valuing differences and balancing work and personal life.

Spreading a culture of diversity, introducing time-saving projects aimed at improving people's daily work-life balance, health and wellbeing and fostering empowerment have been central themes in the process undertaken so far within the company.

Accumulation of positions in other companies

In a resolution dated October 10^{th} 2006, the Board of Directors placed a limit of one on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of executive director, and a limit of two on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of non-executive director.
The Board of Directors ensures that its own members participate in initiatives aimed at increasing their own knowledge of Hera's sector of activities, its company dynamics and their developments, as well as the relevant regulatory framework.

Induction Programme

As in the past, the Board of Directors has set up opportunities for in-depth discussions, both specific and within meetings of the Board, intensifying this process in order to ensure that directors acquire adequate knowledge of the main issues concerning the Company as quickly as possible.
Already in previous years, specific induction sessions were carried out to provide directors with adequate knowledge of the main sectors of activity (networks, energy and the environment), and various opportunities were provided for in-depth analysis, within the meetings of the Board of Directors, regarding business issues, investments, organisation, the market scenario, regulatory developments, upcoming tenders scheduled, and risk management.
In 2018, the induction plan and refresher sessions on business issues, finance, strategic direction, sustainability and social responsibility, waste disposal and communication with local communities continued.
In particular, visits were organised to the Group's plants and production sites while in-depth analyses were carried out on corporate mergers, market analyses of the plastics sector, future scenarios for the Group's activities in relation to public contracts, management of the integrated water cycle, share performance, management of the Group's financial risks and the 17 UN global objectives for sustainable development.
In 2018 as well, further in-depth focus sessions were carried out during strategy day as an opportunity to reflect collectively on the future with the support of management, an event which included a session dedicated to peers' strategic initiatives and their potential impact on the sector and the Group.

c) Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)

The Board of Directors is the central administrative body of the Company. In conformity with the recommendations of the Code, whereby the Board of Directors must meet on a regular basis, the Company's Articles of Association require the Board to meet at least every three months and whenever the Chairman considers necessary or when requested by at least one-third of its members or by the Board of Statutory Auditors. In addition, in conformity with the recommendations of the Code, which require the Board to be organised and to operate in such a way as to guarantee the effective and efficient performance of its duties, thereby ensuring the creation of value for shareholders and defining the nature and the level of risk compatible with the issuer's strategic objectives, the Company's Articles of Association provide that the Board of Directors be vested with the widest powers for the ordinary and extraordinary management of the Company without any limitations, with the power to carry out all acts considered necessary or appropriate for the pursuit of the corporate purpose, excluding only those which, by law or by virtue of the Articles of Association, are strictly reserved to the Shareholders' Meeting.
In particular, in accordance with the provisions of the Articles of Association, and in addition to the definition of the structure of the Group, deliberations on the following matters fall to the exclusive competence of the Board:

- appointment and/or removal of the Chairman and Vice Chairman;
- appointment and/or removal of the CEO and/or the General Manager;
- formation and composition of the Executive Committee, appointment and/or removal of the members of the Executive Committee;
- determination of the powers delegated to the Chairman, the CEO and/or the General Manager and/or the Executive Committee, and modification of those powers;
- approval and modification of any multi-year plans or business plans;
- approval and modification of Group regulations, if adopted;
- recruitment and/or appointment, on the proposal of the Group CEO, of the managers responsible for each departmental area;
- proposal to place on the agenda of the Shareholders' Meeting the modification of Article 6.4 (Shares and increased voting rights), Article 7 (Public majority shareholding), Article 8 (Limits on shareholdings), Article 14 (Validity of Shareholders' Meetings and rights of veto) and Article 17 (Appointment of the Board of Directors) of the Articles of Association;
- acquisition and disposal of equity investments with a value exceeding 500,000 (five hundred thousand) euro;
- purchase and/or sale of properties with a value exceeding 500,000 euro;
- provision of sureties, liens and/or other real guarantees with a value exceeding 500,000 euro;
- purchase and/or sale of companies and/or business units;
- appointment of directors of subsidiaries and affiliates;

- participation in calls for tender and/or public procedures involving the assumption of contractual obligations exceeding 25 million euro.

The Board of Directors, in conformity with the provisions of Article 23 of the Articles of Association and Article 150 of Legislative Decree no. 58/98, reports regularly to the Board of Statutory Auditors, at least every three months, normally during the meetings of the Board of Directors or even directly through a written memorandum sent to the Chairman of the Board of Statutory Auditors, on the activities carried out and on the most important economic, financial and asset-related operations carried out by the Company or its subsidiaries, as well as on the operations in which the directors have an interest, on their own behalf or that of third parties, or which are influenced by the party that exercises the activity of direction and coordination. The director, pursuant to Article 2391 of the Italian Civil Code, informs the other directors and the Board of Statutory Auditors of any interest which, on his own account or that of third parties, he has in a given operation of the Company, indicating the nature, terms, origin and extent of that interest; if the director concerned is the Group CEO, he must refrain from carrying out the operation and entrust it to the Board.

The Board of Directors met on 10 occasions in 2018. All the directors took part in 7 of these meetings, while almost all of them took part in the other 6; all the statutory auditors took part in 8 of the meetings, while almost all of them took part in 2. The average length of the meetings of the Board of Directors was approximately two hours and forty minutes.

The General director of Operations, invited to participate in the meetings of the Board of Directors, attended all of the meetings.

The Head of Legal and Corporate Affairs, in his capacity as Secretary of the Board of Directors, attended all of the meetings.

When so required, the managers responsible for the various departmental areas participate in the meetings of the Board of Directors, to refer on matters falling under their competence that are part of the agenda.

With regard to the current financial year, three meetings of the Board of Directors were held as of March 27th 2019; these meetings were attended by .... As of that date, 7 meetings of the Board of Directors had been planned for the remainder of the year.

The Board of Directors, in conformity with the provisions of Article 1.C.1. letter g) of the Code, conducts an annual evaluation of the size, composition and functioning of the Board and its committees.

This evaluation was carried out with the support of Spencer Stuart, an independent external advisor with expertise in governance issues and consulting for Boards of Directors.

The methodology of this company focuses on the structure and composition of the board, on the operating methods adopted by the Board to make decisions, and on the correct definition of responsibilities. Attention is paid to the effectiveness of the Board and its Committees in exercising their corporate governance and control functions.

The proposed methodology aims to grant continuity over time to the activities carried out in previous years and is based on the following instruments:

1. structured interviews with the Directors and the Chairman of the Board of Statutory Auditors concerning the main areas of interest (size, composition, functioning) of the Board;
2. examination of company documentation (minutes of Board meetings) and verification of the effectiveness of the actions that have been carried out during the last year, in order to follow up on comments made by the Directors during this previous self-assessment;
3. analyses of international best practices;

The final results of the project are presented and discussed at an ad-hoc Board meeting.

Structured interviews

As indicated, the project is carried out through individual interviews with the Directors and the Chairman of the Board of Statutory Auditors.

The interviews are based on an "Interview Guide" which is sent to the Directors prior to the meetings with the Spencer Stuart consultants and concern issues of corporate governance, the functioning of the Board, the composition of the Board, and the exercise of direction and control powers.

Each question requires a quantitative assessment and qualitative commentary on the issue under consideration. Counsellors express their level of support for the statements in the interview guide according to an internationally-used scale.

All analyses and comments are processed in an absolutely anonymous manner. By way of example, the following areas are discussed in greater depth: the organisation of the Board of Directors and its Committees, the roles and responsibilities of Directors, the composition of the Board of Directors, the participation and commitment of Directors, communications with Shareholders and Stakeholders, prospects, and the general effectiveness of the Board of Directors.

Examination of company documents.

Hera corporate documentation is analysed in order to understand how deeply the Board and the Committees are involved and to verify aspects such as the frequency and average duration of meetings, methods for presenting proposals, the quality of information provided to the Board, the level of participation of Directors and, where appropriate, managers invited to participate, the contributions Directors make to the debate and the quality of the minutes.

Analyses of international best practices

Interviews with Directors also concern an analysis of the operating practices adopted by the Hera Board of Directors so that these might be compared with best practices.

Interviews with directors showed a very high level of overall appreciation of the way in which the Board operates: the responses, in accordance with the topics proposed in the interview guide, reported 94% agreement.

The company Spencer Stuart, which supported the Board of Directors in this evaluation activity, found a very high level of appreciation compared to other Boards in Italy and abroad.

At its meeting of March 27th 2019, the Board of Directors expressed a positive opinion on the size, composition and functioning of the Board itself, as well as of the Committees into which it is broken down.

In particular, the areas of excellence that were appreciated the most by the Directors are, among others:

- the effectiveness of the actions undertaken by top management to implement the proposals of the Directors following the previous self-assessment;
- the Board of Directors' knowledge of short-term business performance and medium and long-term prospects;
- the climate and methods of holding meetings are characterised by constructive debate among Directors;

the Board of Directors has exercised its role in terms of identifying, managing and controlling risks.

Of the proposals that were identified through the evaluations by Directors, the following are of note:

- to continue with the induction plan on risk and investment issues;
- to continue to organise the annual strategy day as an opportunity for reflecting on the future.

d) Delegated bodies

Hera's Board of Directors includes two executive directors, the Chairman and the Chief Executive Officer, to whom various company sectors report and to whom the consequent powers have been assigned, as explained in greater detail below.

Neither of the two executive directors can be described as the principal supervisor for the management of the company (chief executive officer).

Chairman of the Board of Directors

The Board of Directors passed a resolution to grant the following powers to the Chairman:

1. to chair and direct the Shareholders' Meetings;

to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the CEO;

- to oversee the deliberations of the Company's administrative bodies, without neglecting the reports presented periodically by the Internal Auditing Department;
- to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;
- in cases of urgency, in association with the CEO, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
- in association with the CEO, to propose to the Board of Directors the appointment of Company representatives on the administrative and control bodies of affiliate companies;
- to represent the company in relations with the shareholding Public Authorities;
- to propose to the Board the candidates for membership of the Committees that the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or that it intends to establish;
- to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
- to supervise the Company's performance for the purposes of achieving the corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
- to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
- to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
- to supervise the management of the Company and, as far as his authority permits, of its subsidiaries, reporting each month to the Board of Directors;
- to draw up the Long-term Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;

- to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
- to represent the Company in the shareholders' meetings of companies, associations, entities and bodies that do not constitute joint-stock companies, of which the Company is a member, with the power to issue special proxies;
- to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
- to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (Consob), the Ministry for Foreign Trade, and the Italian Exchange Office, and any other Public Administration or Authority; by way of example:

a) to sign notices, including notices to the General Register of Shares and to Consob, and to fulfil the corporate obligations provided by law and regulations;
b) by submitting reports, motions and appeals, applying for licences and authorisations;

- to represent the Company in all active and passive lawsuits, in all degrees of civil and administrative proceedings, before arbitration boards, with the widest powers to:

a) to bring jurisdictive, conservative, restraining and executive actions, request summary judgements and seizures of property and oppose the same, enter civil proceedings, file motions and appeals;
b) to request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;

- to stipulate and sign contracts and deeds to take on or dispose of shares, to constitute companies, associations and consortiums with a value not exceeding 500 thousand euro for each transaction;
- to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of 300 thousand euro for each operation;
- as far as his authority permits, to stipulate, amend and terminate commercial and service agreements with companies and entities;
- as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of 2 million euro for each transaction;
- to provide for the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:

a) works and supplies necessary for the transformation and maintenance of properties and plants up to an amount of 20 million euro for each individual operation;
b) purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, up to an amount of 10 million euro for each individual operation, as well as finance leases and rentals of such assets, with the cost limit referring to the annual rental;
c) purchases, including those under usage licence with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
d) commercial information;

- to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
- to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international levels, both private and public; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of 25 million euro for each individual operation - in cases of urgency, the decision concerning amounts exceeding 25 million euro will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
- to take out, modify and cancel insurance policies, with the cost limit referring to the annual premium, including for surety policies, up to the value of 500 thousand euro for each operation (this limit will not apply to transactions connected with participation in tenders);
- to draw up, sign and implement deeds of sale, purchase, and expropriation of properties and to grant, modify or cancel the in rem rights associated with these properties, with the option of carrying out all the operations associated with and consequent to this, including paying and/or

receiving, also in instalments, the payment, and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro for each operation;

- to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and initiating expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in instalments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro for each operation;
- to rent or let out properties under leases or subleases and stipulate, amend and terminate the relative contracts;
- to deliberate on the cancellation, reduction or restriction of mortgages or liens registered in favour of the Company, as well as subrogations in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;
- to establish, register and renew mortgages and liens on the account of third parties and to the benefit of the Company; permit mortgage cancellations and limitations on the account of third parties and to the benefit of the Company for return and reduction of obligations; waive mortgages and mortgage subrogations, including those of a legal nature, and effect any other mortgage transaction, always on the account of third parties and to the benefit of the Company, and therefore receivable, exonerating the competent property registrars from each and every responsibility;
- to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of 5 million euro for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
- to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel hiring and management in compliance with the annual budget; propose the engagement of directors for each department to the Board of Directors, in consultation with the Executive Committee; engage, appoint and dismiss personnel in accordance with the provisions contained in the annual budgets; promote disciplinary sanctions, dismissals and any other measure in relation to personnel;
- to represent the Company in all lawsuits pertaining to labour law, including the power to:

a) to mediate individual employment disputes involving all categories of staff;
b) to request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;

- to represent the Company before Social Security and Welfare offices and entities for the settlement of issues relating to employees of the Company, and also before Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the related documents;
- to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
- as far as his authority permits, by deciding on the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than 300 thousand euro for each operation;
- the Chairman is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of June 30th 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;
- the Chairman, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is charged, as far as his authority permit, with the establishment and maintenance of the Internal Control and Risk Management Systems. To this end, as far as his authority permits, he:

a) ensures that the Risk Committee identifies the main business risks, taking into account the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
b) implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their overall appropriateness, effectiveness and efficiency,
c) and ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context.
d) may ask the Internal Auditing Structure to perform checks on specific operational areas, and on compliance with internal rules and procedures in carrying out corporate operations,
e) promptly informs the Control and Risks Committee (or the Board of Directors) regarding problem areas or issues that emerge in carrying out his activities or of which he has been informed, in order that the Committee (or Board) may take appropriate actions.

In relation to the powers listed above, and in conformity with Article 2 of the Code, it is noted that the Board of Directors has granted management authority to the Chairman due to the organisational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's business and strategies. In this regard, the organisational structure provides that the Chairman is responsible for the Central Legal and Corporate Affairs Department, the Central Personnel and Organisation Department, the Central External Relations Department, the Central Planning, Regulatory Affairs and Local Authorities Department, the Central Corporate Services Department and the Investor Relator Department, as well as the businesses related to the activities of Herambiente S.p.A., Marche Multiservizi S.p.A. and AcegasApsAmga S.p.A..

Chief Executive Officer

The Board of Directors passed a resolution to vest the CEO with the following powers:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
    - in cases of urgency, in association with the Chairman, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
    - to implement corporate and Group strategies, within the context of the directives established by the Board of Directors, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
    - to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
    - to draw up the annual budget to be submitted to the Board of Directors;
    - to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
    - to make monthly reports to the Board of Directors, as far as his authority permits, as regards the specified subsidiary companies;
    - to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
    - to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to 1 million euro for each individual transaction;
    - to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising available funds or lines of current account credit;
    - to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
    - to draw bills on customers, endorse also for discount promissory notes, bills and drafts, as well as cheques of any kind, and effect any consequential transaction;
    - to grant credit and accept receivables claimed by suppliers (reverse factoring and/or indirect factoring contracts) for the Company without recourse and/or with recourse up to a maximum amount of 250 million euro per transaction, and to operate with companies and factoring institutions by signing all related deeds;
    - to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank, as well as before the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, and Post and Telegraphic Offices; by way of example:
    a) by signing tax and VAT returns and fulfilling any other tax-related obligations;
    b) by submitting reports, motions and appeals, applying for licences and authorisations;
    c) issuing receipts, in particular for payment orders in relation to credits subject to factoring operations;
    d) by performing any transaction at the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for the shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages or registered and insured letters, issuing receipts for the same;
    - to issue guarantees and grant loans, and sign bank surety agreements up to the value of 500 thousand euro for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
    - to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
    - to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international levels, both private and public; submitting applications for participation as

from the pre-qualification stage; to submit bids up to an amount of 25 million euro for each individual operation - in cases of urgency, the decision concerning amounts exceeding 25 million euro will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, signing the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;

- as far as his authority permits, to stipulate, amend and terminate commercial and service agreements with companies and entities;
- as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of 2 million euro for each transaction;
- to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of 300 thousand euro for each operation;
- to conclude transactions up to an amount of 5 million euro for each individual operation, signing arbitral settlements and compromise agreements, and nominating and appointing arbitrators;
- to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and initiating expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in instalments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro for each operation;
- to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
- as far as his authority permits, to decide on the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than 300 thousand euro for each operation;
- the CEO is assigned the role of "Employer" pursuant to and for the purposes of Article 2 of Legislative Decree 81 of April 8th 2008, and subsequent amendments and integrations, with the duties provided for therein and with the power to delegate, as far as is permitted by said decree, the performance of any activity useful and/or necessary for ensuring compliance with the provisions of the law, with the exception of the following Sectors/Structures, for which the role of Employer is attributed as indicated below:

a) Marcello Guerrini, as Corporate Systems Central Director.
b) Roberto Barilli, as Operations General Director and in particular for the regulated services planning and coordination department
c) Salvatore Molè, as Central Innovation Director.
d) Franco Fogacci, as Director of Water;
e) Antonio Dondi, as Director of Environmental Services;
f) Cristian Fabbri, as Director of the Central Market Department (especially for activities regarding district heating, the Imola cogenerator productive unit and all the plants and activities falling under this authority).

- the CEO is responsible for managing activities relating to the Register of Freight Carriers, with the power of delegation;
- the CEO, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is charged, as far as his authority permits, with the establishment and maintenance of the Internal Control and Risk Management Systems. To this end, as far as his authority permits, he:

a) ensures that the Risk Committee identifies the main business risks, taking into account the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
b) implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their overall appropriateness, effectiveness and efficiency,
c) and ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context.
d) may ask the Internal Auditing Structure to perform checks on specific operational areas, and on compliance with internal rules and procedures in carrying out corporate operations,
e) promptly informs the Control and Risks Committee (or the Board of Directors) regarding problem areas or issues that emerge in carrying out his activities or of which he has been informed, in order that the Committee (or Board) may take appropriate actions.

The organisational structure provides that the Chief Executive Officer is responsible for Central Administration, the Finance and Control Department, the Central Innovation Department, the Corporate Social Responsibility Department, the Business Development and Subsidiaries Department and the Central Market Department, as well as the General Operations Department.

Information to the Board

In conformity with the recommendations of the Code, the delegated bodies report to the Board of Directors and to the Board of Statutory Auditors, at least every three months, on the activities carried out in exercising the powers delegated to them.

The Chairman, so as to guarantee the timeliness and completeness of pre-council briefing, ensures that each director and statutory auditor has at their disposal all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors at least three days before the meeting, with the exception of cases of necessity and urgency.

Lastly, the Chairman and the CEO ensure that the Board of Directors is also informed on the most important changes in legislation and regulations relating to the Company and the corporate bodies.

e) Executive Committee

The Board of Directors, appointed during the Shareholders' Meeting of April 27th 2017, in office until the natural expiration of the administrative body's term, and therefore until the approval of the financial statements as of December 31st 2019, as provided for by Article 23.3 of the Articles of Association, at its meeting of May 10th 2017, appointed as Chairman of the Executive Committee Tomaso Tommasi di Vignano - Chairman of the Executive Committee; Giovanni Basile as Vice Chairman of the Executive Committee; and Stefano Venier and Federica Seganti as committee members;

Subsequently, following the resignation of Federica Seganti from the position of member of the Executive Committee on November 8th 2018, the Board of Directors, which met on the same date, appointed Alessandro Melcarne to replace her.

In view of the above, the Executive Committee thus has the following composition:

Tomaso Tommasi di Vignano	Chairman of the Executive Committee
Giovanni Basile	Vice Chairman of the Executive Committee;
Stefano Venier	Member of the Executive Committee.
Alessandro Melcarne	Member of the Executive Committee.

With regard to the annual definition of the Group business plan and the budget and to the proposals for the appointment of first level senior executives for each departmental area, the Committee has the task of expressing an opinion prior to presentation to the Board of Directors, and also of deciding:

1. as to contracts and agreements in any way pertaining to the corporate purpose with a value exceeding 2 million euro for each individual contract;
2. in the interests of the Company, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, with a value exceeding 300 thousand euro and up to 1 million euro for each operation;
3. as to the Company's subscription to bodies, associations and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the said entity and where participation in the same involves an outlay of more than 300 thousand euro and up to 1 million euro for each operation;
4. to settle disputes and/or waive credits of an amount exceeding 5 million euro;
5. as to the activation, amendment and termination of contracts for the opening of lines of credit or loans of any type and duration involving a cost commitment of more than 1 million euro and up to 5 million euro for each operation;
6. as to issuing calls for tender and/or the stipulation, amendment and termination of contracts for investments relating to:
    - works and supplies necessary for the transformation and maintenance of properties and plants for an amount exceeding 20 million euro for each operation;
    - purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding 10 million euro for each operation.
    - In addition, the Committee is responsible for:
7. examining Audit Reports on a three-monthly basis;
8. supervising, in conformity with the system of delegations defined within the Company, the implementation of the action plans arising from the audit reports;
9. examining the reports for the mapping and monitoring of financial risks on a three-monthly basis.

The Board of Directors met on 6 occasions in 2018, and all of the meetings were attended by all members. The average duration of the meetings of the Executive Committee was approximately one hour and forty minutes.

f) Independent directors
There are currently 13 directors qualifying as non-executive independent members of the Board, Giovanni Basile, Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Stefano Manara, Danilo Manfredi, Alessandro Melcarne, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola and Giovanni Xilo, in the sense that they meet the independence requirements set out in the Code of Conduct and in article 148, paragraph 3 of the TUF.
Specifically, the above mentioned directors declared that:

- they do not control the issuer directly or indirectly, including via subsidiary or trust companies or third parties; they do not exercise significant influence over the issuer; they are not party to any shareholders' agreement whereby one or more parties may exercise control or significant influence over the issuer;
- they are not currently, nor have they been in the last three financial years, important representatives of the issuer, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the issuer, or of a company or body which, also together with others as a result of shareholders' agreements, controls the issuer or is able to exercise significant influence over it;
- they do not currently have, nor have they had in the previous year, either directly or indirectly, any significant commercial, financial or professional relationship:
    - with the issuer, one of its subsidiaries or any of the related important representatives;
    - with a party who, alone or with others as a result of shareholders' agreements, controls the issuer, or - in the case of companies or bodies - with the related important representatives, and who have not been employees of one of the aforementioned parties in the last three financial years;
- they have not received in the last three financial years, from the issuer or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the issuer's non-executive directors and the remuneration for participation in internal committees, including participation in incentive schemes linked to the company's performance, even share-based;
- they have not held the office of executive director in another company in which an executive director of the issuer holds the office of director;
- they are not shareholders or directors of a company or entity belonging to the network of the firm appointed to audit the issuer's accounts;
- they are not close relatives of a party in one of the positions described in the previous points.

The independence of these directors was assessed by the Board of Directors at the time of their appointment, and the Board announced the outcome in a press release distributed to the market.
The following circumstances do not invalidate the requirements of independence of a director: the appointment of the director by the shareholders or group of shareholders controlling the Company; the holding of the office of director of a subsidiary of the Company and receiving the related remuneration; the holding of the office of member of one of the advisory Committees cited below.
Although none of the current independent directors has been covered by such conditions for more than nine years, the Board of Directors, as in previous years, reserves the right to assess the independence of its members in relation to the requirement of duration of the appointment, on a case-by-case basis, in accordance with the principle of substance over form.

At its meeting of March 27th 2019, in light of the statements made by each non-executive director and taking into account that the Board of Directors is not aware of any statements by the current non-executive directors such as to compromise or condition their independence of judgement, the Board of Directors confirmed its assessment of the independence of its members.
The Board of Statutory Auditors, in conformity with the provisions contained in Article 3 paragraph 5 of the Code, has checked the correct application of the criteria and assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.
Over the course of 2018, independent Directors, in conformity with the provisions of Article 3 paragraph 6 of the Code of Conduct, met independently and autonomously on December 19th 2018.

Lead independent director
Independent directors have the right to appoint a Lead independent director, although the requirements set out in the Code of Conduct for appointing such a figure do not apply in this case, since the Chairman is not the main figure responsible for managing the company and does not control the issuer.
To date, this power has not been exercised and the Board of Directors has therefore not appointed a Lead independent director.

5. Handling of corporate information

For the purposes of governing the communication to the sector Authorities and to the public of notices, data and price-sensitive information pertaining to the management and activities carried out, whose dissemination might have an impact on the processes used for valuing the Company's shares, and consequently on the levels of demand and supply of those shares, beginning July 3rd 2016 the Board of Directors updated the Group's procedure, introducing the new regulations of the European Market

abuse regulation (MAR) (EU regulation 596/2014, Directive 2014/57/UE, implementation regulations UE 2016/347 and 2016/1055), as well as the guidelines Consob issued on this topic in October 2017.
This procedure is aimed at:

- **I.** identifying and ascertaining specific confidential and relevant information, i.e. information relating to data, events, projects or circumstances that may become insider information and, consequently, affect the price of Hera shares;
- **II.** defining procedures for authorization and management within the Group;
- **III.** governing the procedures for external communication in terms of documentation, notices issued, interviews given, statements made and meetings conducted.

The purpose of the abovementioned procedure is to identify the corporate functions that support top management in identifying and mapping relevant information, as well as the persons who have access to it and the moment when it may become insider information, on the basis of the assessments carried out by top management itself.
In compliance with the provisions of the Consob guidelines, a so-called "Relevant Information List" ("RIL") was established, including the names of the persons who have access to the relevant information that were identified as a result of the mapping activity. The RIL is added to the existing list of people with access to privileged information, whose management and maintenance procedures have already been updated in compliance with the provisions introduced by the MAR (EU Regulation 596/2014, Directive 2014/57/EU, EU Implementing Regulation 2016/347), which specifically broadened the concept of privileged information, by establishing that it is precise information, which has not been publicly disclosed, relating, directly or indirectly, to one or more issuers or one or more financial instruments and that, if it were to be released publicly, would be likely to have a significant effect on the prices of those financial instruments or on the prices of related derivative financial instruments, and introduces the concept of inside information.
Additionally, in applying the new procedure regarding internal dealing updated by Hera S.p.A. following the introduction of the MAR (EU Regulation 596/2014, of Directive 2014/57/UE, implementation regulation UE 2016/523 and 2016/522) the following individuals have been identified as significant parties obliged to inform Consob of the transactions they have carried out on Hera S.p.A.'s financial instruments: the members of the Board of Directors, the Statutory Auditors, the general directors and the shareholders who hold an equity investment calculated in compliance with Art. 118 of Consob Issuers' Regulation, equal to at least 10% of total voting rights comprising the Company share capital as well as the people closely related to these. This procedure regulates the timescales and procedures for communication of the operations carried out by the significant parties. Hera S.p.A. has identified the Legal and Corporate Affairs Department as the entity responsible for receiving, managing and disseminating this type of information to the market.
The responsible entity will utilize the External Relations Department for disseminating the information to the market.

6. Internal Committees of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the Tuf)

The internal committees, established pursuant to the Borsa Italiana S.p.A.'s Code of Conduct, represent an internal organ of the Board of Directors with the role of consulting and making proposals; their composition is available on the www.gruppohera.it website..
These committees work on the basis of internal regulations and / or communicational rules towards the Board of Directors designed to guarantee correct and efficient operation.
The Board of Directors, renewed on April 27th 2017, redefined the composition of the afore-mentioned committees at its meeting of May 10th 2017.

a) Appointments Committee
It was decided that the Board of Directors would fulfil the functions of the Appointments Committee, also in view of the fact that the appointment of Board of Directors members is carried out by shareholders through list voting at the Shareholders' meeting.

b) Remuneration Committee
The Remuneration Committee is tasked with periodically assessing the adequacy, overall consistency and concrete application of the policy adopted for the remuneration of executive directors and executives with strategic responsibilities, making use, for this purpose, of the information provided by the managing directors.
The Committee also submits proposals to the Board or expresses opinions on the remuneration of executive directors and other directors holding particular offices, as well as on the setting of performance objectives related to the variable component of such remuneration; it also monitors the actual achievement of performance objectives.
In the performance of its functions, the Controls and Risks Committee had access to the information and business functions necessary for carrying out its duties.
This Committee, whose composition was initially established in the November 4th 2002 meeting of the Board of Directors and recently renewed on May 10th 2017, is made up of the following non-executive independent directors: Giovanni Basile as Chairman, Francesca Fiore, Massimo Giusti and Stefano Manara.

The Chairman Giovanni Basile as well as the member Massimo Giusti have experience in financial matters judged adequate by the Board of Directors at the time of the appointment. At the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO, may attend the Committee's meetings.
The remuneration Committee met on 4 occasions in 2018. All the members took part in 3 of these meetings, while almost all of them took part in the remaining 1. The average duration of the meetings of the remuneration Committee, regularly reported, was approximately one hour and forty minutes.
It is noted that, in 2018, the remuneration Committee handled matters relating to remuneration policies, subject to adoption by the Board of Directors at the time of approving the 2018 financial statement.
After the renewal of the Board of Directors during the Shareholders' Meeting of April 27th 2017, the remuneration Committee proposed to introduce a claw-back clause, providing for ex-post correction mechanisms of the system of remuneration of executive directors, as well as the clause that provides, in the event of resignation, dismissal or termination of office of the latter, a compensation allowance in the amount of 18 months of salary.
For information relating to this Section, please refer to the Remuneration Report pursuant to Article 123-ter of the Tuf.

c) Controls and Risks Committee

Composition and functioning of the Controls and Risks Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the Tuf)
As established by the Code, the Board of Directors, at its meeting of 4 November 2002, passed a resolution to establish the Internal Controls Committee: Subsequently, during the course of the Company's Board of Directors meeting that took place 17 December 2012, in application of updates to the Code of Self-Discipline, the Internal Control Committee took on the additional function of Risk Management Committee in order to manage the Company's risks and support the administrative body in associated assessments and decisions. This Committee, whose composition was renewed on April 27th 2017, is made up of Giovanni Basile as Chairman, Erwin Paul Walter Rauhe, Duccio Regoli and Sara Lorenzon. The Chairman Giovanni Basile as well as the member Erwin Paul Walter Rauhe have experience in accounting and financial matters judged adequate by the Board of Directors at the time of the appointment.
The Controls and Risks Committee met on 7 occasions in 2018, and all of the meetings were attended by all members. The average length of the meetings of the Internal Controls Committee was approximately one hour and five minutes.

Functions assigned to the Controls and Risks Committee
The Controls and Risks Committee oversees the internal auditing system, the efficiency of corporate operations, the reliability of financial reporting to social bodies and the market, as well as the protection of company assets.
The Controls and Risks Committee is tasked with supporting the decisions and assessments of the Board of Directors in relation to the internal control and risk management system and concerning the approval of periodic financial reports through adequate surveying and evaluative activities.
In carrying out its supportive role in relation to the Board of Directors, the Committee therefore expresses its judgment concerning:
a) the definition of the guidelines of the internal control and risk management system in such a way that the primary risks faced by HERA and its subsidiaries are identified correctly and properly measured, managed and monitored, determining moreover the compatibility criteria of such risks with healthy and proper corporate management;
b) at least on a bi-annual basis, the adequacy and effectiveness of the internal control and risk management system in relation to the characteristics of the enterprise and the risk profile it has assumed;
c) at least on an annual basis, the work plan drafted by the Supervisor of the Internal Auditing Structure in consultation with the Board of Statutory Auditors and the Directors in charge of the internal control and risk management system.

In addition, in order to aid the Board of Directors, the Committee specifically:

- together with the Appointed Manager in charge of drafting corporate financial documents and in consultation with the legal auditor and Board of Statutory Auditors, evaluates the proper use of accounting principles and their homogeneity in relation to drafting balance sheets and financial statements more generally;
- expresses its judgment regarding specific aspects of the identification of primary corporate risks;
- analyses periodic reports concerning the assessment of the internal control and risk management system as well as those drafted on at least a bi-annual basis by the Supervisor of the Internal Auditing Structure;
- communicates to the Board of Directors its preventative judgment regarding the proposals developed by the Directors in charge of the internal control and risk management system in relation to measures regarding the appointment and dismissal of the Supervisor of the Internal Auditing Structure, allotting this figure adequate resources for the completion of his or her

responsibilities as well as establishing appropriate remuneration in keeping with corporate policies;
- monitors the autonomy, effectiveness and efficiency of the Internal Auditing Structure;
- evaluates the findings of the Internal Auditing Structure Supervisor's reports, of statements from the Board of Statutory Auditors and each of its individual members, of reports and any possible management letters from Independent Auditors, and of surveys and investigations carried out by other committees of the company and third parties;
- may ask the Internal Auditing Structure to perform checks on specific operational areas, contextually communicating the results to the president of the Board of Statutory Auditors;
- communicates to the Board of Directors about the activities performed by and the adequacy of the internal control and risk management system at least on the occasion of the annual and bi-annual approval of the financial statement.

During the course of the meetings held during 2018 financial year, which were duly recorded, the following measures were carried out:
- examination and approval of the periodic reports;
- updating of ongoing and completed audits;
- illustrating the new Erm map;
- approving the Group's risk assessment, the 2019/2021 audit plan and of the budget for 2019 of the Internal Auditing Department Management;
- approving the revision of the mandate and the manual of the Internal Auditing Department Management.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman and, at the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO, attend the Committee's meetings.
In the performance of its functions, the Controls and Risks Committee had access to the information and business functions necessary for carrying out its duties.
In relation to 2018, and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy and efficacy of the internal control and risk management system in relation to the features of the company and the type of risk undertaken;

d) Ethics and Sustainability Committee

Composition and functioning
During its meeting of 12 September 2007, the Board of Directors of Hera S.p.A. established the text of the mission and values and working principles of the Group, and consequently approved the updated version of the Code of Ethics that constitutes a social responsibility tool for the Company in implementing ethical principles inspired by good practices and aimed at the pursuit of the Company's mission.
Consequently, in application of the aforementioned Code, the Board of Directors, at its meeting of October 8th 2007, set up a suitable Committee comprising 3 members, specifically one director of the company and a manager with expertise in matters of social responsibility and the matters dealt with in Legislative Decree. 231/01, additionally highlighting that at least one member must be external.
Subsequently, in its November 8th 2018 meeting, Hera's Board of Directors, in conformity with the provisions of Article 4 (Establishment and functioning of the internal committees to the Board of Directors) of the current Code of Conduct for Listed Companies of Borsa Italiana S.p.A., deemed it appropriate to entrust the Ethics Committee with the functions of overseeing sustainability issues related to the conduct of the Company's business and its dynamics of interaction with all stakeholders, also deciding to change its name to "Ethics and Sustainability Committee" and to expand its structure, increasing the number of members from three to four, two of whom Directors of Hera S.p.A..
This Committee, renewed on May 10th 2017, comprises two directors of Hera S.p.A. in the person of Massimo Giusti, Chairman, and Federica Seganti, appointed on November 8th 2018, as well as Mario Viviani and a manager with expertise in matters of social responsibility.
At its meeting of February 15th 2017, the Board of Directors of Hera S.p.A. approved a new update of the Code, adopting its fourth edition, following a process of sharing with the social partners, as well as benchmarking analyses on similar companies and forums involving executives and managers of the Company.
The Ethics Committee met on 8 occasions in 2018. All the members took part in 7 of these meetings, while almost all of them took part in the remaining 1; The average duration of the meetings of the Ethics Committee was approximately one hour and thirty minutes

Functions of the Ethics and Sustainability Committee
The Ethics and Sustainability Committee is responsible for monitoring the dissemination and implementation of as well as compliance with the principles of the code of ethics. Since 2008, the year the Code of Ethics came into effect, a confidential and direct channel of communication with the committee was established for all the stakeholders interested in reporting any possible conduct in violation of the code and the values promoted by the Group.

During the meetings held during the year, the Committee reviewed the reports sent and the resulting investigations carried out with the relevant departments, as well as acknowledged the contents of the resolution of the Board of Directors of Hera S.p.A.of November 8th 2018 on the new name and additional responsibilities attributed to the Committee.

7 Internal Control and Risk Management System

The Internal Control and Risk Management System is integrated into the broader organizational and corporate governance structures adopted by Hera and duly considers the recommendations of the Corporate Governance Code for Borsa Italiana S.p.A. listed companies, reference models and best practices at national and international levels.

Risk Corporate Governance within Hera

Hera's organizational structure is designed for optimal management of any risk exposure arising from its business; it benefits from an integrated approach, aimed to uphold management effectiveness and profitability across the entire value chain.

Hera's corporate governance for risk management enables organisational strategies to be handled uniformly and consistently (Enterprise risk management). In such a system:

- the Board of Directors plays a guiding role and assesses the adequacy of the internal auditing and risk management system;
- the President and CEO supervise - within their ambits -the internal auditing and risk management functionality;
- the Vice President oversees coordination between the Risk Committee and the Audit and Risk Committee;
- the Controls and Risks Committee supports the Board of Directors in defining internal monitoring and risk management guidelines;
- the Risk Committee is the main policy-making, auditing and reporting organ for risk management; besides setting the general risk management guidelines, it maps and screens business risk, ensures that Risk Policies are set forth and outlines the information protocols targeted to the Audit and Risk Committee, to the Internal Auditing Management and to the Statutory Auditors.

Risk monitoring and management are functionally separated roles in Hera, and risk owners are in charge of the different organizational sections that deal with governance and with the adequacy of assessment in risk management processes.

More specifically, the correct and effective functioning of the Internal Control and Risk Management System is monitored centrally ,through a broad mandate entrusted to the Internal Auditing department, which reports directly to the Vice Chairman.

The new corporate body responsible for supervising the issue of risk is described in more detail below.

The Risk Committee

The Risk Committee was appointed by the Board of Directors on 28th April 2014 and consists of: Hera S.p.A.'s Executive Chairman, Vice Chairman and Chief Executive Officer; the Central Director of Administration, Finance and Control; the Central Director of Market, and the Enterprise Risk Manager. In relation to specific pertaining issues, the Central Director of Legal and Corporate Affairs, the Central Director of Corporate Services, the Central Director of Innovation and the Executive director of Hera Trading Srl are also expected to attend.

The Risk Committee is the principal policy-making, monitoring and reporting organ for risk management and is responsible for

* defining the general guidelines for the Risk Management process;
* providing for the mapping and monitoring of corporate risks;
* ensuring that risk policies and measurement parameters are defined and submitted for approval to the Hera S.p.A. Board of Directors;
* reporting to the Board on a half-yearly basis regarding the risk situation and management;
* defining and securing the information protocols towards the Audit and Risk Committee, the Internal Auditing Direction and the Board of Auditors.

Key risks covered in the Risk Committee refer to the following areas: strategy, energy, finance, credit, insurance, information and communication technology, safety and environment, and business continuity.

In 2018, the Risk Committee met four times and provided risk management information to the Board of Directors at its meetings of February 21st and July 30th 2018.

The Group's risk management structure

In the overall design of the risk management process, Hera adopted an structured approach, in line with industry best practices, through the introduction of Enterprise Risk Management (ERM). ERM is aimed at establishing a systematic, consistent approach to risk control and management, and to create an effective guidance, monitoring and representation model, aiming to the adequacy of management processes and to their consistency with the final administration targets.

In particular, this approach is aimed at providing the Board of Directors with the elements useful for assessing the nature and level of corporate risk, particularly in the medium to long term, in order to define a risk profile compatible with the strategic objectives of the group. The definition of this profile is made explicit through the approval by the Board of Directors of the Hera Group risk management policy and the risk limits thereby specified. More specifically, the policy defines the group's stance on risk issues and identifies its Risk Management Framework, detailed through 3 fundamental elements:

- the Risk Model, identifying the reference scope for all risk management analysis carried out by the Group *it defines the universe of risks, i.e. the types of risks to which the Group is potentially exposed, which are subject to periodic review on the basis of the evolution of the mission, the strategic objectives and the scope of the Group's business, as well as the socio-economic context;
- the Group's Risk propensity, which defines acceptable risk levels consistently with a given risk management strategy. This is defined through the identification of:
  - key risk levels, i.e. the most significant risk factors on which the Group intends to base its risk propensity;
  - risk metrics necessary for measuring the exposure arising from a given risk factor;
  - limits associated with each key risk level, which explain the relative maximum level of risk tolerated by the Group in the pursuit of its objectives;
  - monitoring, escalation and updating processes, aimed at ensuring the timely identification of any breaches of defined risk limits, the identification and implementation of corrective actions, the correct monitoring of all areas of significant risk and the alignment of the limits to the group's risk propensity;
- Risk management activities, outlined in
  - the Enterprise risk management, aimed at analysing the evolution of the overall risk profile of the Group, the results of which are the tool to support the informed risk assumption and the definition of strategic objectives;
  - continuous risk management, which for specific risks requires sector-specific methods of continuous management entrusted to dedicated risk specialists/risk owners, according to processes and methodologies specifically developed and formalised within the reference risk policies that guarantee effective control of the entire universe of the main risks to which the Group is potentially exposed, as well as the management of the Group's overall exposure in line with what is expressed in the Group's propensity to risk and with the objectives of the industrial plan.

On January 20th 2016, the first Erm report was submitted to the Board of Directors, mapping the Group's risks, accompanied by the adequate assessment of each individual risk and for the consolidated risk (impact, probability, severity, control levels). At that meeting, the Board of Directors approved the Hera Group risk management policy and risk limits for 2016.
On February 15th 2015, the second Erm report was submitted to the Board of Directors, expanding the scope of reference, the sphere and type of the risk subject to control. At that meeting, the Board of Directors approved the Hera Group risk management policy and risk limits for 2017.
On September 27th 2017, a report was submitted to the Board of Directors on the Group's risk management activities.
In particular, the following topics were further analysed:

- the lines for defending against risks and the structure of governance;
- compliance with Law 262/2005 and compliance with legislative decree 231/2001, explaining the role of the appointed Manager and of the Supervisory Body in their respective reports to the Board of Directors;
- the governance of risk management, explaining the role of the Risk Committee, in particular in communicating information flows to the Board of Directors, the Board of Statutory Auditors, the Controls and Risks Committee and Internal Auditing, and the governance system implemented through the adoption of the Erm with the attribution of the strategic guidance role to the Board of Directors, responsible for deciding on the Group's risk profile and approving the Hera Group risk management policy guidelines.

On January 10th 2018 the third Erm report was submitted to the Board of Directors.
On January 10th 2019 the fourth Erm report was submitted to the Board of Directors, expanding the scope of reference, the sphere and type of the risks subject to control and backtesting the risks associated with the previous Erm analysis. Furthermore, the risk limits for the year 2019 were approved, and the Hera Group risk management policy was updated.

a) The risk management and internal control system in relation to the financial information process

Introduction

The internal control and risk management system specific to financial reporting is designed to ensure the reliability, accuracy and timeliness of company information on financial statements and the ability of the relevant business processes to produce such information in accordance with the Group's accounting principles.

The internal control and risk management system in relation to Hera's financial information process is inspired by the CoSO Framework (issued by the Committee of Sponsoring Organizations of the Treadway Commission), an internationally recognized model.
The definition of the internal control and risk management system was established in keeping with applicable norms and regulations:

- Legislative Decree of February 24th 1998, 58 and following. Art. 154-bis of Tuf;
- Law 262 of December 2005 (and following changes, including the Legislative Decree to assimilate the Transparency Directive (2004/109/CE) regarding information on listed companies, approved on October 30th 2007, regarding the drafting of corporate financial document;
- Consob Issuers' Regulation of May 4th 2007, Statement of the Appointed Manager in charge of drafting corporate financial documents and of the designated administrative authorities in relation to financial and consolidated financial statements as well as to the biannual report, in compliance with article 154-bis of the Tuf; ;
- Consob Issuers' Regulation of April 6th 2009, Assimilation of the Transparency Directive 2004/109/CE concerning the harmonization of transparency requirements in relation to information about the issuers whose movable value are permitted to enter negotiations in a regulated market, modifying directive 2001/34/EC;
- The Civil Code, which extends responsibility to the Appointed Managers in charge of drafting corporate financial documents (Article 2434 c.c.) for corporate management, for disloyalty crime originating from conferred or promised utility (Article 2635 c.c.) and for the crime of obstructing the functions of public and surveillance authorities (Article 2638 c.c.);
- Legislative Decree 231/2001 that references the above-mentioned regulations of the Civil Code and the administrative responsibility of legal subjects for crimes committed against the Public Administration and includes the Appointed Manager in charge of drafting corporate financial documents among the Apical Subjects.

Moreover, in the implementation of the system, the Group has taken under consideration the recommendations provided by some authorities in the sector (Andaf, AIIA and Confindustria) concerning the activities of the Appointed Manager.

Description of the primary features of the internal control and risk management system in relation to the financial information process

As part of the internal control and risk management system pertaining to the financial information process, the Appointed Manager has set up an administrative and financial control Model - Regulation of the Appointed Manager for drafting corporate financial documents (hereafter also "The Model") approved by the Hera S.p.A. Board of Directors in the meeting held May 27th 2018, outlining the adopted method and associated roles and responsibilities in relation to defining, implementing, monitoring and updating the financial-administrative procedural system over time and in assessing its adequacy and effectiveness.
Hera's administrative and financial control Model defines a methodological approach for the internal control and risk management system in relation to financial information processes that is structured through the following steps:
Risk assessment for the identification, updating and evaluation of risks regarding company information;
Identifying controls and updates for the financial-administrative procedures in view of the identified risks;
Evaluating the identified risks.

Step 1: Risk Assessment

represents the process of identifying and/or updating the risks connected to the financial statement (risks of unintentional errors or fraud) that might have an effect on the financial statement, and is carried out under the supervision of the Appointed Manager, at least on an annual basis.
This process aims at identifying the set of objectives that the system seeks to pursue in order to ensure a truthful and accurate representation. Risk Assessments, carried out according to a top-down approach, concentrates on those areas of the financial statement wherein potential effects on financial information have been located in relation to the failure to achieve these control objectives.
As part of the process of Risk Assessment, the following tasks are carried out:

- identifying and/or updating the Group companies considered relevant in view of the proper functioning of the Group's control system for corporate reporting;
- identifying and/or updating the list of corporate processes that have been identified as relevant in view of the proper functioning of the Group's financial and administrative control system;
- reviewing the overall adequacy of the current Financial and Administrative Control Model.

The process for determining the scope of the Companies and relevant processes in terms of their potential impact on the financial statement is aimed at identifying the Subsidiary Companies, the accounts and processes associated with them, and any other financial information considered to be relevant. The evaluations are carried out using both quantitative standards and qualitative parameters.

Step 2: Identifying controls and updates for the financial-administrative procedures
An identification of the necessary checks for mitigating the risks that were identified in the previous step is carried out taking into consideration the control objectives associated with the financial statement.
Based on the above, Hera S.p.A. has established an internal control system under which the directors of corporate functions verify the design and operating effectiveness of control activities, at least once per year, each for the areas under his or her jurisdiction.
The results of periodical updates applied to procedures and associated controls are communicated to the Appointed Manager by the directors of corporate departments. The directors of corporate departments provide for updating/modifying the financial-administrative procedures in relation to the areas under their managerial responsibility at least once per year.

Step 3: Periodic evaluation of financial-administrative procedures and the controls they contain
The identified controls are periodically assessed in terms of their adequacy and actual effectiveness through specific testing activities according to the best practices established for the area in question.

In the course of these activities, the Appointed Manager evaluates at each given time what degree of involvement, of the directors of corporate departments and of contact persons within the Subsidiary Companies, is necessary for carrying out assessment activities.
On a bi-annual basis, the Hera S.p.A. Appointed Manager and CEO receive specific internal statements from Hera Group subsidiary companies and relevant connected companies in reference to the completeness and reliability of information flows for the purposes of financial reporting.

On a bi-annual basis, the Appointed Manager defines a series of reports synthesizing the results of the assessments of controls in relation to the risks previously identified on the basis of the outcomes of the monitoring activities performed.
After having been shared with the CEO, the prepared Executive Summary is communicated to Hera S.p.A.'s Board of Statutory Auditors, the Controls and Risks Committee and the Board of Directors.

Roles and functions involved
The internal control and risk management system concerning financial reporting is governed by the Appointed Manager in charge of drafting corporate financial documents who, in agreement with the CEO, is responsible for planning, implementing, monitoring, and updating the financial and administrative control Model over time.
In performing his or her activities, the Appointed Manager:
- is supported by a specific function called Compliance 262, part of the staff of the Administration, Finance and Control Group Director, established by SO no. 49 of November 30th 2013, taking effect beginning November 1st 2013;
- is supported by the directors of corporate departments who, within their areas of responsibility, ensure the completeness and reliability of information flows directed toward the Appointed Manager for the purposes of preparing the financial reporting documents;
- coordinates the activities of the Administrative Managers of the relevant subsidiaries who are tasked with implementing, within their companies, and together with the delegated bodies, an adequate financial control system to safeguard the administrative-financial processes;
- initiates a reciprocal information exchange with the Controls and Risks Committee and the Board of Directors, communicating about the activities performed and the adequacy of the financial and administrative control system.

Lastly, the Board of Statutory Auditors and Supervisory Board are informed about the adequacy and reliability of the financial-administrative system.

b) Administrator in charge of the internal control and risk management system
Most recently with the resolution of April 27th 2017, the Board of Directors has set forth that, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, the Chairman and CEO are charged, as far as their authority permits, with establishing and maintaining the Internal Control and Risk Management Systems.
The Chairman and CEO, in keeping with their mandates:
- ensure that the Risk Committee identifies the main business risks, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and periodically present those risks for examination by the Board of Directors;
- implement the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their appropriateness, effectiveness and efficiency.

The corporate heads may request that the Internal Auditing Manager carry out risk assessment operations on specific operational areas and compliance with internal rules and procedures in carrying out corporate operations.

c) Internal auditing department manager

The correct and effective functioning of the Internal Control and Risk Management System is monitored centrally ,through a broad mandate entrusted to the Internal Auditing department manager, appointed over the course of 2017, who reports directly to the Vice Chairman.

The Internal Auditing Manager provides a report on his or her activities, every three months or whenever he or she considers it necessary, to the CEO, the Chairman of the Board of Directors, the Internal Controls and Risks Management Committee and the Board of Statutory Auditors. He or she is hierarchically independent of the heads of operational divisions and may have direct access to all information necessary for the performance of his or her duties.

Through the establishment of an adequate Risk Assessment and three-yearly Audit Plan:

- provides a synthetic and comparative assessment of the primary risk areas and associated control systems, performing updates through the meetings that take place with management;
- according to the varying level of risk of corporate processes, prioritizes the duties of the Internal Auditing department.

d) Organisational model pursuant to Legislative Decree no. 231/2001

of Legislative Decree 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. In particular, the law introduced the criminal liability of entities for certain offences committed in the interest or to the advantage of those entities by persons fulfilling roles of representation, administration or management of the entity or of one of its organisational units with financial and operational independence, or by persons who exercise management and control thereof, including on a de facto basis, and lastly, by persons subject to the direction or supervision of one of the above-mentioned parties. Significant offences are those committed against Public Administration and corporate offences committed in the interest of the companies.

However, Articles 6 and 7 of Legislative Decree no. 231/2001 provide for a form of exoneration from liability where (i) the entity proves that it adopted and efficiently implemented, prior to the commission of the act, appropriate organisational, management and control models for preventing the perpetration of the offences considered by the said decree; and (ii) the duty of supervising the functioning of and compliance with the models, as well as providing for their updating, is entrusted to a body of the entity that is vested with autonomous powers of initiative and control.

To this end, on February 16th 2004, the Board of Directors of Hera S.p.A. approved and subsequently updated, also in the light of the provisions introduced by Law no. 81/2008 and Legislative Decree no. 97/2016, the organisational, management and control model pursuant to Legislative Decree no. 231/2001, with the aim of creating a structured and organic system of control procedures and activities to prevent commission of the offences referred to in the aforementioned decree, by identifying the activities exposed to a risk of offence and implementing suitable procedures for those activities.

At present, the organisational, management and control model pursuant to Legislative Decree no. 231/2001 includes 22 protocols, implemented over time and relating to individual sensitive areas, aimed at ensuring transparency and a sense of responsibility in both internal and external relations.

For each "risky" process, the protocols identify the principles, roles and responsibilities to be complied with in managing activities and defining the periodic control information flows.

Each protocol ensures that the Supervisory Board constantly monitors activities at risk.

The procedures adopted embrace the principles of the Code of Ethics with the aim of guiding the Group's management according to the values and operating principles defined in the Charter of Values.

Risk factors and critical issues have been identified and weighed carrying out a risk assessment activity on the Group's business areas and infrastructure processes. The specific risks regarding the topics of the 231 are defined by the Supervisory Body in an annual audit plan that takes into account risk assessments, the assessment of new processes, regulatory developments and the extension of the scope of activities of the Group companies.

The Model provides for permanent verification of legal compliance, the preparation of an Audit Report on the effective implementation of protocols in the companies of the Group included in the scope of 231, the provision of assistance in the preparation of the Return Plans adopting the recommendations made in the reports, a specific follow-up activity aimed at verifying the implementation of the return plans and the effective overcoming of the critical points highlighted.

The Model provides for information and training for those involved in sensitive processes in order to raise awareness on forbidden and mandatory conduct, create awareness on related ethical conduct and promote a group culture in the management of corporate risks.

The bi-annual analysis by the Supervisory Board monitoring information flows on activities at risk is an integral part of the model.

Every three years, a risk analysis document is drawn up for the entire Group, with the associated revision plan, the last of which concerns the 2019-2021 period.

The organisational, management and control model pursuant to Legislative Decree no. 231/2001 has also been adopted by subsidiaries with strategic importance.

The Board of Directors set up a supervisory board, by approving the associated regulation.

This board, currently comprising the head of Internal Auditing of Hera S.p.A. as Chairman, the head of Legal and Corporate Affairs of Hera S.p.A. and the head of the Internal Auditing of Hera S.p.a., is tasked specifically with periodically reporting to the corporate bodies of Hera S.p.A. on the implementation of said model, pursuant to Legislative Decree 231/2001 and will remain in office until

the date of the Shareholders' Meeting convened to approve the financial statements as of December 31st 2019.
The Supervisory Board met on 7 occasions in 2018. All the members took part in 6 of these meetings, while almost all of them took part in the remaining 1.
The average length of the meetings of the Supervisory Board was approximately one hour.
The Supervisory Board approved and updated the 231 protocols that make up the organisational model, examined the system of information flows that allow it to supervise the functioning of and compliance with the models, as well as examining the reports that followed from the audits and examining legislative developments pursuant to Legislative Decree 231/2001 and planning further activities. .
In order to carry out the checks and controls, the Supervisory Board drew up a schedule of measures for verifying compliance with the protocols adopted.

e) Independent Auditors
The Hera S.p.A. Shareholder's meeting of April 23rd 2014 appointed Deloitte & Touche S.p.A.to the role of independent auditor for the 2015-2023 financial years.

f) Appointed Manager in charge of drafting corporate financial reports and other corporate roles and functions.
In compliance with the provisions of the Tuf and the Company's Articles of Association, in consultation with the Board of Statutory Auditors, the Board of Directors resolved on October 1st 2014 to appoint Luca Moroni to the role of Finance and Control Administration Central Director, in the post of Appointed Manager in charge of drafting corporate financial reports. He is in possession of the professional qualifications set forth in Article 29 of the Company's Articles of Association, in compliance with the Tuf (Article 154-bis, paragraph 1).
The Appointed Manager is tasked with establishing adequate financial and administrative procedures for the creation of the financial statement and consolidated financial statement as well as any other financial communication. To this end, the Appointed Manager will have access to a dedicated budget approved by the Board of Directors and an adequate organizational structure (in terms of quantity and quality of resources) dedicated to the preparation/updating of financial-administrative procedures and periodical assessment activities concerning the suitability and actual application of financial-administrative rules and procedures. If the internal resources prove to be insufficient for the suitable management of these activities, the Appointed Manager is permitted to exercise the power of expenditure granted to him or her. .
The Board of Directors verify that the Appointed Manager has access to adequate powers and means to carry out the tasks entrusted to him or her by Article. 154-bis, and also monitor that financial and administrative procedures are being followed.
The Appointed Manager communicates and exchanges information with all the administrative and control bodies of the Company and of the Group's subsidiaries, including but not limited to:

- Board of Directors;
- Controls and Risks Committee;
- Directors in charge of the internal control and risk management system;
- Board of Statutory Auditors;
- Independent Auditor;
- Supervisory Board pursuant to Legislative Decree no. 231/01; .
- Internal Auditing Manager;
- Investor Relations Manager.

g) Coordination among the subjects involved in the internal control and risk management system.
The Issuer has established the following systematic coordination modes for the various subjects involved in the internal control and risk management system:

- periodic coordination meetings focused in particular on the process of drafting financial information and the activities of assessing, monitoring and containing (economic-financial, operational and compliance) risks;
- information flows among the subjects involved in the internal control and risk management system;
- periodic reports to the Board of Directors;
- establishment of a Risk Committee with the aim of outlining guidelines for monitoring and informing about risk management strategies.

In particular, the following types of coordination meeting are specified:

- the Board of Statutory Auditors with the Controls and Risks Committee, the Independent Auditor, the Appointed Manager in charge of drafting corporate financial reports, and the Internal Auditing Manager;
- the Board of Statutory Auditors with the Supervisory Board pursuant to Legislative Decree 231; .
- the Directors in charge of the internal control and risk management system with the Chairman of the Controls and Risks Committee.

8 Directors' interest and transactions with Related Parties

At its meeting of October 10th 2006, the Board of Directors of Hera S.p.A. approved, in compliance with the then-in force Corporate Governance Code, guidelines for significant transactions, transactions with related parties and transactions in which a director has an interest (Guidelines), in order to ensure that these transactions are conducted transparently and in conformity with the criteria of substantive and procedural correctness.
Subsequently, the Board of Directors of Hera S.p.A. approved the new procedure for transactions with Related Parties (Procedure) in compliance with the provisions of the Consob Regulation adopted through Resolution no. 17221 of March 12th 2010 and subsequent amendments and integrations thereto (Consob Regulation), subsequently updated on December 21st 2015.
The Procedure cancels and completely replaces the rules on transactions with Related Parties contained in the Guidelines, but there is no change to the existing rules set out in the Guidelines concerning significant transactions and transactions in which a director has an interest.
In the Procedure, the Board of Directors fully adopted the definitions of related party and transactions with related party, as well as all the directly associated definitions, contained in the Consob Regulation and its annexes.
In particular, the following were identified:

1) the types of transactions with related parties to which the Procedure applies:

- transactions of major importance, or transactions in which at least one of the indices of importance determined by the Consob Regulation exceeds the threshold of 5%;
- transactions of minor importance, or transactions with related parties that are neither of major importance nor of Negligible Amount;
- framework resolutions, i.e. the series of transactions among related parties;
- ordinary transactions, or transactions which (a) fall within the ordinary conduct of the company's operating activities or associated financial activities; and (b) are carried out under conditions: (i) similar to those normally applied to unrelated parties for transactions of a comparable nature, scale and risk, (ii) based on regularly applied tariffs or established prices, or (iii) comparable with those applied to parties with whom the company is legally obliged to deal for a determined consideration;
- transactions of negligible amount, that is transactions for which the maximum foreseeable amount of the consideration or of the value of the service does not exceed, for each transaction, the sum of 1 million euro;
- transactions with related parties carried out by subsidiaries;

2. the approval process for transactions of major and minor Importance, depending on whether they involve:

- ➢ transactions of minor importance falling within the competence of the Board of Directors, which are approved by the Board of Directors after hearing the reasoned but non-binding opinion of the Committee for the transactions with related parties (hereinafter referred to as the "Committee") regarding the interest, appropriateness and substantive correctness of the transaction;
- ➢ transactions of major importance falling with the competence of the Board of Directors, in which the Committee must be involved in the negotiation and investigation phases and in which the transaction may be approved following the receipt of a reasoned favourable opinion from the Committee regarding the interest, appropriateness and substantive correctness of the transaction and with a vote in favour by a majority of the independent directors;
- ➢ transactions of minor and major Importance falling with the competence of the Shareholders' Meeting, for which the proposals must follow the same procedure as that for transactions falling with the competence of the Board of Directors, as described in the previous two points, and which must in any event receive a favourable opinion from the Committee.

The Procedure provides that the Committee charged with guaranteeing, by issuing specific opinions, the substantive correctness of dealings with Related Parties, must be in agreement with the Committee for Internal Control and risk management.
The Procedure also identifies the cases to which the Procedure does not apply, as well as governing the procedures for communication with the public on the transactions carried out.
Beginning May 2014, a specific Operational Guideline was applied by Hera and its subsidiaries and subsequently updated on March 31st 2016, in order to detail the information reported in the Procedure and outline the rules, roles and responsibilities, as well as operational activities, implemented by the company.

9 Appointment of the statutory auditors

List voting

The statutory auditors are appointed by the Shareholders meeting through the "list voting" mechanism, as per Art. 26 of the Articles of Association, in order to guarantee that minority shareholders designate one substitute auditor, in compliance with current legislation on gender balance.
In accordance with Article 14 of the Articles of Association, the office of Statutory Auditor is incompatible with the offices of councillor or alderman in regional public authorities, as well as with that of Statutory Auditor in more than three listed companies other than subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code and Article 93 of Legislative Decree no. 58/98. In the latter case, a Statutory Auditor who subsequently exceeds this limit will automatically forfeit the office of Statutory Auditor of the Company.
Article 26 of the Articles of Association governs the terms and conditions for filing and publishing lists, as well as the related documentation, in compliance with current regulations.

The lists must be delivered to the registered office at least 25 days before the date set for the meeting, together with the curriculum vitae of the candidates and a declaration from each individual candidates stating that he or she accepts the office and certifying that there are no causes of ineligibility, incompatibility or revocation as established by law, and the existence of the requirements of integrity and professionalism required by law for members of the Board of Statutory Auditors.
Article 25 of the Articles of Association establishes that, for the purposes of the provisions of legislation in force concerning the requirements of professionalism for members of the Board of Statutory Auditors of listed companies, business matters and sectors strictly pertaining to the activities performed by the Company are the business matters and sectors associated with or pertaining to the activity performed by the Company and cited in Article 4 of the Articles of Association. .
The lists must also be accompanied by a statement certifying that there are no agreements or connections of any kind with other shareholders who have presented other lists, and a list of the administrative and control positions held by the candidates in other companies. These lists must be made available to the public at the registered offices and on the website www.gruppohera.it, no less than 21 days prior to the date of the Shareholders' Meeting.
The terms and conditions for the filing of lists are indicated by the Company in the Shareholders' Meeting notice of call. Each shareholder may submit or participate in the submission and voting of only one list. In the event this rule is violated, the Shareholder's vote for any of the lists presented shall not be taken into account. Each shareholder with voting right may vote only one list.

Eligibility to submit lists and their composition

Lists for the appointment of members of the Board of Directors may be submitted by shareholders, alone or together with other shareholders, representing at least 1% (one per cent) of the share capital with voting rights at the Ordinary Shareholders' Meeting, that is the percentage provided for by current legislation and indicated in the notice of call.
In this regard, it should be noted that, on the occasion of the last renewal of the Board of Statutory Auditors which took place at the Shareholders' Meeting of April 27th 2017, the shareholding required for presenting lists of candidates for the election of the sitting administrative body was identified by Consob (through Resolution No. 19856 of January 25th 2017) to be 1%, equal to the percentage provided for in Article 26.2 of the current Articles of Association.
In particular, (i) municipalities, provinces and consortia constituted pursuant to Article 31 of Legislative Decree no. 267/2000 or other entities or public authorities, as well as consortia or joint-stock companies controlled, directly or indirectly, by these may present a single list and (ii) the shareholders not indicated in (i) may submit lists provided that they represent at least 1% of the shares with voting rights or the percentage established by current regulation and indicated in the notice concerning the meeting.
In order to demonstrate ownership of the number of shares necessary for presenting lists, shareholders must file the appropriate certification proving ownership of the number of shares represented at the registered office within the deadline set by the Company for posting the lists.

Lists must include a number of candidates that does not exceed the number of the members to be elected, listed in a progressive order. Each candidate may appear on only one list under penalty of ineligibility. Each list must contain a number of candidates of the less-represented gender to ensure the balance between genders at least to the minimum extent required by current legislation. Lists with fewer than three candidates are exempt from this requirement.

Appointment mechanism

The members of the control body are appointed in accordance with the provisions of Articles 26 of the Articles of Association: .

- The Board of Statutory Auditors comprises three statutory members and two alternate members;
- 2 statutory members and 1 alternate member are taken from the list that obtained the highest number of shareholders votes according to the rank order in which they were listed, of which at least 1 statutory member must be of the less-represented gender;

the third statutory member and the other alternate member is taken from the other lists, respectively electing the first and the second candidate from the list that obtained the second highest number of votes, of which at least one alternate member must be of the less-represented gender. In the event two or more lists obtained the same number of votes, the oldest candidate will be elected statutory auditor, to ensure the balance between genders at least to the minimum extent required by current legislation.

In the event the minimum number require by law of statutory and alternate members of the less-represented gender is not elected, the candidate of the most represented gender positioned last on the list of candidates elected from the list with the highest number of votes shall be replaced by the candidate of the less-represented gender who was positioned first among the non-elected candidates on the same list and so on, up to the minimum number of statutory auditors belonging to the less-represented gender. If the minimum number of statutory auditors belonging to the less represented gender still has not been reached even after applying this criterion, the replacement criterion indicated will be applied to the minority lists, starting from the list that received the highest number of votes;

the first candidate on the list that obtained the second highest number of votes will be entitled to the chair of the Board of Statutory Auditors. In the event two or more lists obtained the same number of votes, the oldest candidate will be elected chairman, to ensure the balance between genders at least to the minimum extent required by current legislation.

To appoint Statutory Auditors who, for any reason, are not appointed through the list voting process, the Shareholders' Meeting decides through the majority required by law, to ensure the balance between genders at least to the minimum extent required by current legislation.

Replacing the members of the Board of Statutory Auditors;

In the event of the replacement of a sitting Statutory Auditor, he or she will be succeeded by the alternate Auditor belonging to the same list as the Auditor to be replaced, respecting the principles of minority representation and gender balance.

Statutory Auditors for integrating the Board of Statutory Auditors, pursuant to art. 2401 of the Italian Civil Code, will be appointed by the shareholders' meeting through the majority provided for by law, among the names that the shareholders themselves indicated by submitting the list to which the Auditor who resigned from office belonged, in compliance with the principle of the representation of minorities and the balance between genders; in the event this is not possible, the shareholders' meeting must provide a replacement through the majority provided for by the law, in compliance with the balance between genders provided for by current legislation.

Composition and functioning of the Board of Statutory Auditors (pursuant to Article 123-bis, paragraph 2, letter d and d-bis of the Tuf)

The shareholder's meeting held April 27th 2017 appointed a Board of Statutory Auditors comprising three statutory members and two alternate members, complying with the current legislation regarding gender balance and whose mandate lasts from now until the approval of the financial statement for the 2019 financial year.

This appointment was thus made on the basis of the list voting system, in order to ensures that one statutory auditor, in the position of chairman, and one alternate auditor are appointed from the minority list.

At the Shareholders' Meeting of April 27th 2017 mentioned above, three lists of candidates were presented, listed below along with an indication of their proposing Shareholders:

List no. 1, presented by the shareholders Municipality of Bologna, Municipality of Casalecchio di Reno, Municipality of Cesena, Municipality of Modena, Municipality of Padova, Municipality of Trieste, Municipality of Udine, Con.Ami, Holding Ferrara Servizi Srl, Ravenna Holding S.p.A. and Rimini Holding S.p.A., who, together with 107 other public shareholders, were at the time parties to the "Shareholders' Agreement on Voting and Share Transfer Rules" of June 23rd 2015, and who together hold 666,023,417 Hera shares, corresponding to 44.71% of the voting shares of Hera S.p.A., a list that was voted for by 59.975289% of the share capital present, containing the names, in ranked order, of the following candidates:

Standing auditors

1. Marianna Girolomini
2. Antonio Gaiani

Alternate auditors

1. Valeria Bortolotti

List no. 2, presented by the shareholders Arca Fondi S.G.R. S.p.A., manager of the Arca Azioni Italia fund ; Eurizon Capital SGR S.p.A. manager of the following funds: Eurizon Progetto Italia 40, Eurizon Progetto Italia 20, Eurizon Azioni Italia, Eurizon Azioni PMI Italia and Eurizon Progetto Italia 70; Eurizon Capital SA manager of the following funds: Equity Italy, Equity Small Mid Cap Italy and Equity Italy Smart Volatility; Fideuram Asset Management (Ireland) manager of the following funds: Fideuram

Fund Equity Italy and Fonditalia Equity Italy; Fideuram Investimenti S.p.A., manager of the Fideuram Italia fund; Interfund Sicav Interfund Equity Italy; Legal & General Assurance (Pensions Management) Limited; Mediolanum Gestione Fondi SGR S.p.A., manager of: Mediolanum Flessibile Italia and Mediolanum Flessibile Sviluppo Italia funds; Mediolanum International Funds - challenge fund - challenge fund Italian Equity; Pioneer Investment Management SGRpa, manager of the Pioneer Azionario Crescita fund; Pioneer Asset Management SA, manager of the PF Italian Equity and PF European Potential funds, together holders of 19,140,764 Hera shares, corresponding to 1.285% of the voting shares of Hera S.p.A., a list that was voted for by 23.794414% of the share capital present, containing the names, in ranked order, of the following candidates:

Standing auditors
1. Myriam Amato

Alternate auditors
1. Stefano Gnocchi
2. Emanuela Rollino

List no. 3, presented by the shareholder Gruppo Società Gas Rimini S.p.A., owner of 30,771,269 Hera shares, corresponding to 2.065825% of the voting shares of Hera S.p.A., a list that was voted for by 14.524686% of the share capital present, containing the names, in ranked order, of the following candidates:

Standing auditors
1. Elisabetta Baldazzi

Alternate auditors
1. Antonio Venturini

Following the Shareholders' Meeting vote, the administrative body is composed as follows:

1.	Myriam Amato	Chairman
2.	Marianna Girolomini	Standing auditor
3.	Antonio Gaiani	Standing auditor
4.	Valeria Bortolotti	Alternate auditor
5.	Stefano Gnocchi	Alternate auditor

From the date of appointment to the date of this report, the composition of this body has not changed. Table 2 shows the current composition of the Board of Statutory Auditors, noting that the personal and professional details of each member are available on the website www.gruppohera.it.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 8 of the Code, has checked the correct application of the criteria and assessment procedures adopted for ascertaining the independence of its members including for the purposes of Article 144-novies of the Issuer's Regulation.
The independence of these auditors was assessed by the Board of Directors at the time of their appointment, and the Board announced the outcome in a press release distributed to the market.
At its meeting of March 12th 2019, in light of the statements made by each auditor, the Board of Directors confirmed its assessment of the independence of its members.
In the same meeting, the Board of Statutory Auditors also carried out its own self-assessment, based on an analysis of the suitability of its members and the adequate composition of the body in complying with current legislation requirements of professionalism, competence and integrity.
For the purposes of this self-assessment process mentioned above, the Board of Statutory Auditors carried out preliminary and evaluation activities, requesting from its members information and data relating to qualitative, quantitative and operational profiles.
In particular, it ascertained that its members met the requirements of professionalism, competence and experience, that they had sufficient time available to perform their duties, that they complied with the limit on the number of offices held, and that the composition of the Board was adequate in terms of gender balance and age of its members.
The Board of Statutory Auditors also noted whether collaboration among its members was effective and whether the information flows with the administrative body, with the company managers, with the various committees and with the auditing company was functional and adequate.

The Board of Statutory Auditors met on 4 occasions in 2018, and all of the meetings were attended by all auditors. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours and ten minutes.

In carrying out its activities, the Board of Statutory Auditors coordinates with the Internal Audit Department and the Controls and Risks Committee.

Diversity criteria and policies

The appointment of the Board of Statutory Auditors took place during the Shareholders' Meeting of April 27th 2017, following the presentation of three lists, one majority and two minority, which ensured that the board was composed in accordance with the provisions of regulations on gender balance (three out of five members is made up of the less-represented gender).

The average age of the members of the Board of Statutory Auditors is approximately 49 years: two members are between 40 and 50 years old and one member is between 50 and 60 years old.

The Board of Statutory Auditors, as part of its self-assessment activities, expressed a high level of appreciation, with specific reference to its functioning, its composition and the characteristics of its members specifically concerning the requirements of eligibility, independence, integrity and professionalism established by current legislation, and additionally in relation to the subjects and sectors of activity related or inherent to the activities of the Companies referred to in Article 4 of the Articles of Association.

10 Relations with shareholders

To enable shareholders to understand the Company more fully, the Company has established a suitable department dedicated to relations with investors, headed by and entrusted to Jens Klint Hansen (the investor relator can be contacted by telephone on +39 051 287737 or by email at ir@gruppohera.it [HYPERLINK: mailto:ir@gruppohera.it]). .

11 Shareholders' meetings (pursuant to Article 123-bis, paragraph 2, letter c) of the Tuf)

Ordinary and extraordinary shareholders' meetings are called in the circumstances and manner provided for by law.

The full text of the proposed resolutions, together with the explanatory reports, and the documents that will be submitted to the Shareholders' Meeting are made publicly available at the Company's registered office and on the Company's website www.gruppohera.it, as well as on the authorised storage site 1Info www.1Info.it within the timeframe established by the law for each of the matters dealt with.

Those who at the end of the accounting day coinciding with the recording day, as stated by the law, will have the right to vote and for whom the Company received the relative communication from the authorised intermediary by the end of the third trading day preceding the date set for the Shareholders' Meeting, are entitled to participate in the Shareholders' Meeting. However, the right to attend and vote shall remain unaffected if the communications are received after the said deadline, provided that they are received by the beginning of the sessions of the Shareholders' Meeting. Those who become share owners only afterwards will not have the right to participate and vote in the Shareholders' Meeting.

People entitled to attend may be represented at the Shareholders' Meeting in accordance with the law; to do so, they have the right to use the proxy form available on the Company's website, where the procedures that interested parties may use to notify the Company of their proxies, including electronically, are also available.

For each Shareholders' Meeting, the Company identifies a person to whom the holders of voting rights may grant their proxy with voting instructions on all or some of the proposals on the agenda. The proxy must be granted to the said representative, by the end of the second trading day prior to the date of the Shareholders' Meeting, using the specific proxy form available and in the manner specified on the Company's website.

The proxy to the designated representative is not valid for the proposals for which voting instructions have not been given.

Shareholders may ask questions about the items on the agenda even before the Shareholders' Meeting, in the manner indicated on the Company's website.

Shareholders who, either individually or jointly, represent one fortieth of the share capital may request, within ten days of publication of this notice, to add items to be discussed, specifying in their request the additional items proposed, or submit resolution proposals on items already on the agenda. Requests must be written and submitted according to the manner indicated on the Company's website.

In accordance with Article 14 of the Articles of Association, the Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in his absence, by a person elected by the Shareholders' Meeting, with the vote of the majority of those present. The Chairman of the Shareholders' Meeting appoints a Secretary, verifies that the meeting has been properly convened, verifies the identity and legitimacy of those present and governs the conduct of the Shareholders' Meeting, in accordance with the Shareholders' Meeting regulations, ascertaining the results of voting.

In accordance with Article 14 of the Articles of Association, both ordinary and extraordinary shareholders' meetings and the related resolutions are valid if the quorum and majority conditions established by law are satisfied.
The resolutions of extraordinary shareholders' meetings concerning the modification of Article 6.4 ("Shares and majority vote"), Article 7 ("Public majority shareholding"), Article 8 ("Limits on shareholdings"), Article 14 ("Validity of Shareholders' Meetings and rights of veto") and Article 17 ("Appointment of the Board of Directors") of the Articles of Association will be valid if they are passed on the basis of a vote in favour by attending shareholders representing at least three-quarters (rounded if necessary) of those with voting rights.

The shareholders' meeting of April 29^{th} 2003 approved the text of the meeting regulations, whose updated version is available on the Company's website www.gruppohera.it, outlining the procedures to be followed in order to permit the orderly and proper functioning of meetings, without prejudice to the right of each shareholder to express his or her opinion on the matters under discussion.

During the 2018 financial year, one shareholders' meeting was held on April 26^{th}, which was attended by 14 directors.

12 Considerations regarding the letter by the Chairman of the Corporate Governance Committee of December 21^{st} 2018.

The Board of Directors, in relation to the letter that the Chairman of the Corporate Governance Committee sent to the Chairmen of the administrative bodies of Italian listed companies on December 21^{st} 2018, together with the sixth Annual Report on the application of the Code of Conduct, also attached, examined, at the suggestion of the Executive Director, the recommendations provided therein, and specifies in particular the following:

- continued to guarantee the timeliness and completeness of pre-council briefing, ensuring that each director and statutory auditor has at their disposal all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors at least three days before the meeting, with the exception of cases of necessity and urgency. The timeliness of the provision of such documentation was positively assessed by the members of the Board of Directors during the self-assessment process, as well as by the company Spencer Stuart that supported the Board of Directors in this activity;
- continued to apply the independence criteria established by the Code and by current legislation in evaluating the independence of its members, reserving the right to verify, on a case-by-case basis, if necessary, the requirement concerning the duration of the office, and in any case in compliance with the principle of substance over form. At the same time, the Control Body maintained a high level of attention in its supervisory activity with regard to the correct application of the independence criteria outlined above;
- maintained, in continuity with the past, a high degree of attention on annual board review activities, monitored by the Executive director, which are described in detail in this Report, and during which constant interaction with individual directors is guaranteed;
- established, for the three-year period 2019-2021, as per the proposal of the Remuneration Committee, a medium-long term incentive plan based on the introduction of three-year KPI differing from those of the short-term incentive plan (BSC), thus further enhancing the ability to create and share value, as well as to further consolidate the Group's culture of financial soundness.

Table 1: Structure of the Board of Directors and Committees

Board of Directors												Control and risks committee		Remuneration committee		Appointment committee		Exectuive committee		Ethics and sustainability committee	
Position	**Component**	**birth year**	**date first appointed ***	**in office since**	**in office until**	**Exec.**	**Non-exec.**	**Code of Indep.**	**TUF indip. Req.**	**No. of other offices held *****	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Presidente	Tomaso Tommasi di Vignano	1947	4-Nov-02	27-Apr-17	Approv. 2019 FS	X				-	10/10					Not present		6/6	P		
Amm. Del.	Stefano Venier	1963	23-Apr-14	27-Apr-17	Approv. 2019 FS	X				-	10/10							6/6	M		
Vice Pres.	Giovanni Basile	1965	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	9/10	7/7	C	4/4	C			6/6	M		
Amm.re	Francesca Fiore	1967	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	1	9/10			4/4	M						
Amm.re	Giorgia Gagliardi	1982	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										
Amm.re	Massimo Giusti	1967	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10			4/4	M					8/8	C
Amm.re	Sara Lorenzon	1981	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10	7/7	M								
Amm.re	Stefano Manara	1968	28-Aug-13	27-Apr-17	Approv. 2019 FS		X	X	X	2	10/10			3/4	M						
Amm.re	Danilo Manfredi	1969	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										
Amm.re	Alessandro Melcarne	1984	8-Nov-17	8-Nov-17	Approv. 2019 FS		X	X	X	-	10/10							2/2	M		
Amm.re	Erwin P.W Rauhe	1955	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	1	10/10	7/7	M								
Amm.re	Duccio Regoli	1961	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	9/10	7/7	M								
Amm.re	Federica Seganti	1966	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	1	10/10							4/4	M	1/1	M
Amm.re	Marina Vignola	1970	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										
Amm.re	Giovanni Xilo	1962	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										
Indicate the quorum required for the presentation of lists at the time of the last appointment: at least 1% of shares with voting rights in the ordinary shareholders' meeting (art. 17.5 of the Articles of Association).																					
No. of meetings held during the financial year in question: 10								Crc: 7			Rc: 4		Ac: /				Ec: 6		Ethics and sustainability c.: 8		

* the date each director was appointed refers to the date in which the director was appointed the very first time to the issuer's Board of Directors
**this column indicates the list from which each director was drawn ("M" Majority list, "m" Minority list, "BoD" list presented by the Board of Directors
*** this column indicates the number of positions as director or auditor the individual inquestion holds in other regularly listed companies, include abroad, or in financial or insurance companies or banks, or of signficant size. For the list of these companies, with indications for each director, see table 3.
(*) this column indicates the directors' participation in meetings of the BoD and committees, respectively (indicate the number of meetings attended out of the total number of meetings he/she could have attended, p.e. 6/8; 8/8, etc.)
(**) this column indicates the director's role in the committee: "C" for chairman, "M" for member

Table 2: Structure of the Board of Statutory Auditors

Board of Statutory Auditors									
Position	Component	Birth year	Date first appointed *	In office since	In office until	List **	Code of Indep.	*** (%)	No. of other offices held ****
Chairman	Myriam Amato	1974	27-Apr-17	27-Apr-17	Appr. Bil. 2019	m	X	14/14	1
Standing auditor	Girolomini Marianna	1970	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	14/14	-
Standing auditor	Gaiani Antonio	1965	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	14/14	-
Alternate auditor	Gnocchi Stefano	1974	27-Apr-17	27-Apr-17	Appr. Bil. 2019	m	X	-	2
Alternate auditor	Bortolotti Valeria	1950	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	-	-

Indicate the quorum required for the submission of lists at the time of the last appointment:
at least 1% of shares with voting rights in the ordinary shareholders' meeting (art. 26.2 of the Articles of Association).

No. of meetings held during the financial year in question: 14

* The date of first appointment of each statutory auditor refers to the date on which he or she was appointed for the first time (ever) to the company's Board of Statutory Auditors.
** This column shows the list from which each auditor was taken ("M": the majority list; "m" minority list).
*** This column indicates the degree of participation of the auditor in meetings of the Board of Statutory Auditors.
*** This column indicates the number of offices as director or statutory auditor held by the person concerned pursuant to Article. 148 bis of the TUF and associated implementation regulations contained in the Consob Issuers' Regulation. The full list of offices is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulation. .

Table 3: Offices the directors hold in other companies

Name, last name	Position	Other positions (*)
Tomaso Tommasi di Vignano	Chairman	
Stefano Venier	Chief Executive Officer	
Giovanni Basile	Vice Chairman	
Francesca Fiore	Director	Member of supervisory board at Navya SA
Giorgia Gagliardi	Director	
Massimo Giusti	Director	Director, Cassa di Risparmio di Rimini - until 11-Jan-2018 Vice President of Nadia Spa Società Imm.re (Gruppo Bper Banca Spa) - until June-2018
Sara Lorenzon	Director	
Stefano Manara	Director	BoD Chairman, Con.Ami BoD Chairman, Rest Srl
Danilo Manfredi	Director	
Alessandro Melcarne	Director	
Erwin P.W. Rauhe	Director	Non-executive director, Isagro Spa
Duccio Regoli	Director	
Federica Seganti	Director	Director, Eurizon Capital Sgr Spa
Marina Vignola	Director	
Giovanni Xilo	Director	

(*) List of offices as director or statutory auditor held by each director in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large enterprises.

1.12
Parent Company management report

Below are the main indicators which illustrate the performance trend of the financial year, pursuant to article 2428 of the Civil Code:

(mn€)	2018	2017	Var. Ass.	Var. %
Revenues	1,390.79	1,378.9	+11.9	+0.9%
Gross operating margin	256.1	233.6	+22.5	+9.6%
Operating profit	107.6	99.1	+8.6	+8.6%
Net profit	195.1	170.4	+24.7	+14.5%

To understand this trend and changes with respect to the previous year (please refer to the description in the previous section, 1.02) it is necessary to take into account the current structure of the Parent Company that directly manages certain businesses (urban hygiene, integrated water service, district heating) and, at the same time, acts as a holding company for Group companies, in addition to performing the main corporate functions on their behalf.

In particular, the increase in net profit as compared to the previous year is mainly due to income from the financial management of investments following the glowing results achieved by the main subsidiaries during the previous financial year; please refer to chapter 3, "Separate financial statements of the Parent Company".

The summary of the reclassified balance sheet and financial data as at December 31st 2018 is also presented and compared with those of December 31st 2017:

Analysis of invested capital and funding sources (mn€)	12-dic-18	%	31-dic-17	%	Var. Ass.	Var. %
Net fixed assets	3,479.2	109.2%	3,426.4	110.3%	52.8	-1.1%
Net working capital	(126.8)	-4.0%	(165.0)	-5.3%	38.2	1.3%
Gross invested capital	**3,352.4**	**105.2%**	**3,261.4**	**105.0%**	**91.0**	**0.2%**
Other provisions	(164.8)	-5.2%	(156.1)	-5.0%	(8.7)	-0.2%
Net invested capital	**3,187.6**	**100.0%**	**3,105.3**	**100.0%**	**82.3**	**0.0%**
Total net equity	2,335.2	73.3%	2,313.3	74.5%	21.9	-1.2%
Net financial debt	852.4	26.7%	792.0	25.5%	60.4	1.2%
Funding sources	**3,187.6**	**100.0%**	**3,105.3**	**100.0%**	**82.3**	**0.0%**

With regard to the additional information required by article 2428 of the Civil Code, the following is to be noted.

Research and development activities
as regards research and development, please refer to section 1.07 "Sustainability results".

Relationships with subsidiaries, associated companies, parent companies and companies subject to the control of the latter:
As for information regarding relations with subsidiaries, associated companies, parent companies and companies subject to the control of the latter, pursuant to article 2428, paragraph 3, point 2 of the Civil Code, please refer to the financial statement formats contained in section 3.04, prepared in accordance with Consob resolution 15519/2006, regarding the separate financial statements of Hera S.p.A.; finally, it should be noted that this balance sheet does not contain atypical or unusual transactions.

Treasury shares:
With regard to the information required by article 2428, paragraph 3, points 3 and 4 of the Civil Code, please refer to note 24 of section 3.02.05 and the statement of changes in shareholders' equity, section 3.01.05, relating to the separate financial statements of Hera S.p.A., for the number and nominal value of shares constituting the share capital of Hera S.p.A, the number and nominal value of treasury shares held in portfolio as at December 31st 2018, and changes in these numbers in the 2018 financial year.

Predictable management evolution:
as regards the performance of the businesses into which the Parent Company's structure is currently divided, please refer to the information provided in section 1.05, above.

The company's use of financial instruments:
As regards the company's objectives and policies concerning financial risk management, including the hedging policies for each main category of forecasted transactions and the company's exposure to price risk, credit risk and liquidity risk and the risk of changes in cash flows, please refer to the contents of section 1.06.03, above.

Secondary offices:
the company has no secondary offices.

Significant events after year end:
with effect beginning March 1st 2019, the partial reverse sale of CMV Servizi Srl to Inrete Distribuzione Energia Spa and of CMV Energia & Impianti Srl to Hera Comm Srl, with the consequent transfer to these beneficiary companies of the gas networks and assets and liabilities related to the sale of gas and electricity, respectively.

1.13
Shareholders Meeting resolutions

The Hera Spa Shareholders Meeting:

- having acknowledged the Board of Directors' report on corporate governance;
- having acknowledged the Statutory Auditors' report;
- having acknowledged the Independent Auditors' report;
- having examined the financial statements at 31 December 2018, which closes with profits totalling € 195,139,030.44;

resolves:

- to approve Hera Spa's financial statements as at 31 December 2018 and the corporate governance report prepared by the Board of Directors;
- to allocate profits for the 1 January 2018 – 31 December 2018 financial year, for a total of € 195,139,030.44, as follows:
    - € 9,756,951.52 euro to the legal reserve; and
    - € 0.10 gross distributed to each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio) on the day of payment for said dividend; and
    - € 36,428,204.42 to the extraordinary reserve.

  The total dividend paid out therefore amounts to € 148,953,874.50, corresponding to € 0.10 for each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio);

- to establish 26 June 2019 as the initial date for dividend payment, and 24 June 2016 as ex-dividend date for coupon no. 17, dividends being paid to shares recorded at 25 June 2018.
- to grant a mandate to the Board of Directors, and its Chairman, to ascertain in due time, in accordance with the definitive number of shares outstanding, the exact amount of profits to be distributed, and therefore the exact amount of the extraordinary reserve.

1.14
Notice convening the Shareholders Meeting

Dear Shareholders, you are called to an Ordinary Shareholders’ Meeting at the registered office of Hera S.p.A. – Viale C. Berti Pichat no. 2/4, Bologna – at the “Spazio Hera” – on 30 April 2019 at 10.00 in a single call to discuss and resolve on the following:

Agenda

1. Financial statements as of 31 December 2018, Directors’ Report, proposal to distribute profits and report of the Board of Statutory Auditors and Independent Auditors: related and consequent resolutions. Presentation of the consolidated financial statements at 31 December 2018.
   Presentation of the Sustainability Report – Consolidated non-financial statement drafted pursuant to legislative decree no. 254/2016.
2. Presentation of the corporate governance report and non-binding resolution concerning remuneration policy.
3. Renewal of the authorisation to purchase treasury shares and procedures for arrangement of the same: related and consequent resolutions.

The full text of the proposed resolutions, together with the related reports and the documents which will be put to the Meeting, are available to the public at the company headquarters, and on the Company website (www.gruppohera.it) as well as on the authorised storage website 1Info (www.1Info.it), under the legal terms foreseen for each of the subjects treated.

Right to attend and participation by proxy

Those who are entitled to vote at the end of the accounting day of 17 April 2019 (record date) and those from whom the Company has received the relevant notification from an authorised intermediary by the end of the third day the market is open prior to the date set for the Meeting, i.e. 25 April 2019, are eligible to attend the Shareholders’ Meeting. Legitimacy to participate and to vote in any case remains if the communications are received after said term, as long as this occurs before the start of the proceedings of the Meeting. Those who only become Shareholders following 17 April 2019 will not have the right to take part in and vote at the Meeting.
Each person entitled to take part can nominate a representative to attend the Shareholders’ Meeting, pursuant to the law, with the right to use the proxy form available on the Company’s website (www.gruppohera.it) for this purpose. Details as to how the company can be notified electronically about proxies are also available.
The Company has appointed Computershare S.p.A. as a representative whom Shareholders with voting rights can, by 26 April 2019, nominate as a proxy with instructions for voting on all or some of the proposals on the agenda. The proxy for the above-mentioned representative must be conferred using the methods in the dedicated proxy form available on the Company’s website (www.gruppohera.it).
The proxy for the appointed representative is not effective with regard to proposals for which voting instructions have not been given.

Other Shareholders’ rights

Shareholders may also submit questions on agenda items before the date of the Meeting, provided this is done by 27 April 2019 and in accordance with the procedures set forth on the Company’s website (www.gruppohera.it).
Shareholders who, even jointly, represent one fortieth of the share capital, can request, within 10 days of the publication of this notice, the inclusion of subjects to be discussed, indicating the further topics proposed in the request, or can submit proposals for approval on the items already on the agenda. Requests should be submitted in writing through the methods indicated on the Company’s website (www.gruppohera.it).

Bologna, 28 March 2019

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

2

Consolidated Financial Statements of the Hera Group

2.01
Financial statement formats

2.01.01
Income statement

mn€	notes	2018	2017
Revenues	1	6,134.4	5,612.1
Other operating revenues	2	492.0	524.8
Use of raw materials and consumables	3	(2,984.1)	(2,606.8)
Service costs	4	(2,040.5)	(1,952.3)
Personnel costs	5	(551.4)	(551.6)
Other operating costs	6	(62.5)	(84.6)
Capitalized costs	7	43.2	43.0
Amortisation, depreciation and provisions	8	(521.0)	(523.7)
Operating earnings		**510.1**	**460.9**
Share of profits (losses) pertaining to joint ventures and associated companies	9	14.9	14.7
Financial income	10	96.9	105.0
Financial expenses	10	(203.5)	(221.2)
Financial management		**(91.7)**	**(101.5)**
Earnings before taxes		**418.4**	**359.4**
Taxes	11	(121.8)	(92.6)
Net profit for the year		**296.6**	**266.8**
Attributable to:			
Parent company shareholders		281.9	251.4
Minority shareholders		14.7	15.4
Earnings per share	**12**		
Basic		**0.192**	**0.171**
Diluted		**0.192**	**0.171**

Pursuant to Consob Resolution no. 15519 of July 27th 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	2018	2017
Profit (loss) for the year		**296.6**	**266.8**
Items reclassifiable to the income statement			
Fair value of derivatives, change in the year	19	18.1	6.6
Tax effect related to the other reclassifiable items of the comprehensive income statement		(5.6)	(1.9)
Other business components valued using the equity method		-	0.1
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	27	2.7	(3.2)
Tax effect related to the other not reclassifiable items of the comprehensive income statement		(0.7)	0.9
Toal comprehensive profit (loss) for the year		**311.1**	**269.3**
Attributable to:			
Parent company shareholders		296.2	253.8
Minority shareholders		14.9	15.5

2.01.03
Statement of financial position

mn€	notes	Dec 31st 18	Dec 31st 17
Assets			
Non-current assets			
Property, plant and equipment	13.31	2,003.7	2,015.7
Intangible assets	14. 31	3,254.9	3,127.0
Goodwill	15. 31	381.3	384.1
Equity investments	16.31	149.1	148.8
Non-current financial assets	17. 33	118.4	125.2
Deferred tax assets	18	159.2	150.5
Financial instruments - derivatives	19	45.3	66.1
Total non-current assets		**6,111.9**	**6,017.4**
Current assets			
Inventories	20	157.3	121.2
Trade receivables	21. 33	1,842.2	1,760.9
Current financial assets	17. 33	37.3	41.5
Current tax assets	22. 33	34.3	29.8
Other current assets	23. 33	281.2	303.3
Financial instruments - derivatives	19	111.9	40.2
Cash and cash equivalents	17. 32	535.5	450.5
Total current assets		**2,999.7**	**2,747.4**
Assets held for sale	24	-	22.9
Total assets		**9,111.6**	**8,787.7**

Pursuant to Consob Resolution no. 15519 of July 27th 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	Dec 31st 18	Dec 31st 17
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	25		
Share capital		1,465.3	1,473.6
Reserves		913.5	820.2
Profit (loss) for the year		281.9	251.4
Group net equity		**2,660.7**	**2,545.2**
Non-controlling interests		186.0	160.8
Total net equity		**2,846.7**	**2,706.0**
Non-current liabilities			
Non-current financial liabilities	26. 33	2,684.6	2,892.2
Post-employment and other benefits	27	129.5	142.3
Provisions for risks and charges	28	458.6	432.5
Deferred tax liabilities	18	43.1	45.5
Financial instruments - derivatives	19	37.9	34.5
Total non-current liabilities		**3,353.7**	**3,547.0**
Current liabilities			
Current financial liabilities	26. 33	611.6	279.6
Trade payables	29. 33	1,360.4	1,395.9
Current tax liabilities	22. 33	6.0	37.9
Other current liabilities	30. 33	866.9	769.4
Financial instruments - derivatives	19	66.3	46.0
Total current liabilities		**2,911.2**	**2,528.8**
Total liabilities		**6,264.9**	**6,075.8**
Liabilities that can be associated with assets held for sale	24	-	5.9
Total net assets and liabilities		**9,111.6**	**8,787.7**

Pursuant to Consob Resolution no. 15519 of July 27th 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	Dec 31st 18	Dec 31st 17
Earnings before taxes		**418.4**	**359.4**
Adjustments to reconcile net profit to the cash flow from operating activities			
Amortisation and impairment of property, plant and equipment		167.9	167.2
Amortisation and impairment of intangible assets		223.6	216.3
Allocations to provisions		129.5	140.2
Effect of valuation using the equity method		(14.9)	(14.7)
Financial (income) expenses		106.6	116.2
(Capital gains) Losses and other non-monetary elements (including valuation of commodity derivatives)		(18.0)	21.2
Change in provisions for risks and charges		(29.0)	(30.2)
Change in provisions for employee benefits		(12.2)	(9.3)
Total cash flow before changes in net working capital		**971.9**	**966.3**
(Increase) Decrease in inventories		(36.0)	(7.8)
(Increase) Decrease in trade receivables		(183.3)	(205.7)
(Increase) Decrease in trade payables		(38.5)	99.7
(Increase) / Decrease in other current assets/ liabilities		124.4	92.8
Change in working capital		**(133.4)**	**(21.0)**
Dividends collected		15.3	11.1
Interests income and other financial income collected		70.9	74.9
Interests expense and other financial charges paid		(126.6)	(129.0)
Taxes paid		(176.6)	(147.5)
Cash flow from (for) operating activities (a)		**621.5**	**754.8**
Investments in property, plant and equipment		(159.2)	(150.3)
Investments in intangible fixed assets		(305.2)	(290.2)
Investments in companies and business units net of cash and cash equivalents	32	(10.1)	(116.3)
Sale price of property, plant and equipment and intangible assets		5.8	7.8
Divestment of equity investments and contingent considerations		15.9	0.2
(Increase) Decrease in other investment activities		15.2	(10.0)
Cash flow from (for) investing activities (b)		**(437.6)**	**(558.8)**
New issues of long-term bonds	32	221.3	-
Repayments for non-current financial liabilities	32	(0.2)	-
Repayments and other net changes in financial payables	32	(133.7)	33.0
Lease finance payments	32	(2.3)	(3.1)
Proceeds from the sale of shares without loss of control	32	1.8	-
Acquisition of Interests in consolidated companies	32	(11.3)	(1.6)
Dividends paid out to Hera shareholders and non-controlling interests		(151.4)	(140.9)
Changes in treasury share		(23.1)	15.4
Other minor changes		-	0.2
Cash flow from (for) financing activities (c)		**(98.9)**	**(97.0)**
Effect of change in exchange rates on cash and cash equivalents (d)		**-**	**-**

Increase (decrease) in cash and cash equivalents (a+b+c+d)	**85.0**	**99.0**
Cash and cash equivalents at the beginning of the period	450.5	351.5
Cash and cash equivalents at the end of the period	535.5	450.5

Pursuant to Consob Resolution no. 15519 of July 27th 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	Profit for the year	Net equity	Non-controlling interests	Total
Balance as of Dec 31st 16	**1,468.1**	**772.4**	**(0.4)**	**(29.5)**	**207.3**	**2,417.9**	**144.2**	**2,562.1**
Profit for the year					251.4	251.4	15.4	266.8
Other components of comprehensive income:								
Fair value of derivatives, change for the period			4.5			4.5	0.2	4.7
Actuarial income/(losses) post-employment benefits				(2.2)		(2.2)	(0.1)	(2.3)
Other business components valued at net equity		0.1				0.1		0.1
Overall profit for the year	**-**	**0.1**	**4.5**	**(2.2)**	**251.4**	**253.8**	**15.5**	**269.3**
Changes in treasury share	5.5	9.9				15.4		15.4
Payment of minority shares							0.2	0.2
Changes in equity investments		(9.5)				(9.5)	7.9	(1.6)
Changes in the scope of consolidation							1.0	1.0
Other movements						-		-
Allocation of revenues:								
Dividends paid out					(132.4)	(132.4)	(8.0)	(140.4)
Allocation to reserves		74.9			(74.9)	-		-
Balance as of Dec 31st 17	**1,473.6**	**847.8**	**4.1**	**(31.7)**	**251.4**	**2,545.2**	**160.8**	**2,706.0**
Adoption of IFRS 9		(19.3)				(19.3)	(0.6)	(19.9)
Balance as of Jan 1st 18	**1,473.6**	**828.5**	**4.1**	**(31.7)**	**251.4**	**2,525.9**	**160.2**	**2,686.1**
Profit for the year					281.9	281.9	14.7	296.6
Other components of comprehensive income:								
Fair value of derivatives, change in the year			12.4			12.4	0.1	12.5
Actuarial income/(losses) post-employment benefits				1.9		1.9	0.1	2.0
Overall profit for the year	**-**	**-**	**12.4**	**1.9**	**281.9**	**296.2**	**14.9**	**311.1**
Changes in treasury share	(8.3)	(14.8)				(23.1)		(23.1)
Changes in equity investments		(4.1)				(4.1)	(5.4)	(9.5)
Changes in the scope of consolidation		6.7				6.7	27.7	34.4
Allocation of revenues:								

Dividends paid out					(140.9)	(140.9)	(11.4)	(152.3)
Allocation to reserves		110.5			(110.5)	-		-
Balance as of Dec 31st 18	**1,465.3**	**926.8**	**16.5**	**(29.8)**	**281.9**	**2,660.7**	**186.0**	**2,846.7**

2.02 Explanatory notes

2.02.01 Accounting policies

Hera S.p.A. (the Company) is a joint-stock company established in Italy and registered in the Bologna Companies' Register. The addresses of the registered offices and the locations where the main activities of the Group are carried out are indicated in the introduction to the consolidated financial statement dossier. The main activities of the Company and its subsidiaries (the Group) are described in the Directors' report.

The consolidated financial statement as at December 31st 2018, 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 July 19th 2002, in observance of International Accounting Financial Reporting Standards (hereinafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

Sufficient obligatory information to present a true and fair view of the Group's capital-financial conditions as well as its economic performance.

Information on the Group's activities and on significant events after year end is provided in the Directors' report.

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

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of and for the year ended December 31st 2017. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results.

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

In the financial statements any non-recurring costs and revenues are indicated separately. Moreover, with reference to Consob resolution 15519 of July 27th 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 general principle adopted in preparing these consolidated financial statements is the cost principle, except for the financial assets and liabilities (including the derivative instruments), which were measured at fair value.

In drawing up the consolidated financial statements, management was required to use estimates; the major areas characterised by valuations and assumptions of particular significance together with those having notable effects on the situations presented are provided in the paragraph "Significant estimates and valuations".

The consolidated statement of financial position and income statement schedules and the information included in the explanatory notes are expressed in millions of Euro, unless otherwise indicated.

These consolidated financial statements as at December 31st 2018 were drawn up by the Board of Directors and approved by the same at the meeting held on March 27th 2019. It has been audited by Deloitte & Touche Spa.

2.02.02
Adoption of IFRS 9

The new international accounting standard IFRS 9, issued by IASB on July, 24th 2014 to replace the previous IAS 39, was obligatorily applicable beginning from January 1st 2018, as a result of the approval of Regulation 2067/2016.
The standard introduces new criteria to classify and value financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on the management of financial instruments and the characteristics of the contractual cash flows of financial assets in order to determine the valuation criterion, replacing the various rules set out in IAS 39. For financial liabilities, on the other hand, the main change concerns the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value via the income statement, if these changes are due to changes in the creditworthiness of the issuer of the liability itself. According to the new standard, these changes must be recorded in the statement of comprehensive income instead of in the income statement, as before. Another significant change also involves the recognition of valuation differences if the estimates of payments or receipts in relation to financial assets and financial liabilities measured at amortised cost are adjusted. In fact, the new approach requires that the adjustment be recognised as income or expense in the revenues (losses) of the reporting period.
The new standard requires that the estimate of losses on receivables be made on the basis of the expected losses model (rather than the incurred losses model used by IAS 39), using information that is robust and available without unreasonable charges or efforts, including historical, current and prospective data. . The standard requires that this valuation criterion be applied to all financial instruments, i.e. to financial assets measured at amortised cost, those measured at fair value through other components of the comprehensive income statement, receivables arising from lease contracts and trade receivables.
Finally, the standard introduces a new model of hedge accounting in order to adapt the requirements of the current IAS 39, which were sometimes considered too stringent and not suitable for reflecting the risk management policies of companies. The main new elements introduced concern:

- an increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible for hedge accounting;
- a change in the method of accounting for forward contracts and options when they are included in a hedge accounting relationship, in order to reduce the volatility of the income statement;
- changes to the effectiveness test by replacing the current procedures based on parameters of 80-125% with the principle of the economic relationship between the hedged item and the hedging instrument; in addition, a retrospective assessment of the effectiveness of the hedging relationship will no longer be required.

The increased flexibility of the new accounting rules is offset by additional disclosure requirements for risk management activities.
The Group has opted to apply the new standard retrospectively, except where the standard itself requires that no recalculation be made for previous years. The comparative data concerning the first year of application have not been recalculated, in line with the simplified approach provided for by the accounting standard. Lastly, due to the nature of its operating activities, the Group has not changed the way it classifies and measures financial assets.
The following outlines how the new standard will affect the carrying amounts as of January 1st 2018:

- the recalculation of the amortised cost of financial liabilities to reflect the new methods of recording adjustments due to the revision of payment estimates (in connection with restructuring operations carried out in previous years) led to the reporting of an increase in the value of liabilities amounting to 5.3 million euro. As a result, in line with the duration of the loans, lower financial charges of the same amount will be reported in future years; As a result, in line with the duration of the loans, lower financial charges of the same amount will be reported in future years;
- as regards the impairment model based on expected credit loss, the Group developed a new credit management model, applying it retrospectively to recalculate the provision for doubtful accounts, which led to an increase of 18.2 million euro, particularly with regard to receivables that have not yet come due;
- the impairment model based on the expected credit loss adopted by the jointly controlled company EstEnergy Spa resulted in an increase of 1 million euro in this company's provision for doubtful accounts.

Previous adjustments resulted in the reporting in equity of a negative transition reserve amounting to a total of 19.9 million euro, net of the related deferred taxes.

Lastly, as allowed by the standard, the Group maintained all hedging relationships as of December 31st 2017 designated in accordance with IAS 39, since they were not impacted by the new hedge accounting criteria set out in IFRS 9.

2.02.03
Scope of consolidation

The consolidated financial statements as at December 31st 2018 include the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Equity investments in joint ventures in which the Hera Group exercises joint control with other companies as well as the companies in which Hers Group exercises remarkable influence are consolidated with the equity method.
Companies whose size is insignificant are not included in the scope of consolidation and measured at fair value through other comprehensive income components. These companies are recorded in note 16, item “Other minor companies”.

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2018 financial year as compared to the consolidated financial statement at December 31st 2017:

Acquisition of control	Loss of control
Blu Ranton Srl	Medea Spa
Megas Net Spa	
Sangroservizi Srl	

On February 8th 2018, Hera Comm Marche Srl acquired all the shares of Blu Ranton Srl, a company that sells natural gas and electric power operating in the Marche and Abruzzo regions. The cost of the acquisition was approximately 8.6 million euro and the merger led to a client list to be registered for 10.9 million euro.

On March 7th 2018, the respective shareholders' meetings approved the merger by incorporation of Megas Net Spa (the company that owns the distribution networks in the Pesaro and Urbino areas) into Marche Multiservizi Spa. The operation resulted in an increase in the share capital of the merging company to service the exchange of all the shares of the merged company. This capital increase, which will service the non-controlling shareholders, led to a reduction in the Group's interest in Marche Multiservizi Spa from 49.59% to 40.80%, but this reduction did not affect governance. The cost of the acquisition, represented by the value paid to the new shares issued by Marche Multiservizi, amounted to approximately 34.4 million euro. It should also be noted that, given that no interim situation of reference was available at the acquisition date, the revenues and costs of Megas Net Spa were consolidated as of January 1st 2018. The effects of this simplification are to be considered irrelevant for the income statement of the first half of 2018, in particular with reference to the margin indicators.

On March 20th 2018 Hera Comm acquired 49% of the share capital of Sangroservizi Srl, a company operating in the sale of natural gas in the Abruzzo region. On November 26th 2018, control of the company was obtained through the acquisition of the remaining 51% of the share capital. The cost of the acquisition was approximately 3.5 million euro and the merger led to a client list to be registered for 6.2 million euro.

On April 6th 2018, the parent company Hera Spa completed the sale of all the shares it held in Medea Spa. As of December 31st 2017 the net assets of the company, identified as a disposal group, were classified as held for sale under the disposal agreement signed on December 21st 2017. The proceeds for the divestiture at the date the transfer of shares was carried out amounted to approximately 15.9 million euro.

Changes in equity investments

On March 26th 2018, Hera Comm Srl sold 2.88% of its shares in Hera Comm Marche Srl to the non-controlling shareholder, with a resulting change in the Group's interest in the company from 86.88% to 84%. The operation involved a revenue of approximately 1.8 million euro. .

On September 18th 2018, Hera Comm Srl acquired an additional 5.40% of its shares in Hera Comm Marche Srl through a public tender, with a resulting change in the Group's interest in the company of 46.20%. The operation involved a revenue of approximately 11.3 million euro. .

In all of the preceding operations, the difference between the adjustment of these minority stakes and their fair value was recognised directly in equity and attributed to the parent company's shareholders.

Other corporate operations

The following corporate reorganization and rationalization operations within the Group that had no effect on the scope of consolidation should be noted:

- With effect as of January 1st 2018, the merger by incorporation of Amga Calore & Impianti Srl into Sinergie Spa took place, with the latter's name being changed to AccegasApsAmga Servizi Energetici Spa.
- Merger by incorporation of Alipackaging Srl into the parent company Aliplast Spa with effect beginning July 20th 2018;
- Merger by incorporation of Amga Energia & Servizi Srl into the parent company Hera Comm Srl with effect beginning October 1st 2018;
- Merger by incorporation of Verducci Servizi Srl into the parent company Hera Comm Marche Srl with effect beginning October 1st 2018;
- Merger by incorporation of Gran Sasso Srl into Hera Comm Marche Srl with effect beginning October 1st 2018;

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting principle IFRS3 revised. Specifically, with the aid of external professionals, the management conducted analyses of the fair value of assets and liabilities and contingent liabilities, on the basis of information concerning facts and events available at the date of acquisition. The evaluation period ended December 31st 2018.

The table below shows the assets and liabilities acquired recognized at their fair value.

	Blu Ranton Srl	Megas Net Spa	Sangroservizi Srl	Total business combination operations
Non-current assets				
Property, plant and equipment		1.6		1.6
Intangible assets	10.9	37.1	6.2	54.2
Current assets				
Trade receivables	2.8	2.8		5.6
Other current assets	0.1	0.4		0.5
Cash and cash equivalents	1.0	1.1	0.2	2.3
Non-current liabilities				
Non-current financial liabilities	(0.1)	(2.5)		(2.6)
Post-employment and other benefits	(0.1)	(0.3)		(0.4)
Deferred tax liabilities	(3.1)		(1.8)	(4.9)
current liabilities				
Current financial liabilities	(0.2)	(0.5)		(0.7)
Trade payables	(2.0)	(0.2)	(1.1)	(3.3)
Current tax liabilities		(0.2)		(0.2)

Other current liabilities	(0.7)	(4.9)		(5.6)
Total net assets acquired	**8.6**	**34.4**	**3.5**	**46.5**
Equivalent Fair value	8.6	34.4	3.5	46.5
Non-controlling interests acquired				-
Total value of the business Combination	**8.6**	**34.4**	**3.5**	**46.5**
(Goodwill) Badwill	**-**	**-**	**-**	**-**

The evaluation 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:

	Blu Ranton Srl	Megas Net Spa	Sangroservizi Srl	Total business combination operations
Reporting value of net assets acquired	**0.8**	**34.4**	**(0.9)**	**34.3**
Adjustments for Fair Value valuation				
Intangible assets	10.9		6.2	17.1
Deferred tax assets (liabilities)	(3.1)		(1.8)	(4.9)
Fair value of net assets acquired	**8.6**	**34.4**	**3.5**	**46.5**
Cash outlay	5.1		3.5	8.6
Issuance of equity instruments		34.4		34.4
Contingent consideration	3.5			3.5
Equivalent Fair value	**8.6**	**34.4**	**3.5**	**46.5**

As regards the evaluation of the fair value of the tangible and intangible assets acquired of the company Blu Ranton Srl and Sangroservizi Srl, the management's evaluations highlighted the following significant differences between carrying amounts and fair value Specifically, customer lists totalling 17.1 million euro and corresponding deferred tax liabilities amounting to 4.9 million euro were recorded. Furthermore, during January of this year, the evaluation process relating to the acquisition of Verducci Servizi Srl was completed. Specifically, the valuation of the list of customers for natural gas and electricity was revised to 2 million euro, compared with the valuation of 1.8 million euro carried out as of December 31st 2017.

Please see note 32 "Comments to the financial report" for an analysis of the cash flows associated with the combination operation.

2.02.04
Accounting policies and consolidation principles

The financial statements used for the preparation of the consolidated statement of financial position and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the Parent Company) for the purposes of consistency with the accounting standards and principles of the Group. With regard to associated companies, adjustments to shareholders' equity values were considered in order to adapt them to IFRS.

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

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

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

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

In preparing these consolidated financial statements, the accounting policies and principles were the same as those adopted in the previous year, considering the new accounting standards reported in the paragraph "Accounting standards, amendments and interpretations applied as of January 1st 2018" and the what outlined in paragraph "Adoption of IFRS 9". As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

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

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

	2018	**Dec 31st 18**	**2017**	**Dec 31st 17**
	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.262	4.301	4.257	4.177
Serbian Dinar			121.356	118.639

The criteria and principles adopted are outlined here below.

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

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

Depreciation starts to be applied when the assets enter the production cycle. Work in progress includes costs relating to property, plant and equipment for which the process of economic use has not yet commenced. The property, plant and equipment are systematically depreciated in each accounting period using the depreciation rates considered representative of the remaining useful lives of the assets. The rates of the amortisation property, plant and equipment are outlined here below:

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

As required by IAS 16, the estimated useful lives of property, plant and equipment are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives do not provide a truthful representation of the expected future economic benefits, the relative depreciation schedule must be redefined according to the new assumptions. These changes are made prospectively to the income statement.

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

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

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

Leasing - Leases are classified as finance leases when the terms of the agreement are such that they essentially transfer all the risks and benefits of ownership to the lessee. The assets covered by finance leases agreements are recorded among property, plant and equipment and stated at their fair value as at the date of acquisition or, if lower, at the present value of the minimum lease payment; they are depreciated on the basis of their estimated useful life, just like the assets owned are. The corresponding debt with the lessor is recorded in the statement of financial position. Lease payments include the principal portion and the interest portion and the financial charges are booked directly to the income statement for the period. All the other leases are considered to be operating leases and the related lease payments are recorded on the basis of the conditions set forth in the agreement.

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

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

Industrial patent rights and know-how are representative of assets that are identifiable and capable of generating future economic benefits under the control of the Group; these rights are amortised over their remaining useful lives.

The concessions mainly comprise the rights associated with networks, plants and other facilities related to gas and integrated water cycle services managed by the Group and are instrumental to the management of these services. These concessions were listed as intangible assets even before the Ifric 12 - Agreements for concession services- interpretation was first applied.
The depreciation of the concessions are calculated on the basis of the provisions of the respective conventions, and namely: i) according to a constant rate for the shorter of the following two periods: the

useful life of the assets granted in concession and the duration of that same concession, provided that, when this concession expires, the outgoing operator is not granted any compensation value (Salvage value, or "SV"); ii) according to the useful life of the individual assets if, at the moment the concessions expire, the assets in question are expected to pass into the hands of the operator.

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

This category also includes improvements made and infrastructure constructed on the goods instrumental to the management of these services, which are the property of the Holding Companies (so called "Asset Companies", pursuant to Art. 113 of Legislative Decree 267/00), but managed by the Group by virtue of business unit leasing contracts. These contracts, in addition to establishing the fees due, also include clauses governing the restitution of assets, normally maintained, upon payment of a balance corresponding to the net book value or the Industrial Residual Value (also taking into account the recovery funds) of these assets.

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

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

The intangible assets recognised following a business combination are recorded separately from goodwill if their fair value can be reliably determined.

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

The rates of the amortisation of intangible assets are outlined here below:

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

Business combinations - Business combination operations are accounted for by applying the acquisition method foreseen by IFRS 3 revised, as a consequence of which the buyer acquires the equity and takes over the assets and liabilities of the acquired company. The cost of the operation is shown as the fair value of the transferred assets, liabilities assumed and equity instruments issued in exchange for the control of the acquired company, as at the date of acquisition. The expenses related to the business combination are generally recognised in the income statement at the time they are incurred.

Any positive difference between the cost of the transaction and the fair value at the date the assets and liabilities are acquired is attributed to goodwill (subject to impairment test, as indicated in the paragraph below). If the process of allocating the purchase price shows a negative difference, such difference is immediately charged to the income statement at the date of acquisition.

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

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

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

Losses in value - impairment - As of each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, the Group takes into consideration the book value of property, plant and equipment and intangible assets in order to assess whether these assets have suffered an impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total write-down. The recoverable amount is either the fair value , less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the cash flows to which said assets belong. Future cash flows are discounted to present value at a rate (net of taxation) that reflects the current market value and takes into account the risks associated with the specific business activities.
If the recoverable amount of an asset (or of a cash generating unit) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

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

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

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

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

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

The management determines their permanent classification when they are first recorded.

Receivables and loans - This category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. Since the business model generally adopted by the Group provides for the holding of these financial instruments solely for the purpose of collecting the contractual cash flows, these assets are valued at depreciated cost on the basis of the effective interest rate method. The value of the assets is reduced on the basis of the expected losses, using information that is available without unreasonable charges or efforts,

including historical, current and prospective data. . Impairment losses determined by an impairment test are recognised in the income statement, as are any subsequent reversals of impairment losses. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.
This category includes, as provided by the interpretation IFRIC 12, the financial assets associated to those public service under concession for which the Group has the unconditional contractual right to receive liquidity from the issuer for the construction services rendered. The application of the Financial Asset Model was adopted by the Group beginning in 2016 for the new contracts signed for the provision of public lighting services, in view of a change in their characteristics, in which increasingly frequently the issuer guarantees the area provider a specific amount, or at any rate which can be reliably determined, not depending on the use of the infrastructure by the final customer. Under that model, the financial asset reported in the balance sheet in relation to the issuer for an amount equal to the fair value of the construction services rendered.

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

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

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

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

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

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

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

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

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

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

Provisions for risks and charges - The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the obligation, as of the balance sheet date (assuming that there are sufficient elements for being able to make this estimate) and are discounted to present value when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting to present value the future cash flows at a pre-tax discount rate that reflects the current market valuation and takes into account the risk associated with the business activities.
When the discounting to present value is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability relates to property, plant and equipment (e.g. restoration of sites), the contra-entry to the provision made is an increase of the asset to which the liability refers; on the other hand, the financial charges are expensed out through the depreciation process of the item of property, plant and equipment to which the charge refers. The methods envisaged by IFRIC 1 are adopted if liabilities are recalculated.

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

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

Trading activities - As part of the activities of the Group, trading activities in commodities (with particular reference to electrical energy) and environmental securities have been authorized. These trading operations are governed by specific procedures and are segregated from characteristic activities. These activities, comprising physical contracts, financial derivatives on commodities and environmental securities, are measured at fair value with any change in the profit (loss) recorded in the income statement.

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

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

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

As far as derivative instruments classified as fair value hedges are concerned, which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are recognized through profit or loss. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge are also recognized through profit or loss.

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

Whenever applicable, the group adopts the fair value option.

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

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

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

- the revenues from energy, gas and water sales are recognized and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- Revenues from the distribution are recognized on the basis of the tariffs paid by Aeegsi and are subject to equalization at year end to reflect in accordance with the competence criterion the compensation recognized by the Authority in relation to the investments made;
- revenues are booked at the time (or as) the obligation is fulfilled, transferring the promised good or service to the customer. The transfer occur when (or as) the customer gains control over the good or service. The revenue recorded corresponds to the price attributed to the obligation to be recorded. Revenue is recorded only if the consideration for the goods or services transferred to the customer is likely to be received;
- costs are accounted for in accordance with the accruals principle.

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

Income taxes for the year - Income taxes for the year represent the sum of current and deferred taxes. Current taxes are based on the taxable income for the financial year. Taxable income differs from the result recorded in the income statement, as it excludes positive and negative components which will be taxable or deductible in other years, and excludes components that will never be taxable or deductible. The item "Current tax liabilities" are calculated on the basis of the tax rates applicable on the balance sheet date.

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

Deferred taxes are calculated having regard to timing differences in taxation, and are recorded under item "Deferred tax liabilities". "Deferred tax assets" are recognized to the extent that the existence of a taxable income at least equal to the amount of the differences to be offset is considered probable when the timing differences will reverse.

Deferred tax assets are determined on the basis of the tax rates foreseen to be in force during the financial year in which the tax asset will be conferred or the tax liability will be extinguished, on the basis of tax rates established by provisions in force or substantively in force at the date of the financial statements. These changes are charged to the income statement, or equity, depending on how the difference in question was originally charged.

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

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

Transactions with related parties - Transactions with related parties take place on an arms'-length basis, in observance of efficiency and cost-effectiveness criteria.

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 reference market is the Italian market. Assets are recognised in the financial statements net of any write-downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk
The liquidity risk to which the Group is exposed may arise from difficulties in obtaining, in a timely manner, loans in support of operations. Cash flows, financing needs and the liquidity of the Group Companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.
The financial planning of requirements, focused on medium-term borrowings, and the availability of abundant funds in credit facilities, allow effective management of liquidity risk.

Exchange rate risk and interest rate risk
The Group is not subject to exchange rate risk as it operates almost exclusively in the Italian market, both in relation to the sale of its services and the procurement of goods and services. As for interest rate risk, the Group regularly assesses its exposure to the risk of interest rate fluctuations and manages this risk by means of derivative financial instruments, in accordance with its risk management guidelines. Under these guidelines, the use of derivative financial instruments is restricted to the management of exposure to interest rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out. .

Fair Value Hierarchy

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

- level 1, financial instruments the fair value of which is determined on the basis of quoted prices in active markets;
- level 2, financial instruments the fair value of which is determined using valuation techniques that employ parameters that are directly or indirectly observable on the market. Instruments valued on the basis of the market forward curve and short-term differential contracts are classified in this category;
- level 3, financial instruments the fair value of which is determined using valuation techniques that employ parameters that cannot be observed on the market, using internal estimates exclusively. As of December 31st 2018, the Group owns only financial instruments on commodities that fall into this category of level 3.

Significant estimates and valuations

Use of estimates

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

Specifically, information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Going concern

The directors considered the applicability of the assumed going concern in drafting the consolidated financial statement, and decided that such assumption is appropriate in that there are no doubts about the going concern.

Impairment test

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

Provisions for risks

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

Recognition of revenues

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

Deferred tax assets

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

Depreciation

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

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

2.02.05
Changes in international accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2018

Starting January 1st 2018, the following accounting standards and associated amendments as issued by the IASB and endorsed by the European Union, apply:

On December 8th 2016 IASB published the document **"Improvements to the International Financial Reporting Standard: 2014-2016 Cycle"** (Regulation 182/2018). These improvements include amendments to three existing international accounting standards: **Ifrs 12** - Report on investments in other entities (applicable beginning January 1st 2017), **Ifrs 1** - First adoption (applicable beginning January 1st 2018) and **IAS 28** - Investments in associates and joint ventures (applicable from January 1st 2018). These amendments clarify, correct or remove redundant statements or formulations in the text of the relevant standards.

Amendments to IFRS 2 - Share-based Payments (Regulation 289/2018) On June 20th 2016 IASB published the document "Classification and measurement of share-based payment transactions". The amendments provide some clarification regarding the accounting for the effects of vesting conditions in cases of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and regarding the accounting for changes to the terms and conditions of a share- based payment that modify the classification from cash-settled to equity-settled.

Amendments to IAS 40 - Real estate investments (Regulation 400/2018) Document issued by IASB on December 8th 2016. The amendments clarify the requirements concerning sale or purchase transfers of real estate investments.

Ifric 22 – Foreign currency transactions and advanced consideration. This interpretation, published by the IASB on December 8th 2016, establishes the exchange rate to be used in foreign exchange transactions that involve considerations payed or received in advance.

With reference to the application of these amendments and new interpretations, there were no observable effects on the Group's financial statements. It should be noted that the effects on the financial statements deriving from the first application of IFRS 9 "Financial Instruments" are illustrated in section 2.02.02.

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

As of January 1st 2019, the following accounting standards and amendments of accounting standards will be obligatorily applied, having also already concluded the process of community endorsement:

IFRS 16 – Leases (Regulation 1986/2017). Standard issued by IASB on January 13th 2016, to replace the IAS 17 standard "Leasing", as well as the interpretations of IFRIC 4 "Determining whether an agreement contains a lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the substance of transactions in the legal form of leasing".
The new standard provides a new definition of leases and introduces a criterion based on the right of use of an asset to distinguish lease contracts from service contracts, identifying discriminating factors such as: the identification of the property, the right to replace it, the right to obtain essentially all the economic benefits deriving from the use of the property and the right to manage the use of the property named in the contract.
This standard establishes a single model for the reporting and valuation of leasing contracts for lessees, which provides for the entry of leased goods including operating leases among assets, with a

financial liability as a balancing entry, while also providing the possibility of not applying this model to contracts relating to low-value assets and leases with a contract duration of 12 months or less (short-term leases). In contrast, the standard does not include significant changes for lessors.
The standard is applicable beginning January 1st 2019, but early application is allowed.
The Group has carried out a preliminary assessment regarding the way the new standard will potentially affect the carrying amounts as of the date it was initially applied (January, 1st 2019): This process was divided into several phases, including the complete mapping of the contracts that are potentially suitable to include a lease and their analysis in order to understand their main clauses relevant for the purposes of IFRS 16.
The Group made use of the practical expedient provided for in paragraph C3, which allows to refer to previous conclusions reached on the basis of Ifric 4 and Ias 17 regarding the qualification of operating leases for a specific contract. This practical device was applied to all contracts, as provided for in paragraph C4.
The process for implementing the principle is nearing completion, providing for the setting up of the IT infrastructure aimed at the accounting management of the principle and the alignment of the administrative processes and controls to monitor the critical areas on which the principle insists. These activities will be completed during the first months of the 2019 fiscal year.
The Group chose to apply the standard retrospectively, while recognising the accrued effect of applying the standard in shareholders' equity as of January 1st 2019, in accordance with paragraphs C7-C13. In particular, with regard to the leasing contracts previously classified as operating contracts, the Group will book:

- a financial liability, equal to the present value of the remaining future payments at the transition date, discounted using, for each contract, the marginal loan rate applicable at the transition date;
- a right of use equal to the net carrying amount that it would have had if the standard had been applied from the beginning of the contract, using the discount rate established at the transition date.
  Only for a residual number of contracts for which the recovery of historical information was not possible in a timely manner, the right of use was set equal to the value of the financial liability at the date of transition, net of any accruals and deferrals relating to the lease and recorded in the balance sheet at the closing date of these financial statements.

The following table shows the expected impacts of the adoption of IFRS 16 at the transition date:

mn€	Impact at the transition date: Jan 1st 19
Non-current assets	
Right of use of building	67.3
Right of use of vehicles	4.8
Right of use of plants and technological infrastructures	18.9
Total	**91.0**
Non-current liabilities	
Non-current finance lease liabilities	82.7
Current liabilities	
Current finance lease liabilities	13.9
Total	**96.6**
Retained earnings	**5.6**

In adopting the IFRS 16 standard, the Group intends to use the exemption granted in paragraph 5 a) in relation to leases with a duration of less than 12 months for certain contracts for renting vehicles.
Similarly, the Group intends to use the exemption granted in paragraph 5 b) with regard to leasing contracts for low value assets, that is when the assets covered by the leasing contract do not exceed 5,000 euro when new. The contracts for which the exemption has been applied mainly belong to the following categories:

- electronics;
- furniture and furnishings.

For these contracts, the introduction of IFRS 16 will not involve reporting the financial liability of the lease and the associated right of use, but the lease payments will be recorded in the income statement on a linear basis for the duration of the corresponding contracts.

In addition, with reference to the rules of transition, the Group intends to make use of the following practical tools:

- using the assessment made as of December 31st 2018 in compliance with the rules of IAS 37 "Provisions, liabilities and contingent assets" concerning the accounting of onerous contracts as an alternative to the application of the impairment test on the value of the right of use as of January 1st 2019;
- classification of contracts expiring within 12 months from the transition date as short-term leases. In relation to these contracts, the leases will be recorded on linear basis to the income statement;
- excluding initial direct costs from the measurement of the right of use as of January 1st 2019;
- using the information available on the transition date to determine the duration of the contract, with particular reference to the use of options for extending and early closing the contract.

In order to provide an aid to understanding the impact associated with the first adoption of the standard, the following table provides a reconciliation between future commitments relating to leasing contracts (of which, in accordance with IAS 17, information is provided in notes 4 "Costs for services" and 26 "Non-current and current financial liabilities" of these financial statements as of December 31st 2018) and the expected impact of adopting IFRS 16 as of January 1st 2019:

mn€	**Jan 1st 19**
Leasing commitments active as of December 31st 2018	**130.2**
Minimum payments on finance lease liabilities as of December 31st 2018	15.6
Instalments for short-term leases	(0.2)
Instalments for low-value leases	(0.2)
Other changes	-
Non-discounted finance lease liabilities as of January 1st 2019	**145.4**
Discounting effect	(34.9)
Finance lease liabilities as of January 1st 2019	**110.5**
Current value finance lease liabilities as of December 31st 2018	(13.9)
Additional finance lease liabilities as of January 1st 2019	**96.6**

IFRS 9 - Financial Instruments (Regulation 2018/498). Document issued by IASB on October 12th 2017, applicable from January 1st 2019 with early application allowed. The amendments allow companies, if a specific condition is met, to valuate certain prepaid financial assets by means of so-called negative compensation at amortised cost, or at fair value with changes in the other components of the comprehensive income statement, instead of at fair value in the income statement. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

Ifric 23 – Uncertainty over income tax treatment (Regulation 2018/1595) This interpretation, published by the IASB on June 7th 2017 and applicable beginning January 1st 2019, aims at clarifying the requirements concerning the recognition and measurements established by IAS 12 in cases of regulatory uncertainty surrounding the treatment of income taxes. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

Changes to IAS 28 - Investments in Associates and Joint Ventures (Regulation 2019/237) Document issued by IASB on October 12th 2017, applicable from January 1st 2019 with early application allowed. The amendments clarify that companies must use the provisions of IFRS 9 to account for long-term investments in associates or joint ventures for which the equity method is not applied. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

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

The following standards, 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:

On December 12th 2017 the IASB published the document **"Improvements to the International Financial Reporting Standard: 2015-2017 Cycle"**. These improvements include amendments to four existing international accounting standards:

- **IFRS 3 -** business combinations. The amendment specifies that the investment previously held in a joint operation must be subjected to a new valuation when the company obtains control over it;
- **IFRS 11 -** Joint arrangements It is clarified that the value of an investment previously held in a joint operation does not need to be reviewed when joint control over it;
- **IAS 12 -** Income taxes The improvement clarifies that an entity is required to account for taxes related to the payment of dividends in the same way as dividends;
- **IAS 23 -** Financial expenses Any loan originally entered into to build a specific asset is required to be considered as generic debt when the asset is available for its intended use or sale.

These amendments, applicable beginning January 1st 2019 with early application allowed, clarify, correct or remove redundant statements or formulations in the text of the standards in question.

Amendments to IAS 19 - Changes to the plan, reduction or liquidation Document issued by IASB on February 7th 2018 and applicable beginning January 1st 2019. The amendments specify how expenses are to be determined when changes occur to a defined benefit plan.

Changes in references to the conceptual framework - Document issued by IASB on March 29th 2018 and applicable beginning January 1st 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.

Amendments to IFRS 3 - business combinations. Document issued by IASB on October 22th 2018, applicable from January 1st 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.

Amendments to IAS 1 and IAS 8 - Definition of materiality. Document issued by IASB on October 31st 2018, applicable from January 1st 2020 with early application allowed. The amendments clarify the definition of materiality and the application criteria, in order to facilitate companies in choosing the information to be included in the financial statements.

Amendments to IFRS 10 and IAS 28 - Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. Document published by the IASB on September 11th 2014 in order to resolve a conflict between the two standards mentioned, regarding the sale of assets or subsidiaries to an associate in a joint venture, effective for annual periods beginning on or after January 1st 2016. The amendments introduced foresee that in case of sales or contributions of assets or subsidiaries to an associate or a joint venture, the value of the profit or loss to be recognised in the balance sheets of the sold/contributed entity is to be put in relation with the classification of the assets or the subsidiary sold/contributed as a business, as defined by IFRS 3. In the event that the sale/contribution represents a business, the entity must recognise the profit or loss for the entire interest previously held; while, if this is not the case, the entity must recognise the amount of profit or loss pertaining to the interest still held by the entity to be eliminated.

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

Accounting standards, amendments and interpretations already applied early by the Group, beginning January 1st 2018

IFRS 15 - Revenue from contracts with customers. Please note that the Group, as permitted by paragraph C1, opted for the early adoption of the standard, i.e. to apply it from the beginning of the 2017 financial year. additionally, the Group chose the modified retrospective method provided for in paragraph C3(b) as their method of transition, recognizing the aggregate effect of the initial application in the form of an adjustment to the opening balance of retained earnings as of January 1st 2017.

The new international accounting standard IFRS 15, issued by IASB on May 28th 2014 was applicable because it had been adopted by EU legislation as a result of the approval of Regulation 2016/1905 and 1987/2017 (the latter implemented the amendments "Clarifications to IFRS 15" by IASB on April 12th 2016. this standard replaces IAS 18 - Revenue, IAS 11 - Construction contracts, the interpretations SIC 31, IFRIC 13 and IFRIC 15.

The new standard, establishing a new model for recording revenues, applies to all contracts with customers except for leases within the scope of IAS 17 - Leases, for insurance contracts and financial instruments. The fundamental steps for accounting revenues according to the new model are:

- identifying the contract with the customer;
- identifying the performance obligation of the contract;
- establishing the price;
- allocating the price to the performance obligation of the contract;
- the criteria for recognising revenue when the entity meets each performance obligation.

The analysis of the effect the application of IFRS 15 had on the Group's consolidated financial statement concerned the following transaction categories:

- sale of electricity and gas in particular market segments regulated by Arera, with reference to the recognition of revenues to the extent that the fees will likely be collected;
- contracts that simultaneously oblige the Group to build and manage plants as well as supply energy, with reference to the methods of recording revenues for the different performance obligations entered into by the Group;
- contracts for providing electricity and gas that provide for the simultaneous provision of related services, with reference to the methods of recording revenues for the different performance obligations entered into by the Group;

At the conclusion of the analyses carried out last year, only with reference to the first point, the effects on the financial statements were found to be significant. In particular, in the case of these specific segments of the regulated market, in accordance with the provisions of the new standard, revenues for the period were recorded taking into account the actual likelihood of collecting contractual fees (calculated on the basis of historical or sector evidence) and the mechanisms for reintegrating overdue charges. However, since the degree of risk of this particular market is already known, in the years prior to the first adoption, the receivables related to these types of revenues were subject to appropriate write-downs in the year of their initial recognition. As a result, the adoption of IFRS 15 had no effect on retained earnings.

Lastly, in light of the process of transitioning the electric power market from the system of greater protection to the free market scheduled for July 1st 2020 and the resulting opportunities for expanding the customer base, the Group is developing a series of commercial initiatives and, at the same time, adapting its management systems to accurately monitor the incremental costs that the new future contracts will involve. As required by IFRS 15, these new processes may result in recording assets at the recoverable amount of the incremental costs incurred to obtain contracts.

2.02.06
Commentary notes to the financial statement formats

Please note that paragraphs 1.01 and 1.02 of the management report provide an analysis of the business' management performance that may contribute to a better understanding of changes in the main categories of operating expenses and revenues.

1 Revenues

	2018	2017	Changes
Revenues from sales and services	6,118.9	5,612.9	506.0
Changes in contract work in progress, semi-finished and finished products	15.5	(0.8)	16.3
Total	**6,134.4**	**5,612.1**	**522.3**

"Revenues from sales and services", the increase compared to the previous fiscal period mainly stems from the Gas and Electricity operating sectors. Concerning the Gas and Electricity sectors, there was an increase in volumes of both trading activities on the natural gas markets and the sale of electricity and methane gas, partially offset by a decrease in trading activities on electricity and revenues from the sale of energy produced by the plants managed by the Group.

This item essentially includes allocations for services provided to end customers not yet invoiced, including 166 million euro for the Gas sector, 150 million euro for the Electric sector and 76.2 million euro for the Water sector.

Revenues are earned mainly in Italy.

"Changes to contract work in progress, semi-finished and finished products" the increase compared to the previous fiscal period is mainly attributable to the higher volume of contract work in the public lighting and heat management businesses.

2 Other operating revenues

	2018	2017	Changes
Long-term contracts	254.5	255.5	(1.0)
White certificates	95.7	128.6	(32.9)
Operating grants and grants for separated waste collection	63.3	62.5	0.8
Grants related to plants	10.7	9.8	0.9
Use of funds	7.3	5.6	1.7
Insurance refunds	4.8	4.3	0.5
Other revenues	55.7	58.5	(2.8)
Total	**492.0**	**524.8**	**(32.8)**

The most substantial changes by comparison with the previous fiscal year 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 is due to a lower number of investments in the water networks and public lightning plants as compared to the 2017 financial year, partially counterbalanced by an increase in investments in natural gas distribution networks.

“White Certificates”, highlight the revenues calculated on the basis of energy efficiency objectives for the year as established by the Gse and accounted for in relation to the Cassa per i Servizi Energetici e Ambientali. The negative change of 32.9 million euro is due mainly to the significant decrease in the price due to the decree of the Ministry of Economic Development of July 10th 2018 that introduced a maximum value of the contribution for distribution companies equal to 250 euro per security, a value much lower than the contribution for the period 2017. The decrease is also due, albeit only to a residual degree, to the different timing of fulfilment of the obligations as compared to the previous year.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 32.9 million Euro (31.1 million Euro in 2017), 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 30.4 million euro (31.4 million euro in 2017) 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.

"Other revenues" mainly represents proceeds from recovering the costs incurred for activities related to environmental, electrical and gas services.

3 Use of raw materials and consumables

	2018	2017	Changes
Gas earmarked for sale, net of changes in stocks	1,450.8	1,063.8	387.0
Electricity	1,207.6	1,182.6	25.0
White and grey certificates	105.5	121.5	(16.0)
Maintenance materials net of changes in stocks	71.2	71.6	(0.4)
Plastics net of changes in stocks	51.1	44.7	6.4
Water	48.8	52.0	(3.2)
Chemical products	17.5	16.9	0.6
Fuels, motor fuels and lubricants	16.3	16.0	0.3
Methane gas for industrial use	13.9	15.6	(1.7)
Fuels for heat management	1.8	1.9	(0.1)
Charges and revenues from derivatives	(32.9)	(8.9)	(24.0)
Consumables and miscellaneous	32.5	29.1	3.4
Total	**2,984.1**	**2,606.8**	**377.3**

"Gas earmarked for sale net of changes in stocks", the increase as compared to the 2017 financial year is due to the greater volumes of trading activity on the wholesale natural gas markets and to the increase in sales to end customers.

"White, Grey and Green Certificates" includes the purchase cost of the various types of environmental certificates incurred during 2018, and specifically: 90.8 million euro for White certificates (119.5 million euro in 2017) and 14.2 million euro for Grey certificates (1.8 million euro in 2017). The change from the previous year was due to the different purchasing requirements in view of the Group's certificate needs. In relation to white certificates, these needs are defined on the basis of the requirements for the distribution companies that show procurement prices sharply decreasing as well as different completion timings of the requirements as compared to the previous year. With regard to grey certificates, both greater price volatility as compared with the previous period, resulting in a significant increase in market value, and greater trading activity were recorded in 2018.

"Plastic materials" includes the cost of purchasing plastic raw materials destined for subsequent processing, transformation and sales.

For the item "Charges and revenues from derivatives," please see note 19 of the statement of financial position.

4 Service costs

	2018	2017	Changes
Transport and storage	998.7	941.0	57.7
Work and maintenance expenses	363.9	373.2	(9.3)
Waste transportation, disposal and collection	324.0	299.0	25.0
Fees paid to local authorities	67.4	71.2	(3.8)
IT and data processing services	46.2	39.5	6.7
Professional, legal and tax services	33.0	28.5	4.5
Other commercial services	27.0	26.2	0.8
Rents and leases payable	26.7	24.8	1.9
Technical services	22.0	19.5	2.5
Recruitment, training and other staff costs	19.9	19.3	0.6
Agency costs	18.6	15.8	2.8
Insurance	15.8	16.8	(1.0)
Postal and telephone costs	14.5	16.3	(1.8)
Bank fees and charges	10.7	11.4	(0.7)
Legal and financial announcements and advertising, communication with customers	8.0	6.4	1.6
Cleaning and surveillance services	7.7	7.8	(0.1)
Meter reading	6.9	6.5	0.4
Remuneration to statutory auditors and directors	5.2	5.5	(0.3)
Rents payables	4.0	4.3	(0.3)
Other service costs	20.3	19.3	1.0
Total	**2,040.5**	**1,952.3**	**88.2**

"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 2017 is mainly due to the increase in electricity sales volumes.

"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: The change compared to the previous year is mainly due to fewer investments in networks under concession and to the decrease of the maintenance costs incurred for landfills and WTE plants.

“Waste transportation, disposal and collection," the increase is mainly due to the greater costs of waste disposal, and greater costs incurred in developing the commercial activity of the "decontamination" business, as well as the outsourcing process for treating by-products from composting plants.

"Fees paid to local authorities" includes, among other charges, the fees incurred for the use of public owned networks, fees paid to companies that own these assets for the management of gas, water and electricity cycle assets, and the fees paid to municipalities for the use of telecommunications networks.

"IT and data processing services", the increase is due both to higher costs for maintenance activities on existing applications used and the implementation of new applications.

"Professional, legal and tax services", the change is mainly due to back office costs for the administrative management of contracts for gas and electricity customers.

"Other costs for services” mainly includes the items concerning consumption, organizational services and laboratory analyses.

The value of rents payables still due on December 31st 2017 concerning the operating lease contracts, included under the item "Rents and leases payable", amounted to 130.2 million euro.

5 Personnel costs

	2018	2017	Changes
Salaries and wages	384.9	384.6	0.3
Social security expenses	128.6	126.9	1.7
Post-employment and other benefits	0.7	0.8	(0.1)
Other costs	37.2	39.3	(2.1)
Total	**551.4**	**551.6**	**(0.2)**

The cost of labour is essentially in line with the previous financial year, due to the normal evolution of contractual dynamics.

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

	2018	2017	Changes
Managers	150	153	(3)
Middle management	532	534	(2)
Clerks	4,593	4,596	(3)
Blue-collar workers	3,287	3,395	(108)
Total	**8,562**	**8,678**	**(116)**

Overall, the average cost of labour per capita for 2018 was 64.4 thousand euro (63.6 thousand euro in 2017).

At December 31st 2018, the actual number of employees was 8,622 (8,683 employees at December 31st 2017).

6 Other operating costs

	2018	2017	Changes
Taxation other than income taxes	17.5	13.0	4.5
State rentals	12.3	13.0	(0.7)
Losses on the sale and disposal of assets	5.6	12.3	(6.7)
Landfill special tax	3.9	5.3	(1.4)
Bad debt losses	-	15.1	(15.1)
Other minor charges	23.2	25.9	(2.7)
Total	**62.5**	**84.6**	**(22.1)**

"Taxation other than income taxes" mainly relates to taxes on buildings, stamp duties and registration fees, public area occupation fees and excise duties. The increase from the previous period is mainly due to the payment of the Ici/Imu tax for previous fiscal periods as a result of a court settlement. Please refer to the detailed information in paragraph "tax litigations" at note 11 "taxes".

"State rentals" is mainly related to fees paid to the Emilia Romagna region, land reclamation consortia, sector agencies and mountain-area communities.

"Losses on the sale of goods and disposal of assets", arising mainly from the disposal of certain components of the distribution networks district heating and WTE plants. The most significant investments for the year relate mainly to the divestiture of WTE components, in the amount of 1.8 million euro, and meters, in the amount of 1.3 million euro.

"Special landfill levy" refers to the relevant environmental tax for the period on landfills operated by the Group. The decrease of 1.4 million euro is due mainly to lower volumes delivered to the Ravenna landfill and the temporary interruption of deliveries to the Tre Monti landfill.

"Credit losses" for the 2017 fiscal year referred mainly to the sale of "non performing" credits, related to household customers, for which the extra-judicial recovery activities ended with negative results. Such sale did not occur over the course of 2018.

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

7 Capitalized costs

	2018	2017	Changes
Increase in self-constructed assets	43.2	43.0	0.2

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

8 Amortisation, depreciation and provisions

	2018	2017	Changes
Amortisation property, plant and equipment	164.5	165.8	(1.3)
Amortisation intangible assets	220.8	203.9	16.9
Allowance for bad debts	89.3	103.4	(14.1)
Provisions for risks and charges	46.9	45.2	1.7
Impairment of property, plant and equipment and intangibles	6.2	13.8	(7.6)
De-provisioning	(6.7)	(8.4)	1.7
Total	**521.0**	**523.7**	**(2.7)**

For breakdowns and further detail about these items, please refer to the comments under "property, plant and equipment", "intangible assets", "goodwill", "trade receivables" and "provisions for risks and charges" of the statement of financial position.

For "Amortisation property, plant and equipment", the decrease is mainly due to the lower contributions made to the Group's landfills as compared to the previous financial period, which led to lower amortisation and depreciation amounting to 1.4 million euro.

For "Amortisation intangible assets", the increase is mainly due to goods relating to public services under concession as a result of contract work carried out in previous years and the operations to develop and implement the IT systems. In addition, the acquisition of control over Blu Ranton Srl and Sangroservizi Srl in the 2018 financial period, as well as the acquisition of 13,000 electric customers for the greater protection service in the municipality of Gorizia , resulted in higher depreciation in the current period in the amount of approximately 1.9 million euro as a consequence of the registration of client lists.

"Impairment of property, plant and equipment and intangibles" mainly refers to:

- plants no longer in use in the Environment sector for 3.2 million euro, for which the technical valuations carried out at the end of the period quantified no recoverable value;
- Goodwill recorded during the initial consolidation of the company ASA ScpA, in the amount of 2.8 million euro; Following the impairment test, goodwill was completely written down, as the company is close to ceasing operations and the financial assets recorded, added to the residual cash flows, are sufficient exclusively to meet future obligations.

The item “De-provisioning” includes the re-verification of the funds in view of the fact that the underlying risks no longer exist. As of December 31st 2018, there were reclassifications in the amount of 2.6 million euro to the "Post-mortem provision", of 1.3 million euro to the "Waste disposal provision", of 1.6 million euro to the "Provision for legal and personnel disputes" and to the "Other provisions for risks and charges" in the amount of 1.2 million euro.

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

	2018	2017	Changes
Joint venture share of net profits	7.8	8.5	(0.7)
Associated companies share of net profits	7.1	6.2	0.9
Total	**14.9**	**14.7**	**0.2**

The share of profits/losses of joint ventures and associated companies includes the effects generated by the valuation of the companies included in the consolidation carried out using the equity method.

The "net joint venture income" mainly refers to the share of the Group's net income earned by Enomondo Srl, 2.6 million euro (2.7 million euro in 2017) and Estenergy Spa, 5.2 million euro (5.8 million euro in 2017).

"Associated companies share of net profits" relates to the companies:
- Aimag Spa, profits for 2.6 million euro (3.5 million euro in 2017);
- Sgr Servizi Spa, profits for 3,9 million euro (4 million euro in 2017).
- Aimag Spa, profits for 0.6 million euro (losses for 1.4 million euro in 2017);

10 Financial income and expense

	2018	2017	Changes
Revenues from derivatives	57.7	49.3	8.4
Customers	25.0	27.3	(2.3)
Other financial income	14.2	7.9	6.3
Income from valuation at fair value of financial liabilities	-	20.5	(20.5)
Total income	**96.9**	**105.0**	**(8.1)**
Financing and Bonds	91.7	91.6	0.1
Charges from derivatives	46.0	68.6	(22.6)
Discounting of provisions and finance leases	21.3	21.4	(0.1)
Charges from valuation at fair value of financial liabilities	15.9	5.7	10.2
Valuation at depreciated cost of financial liabilities	11.0	8.8	2.2
Write-downs of financial assets:	6.9	9.5	(2.6)
Loans	4.9	4.9	-
Factoring	3.6	5.1	(1.5)
Other financial expenses	2.2	5.6	(3.4)
Total expenses	**203.5**	**221.2**	**(17.7)**
Total net financial expense (Income)	**(106.6)**	**(116.2)**	**9.6**

The change in financial management is described, overall, in the Directors' Report.

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 19 "Derivative financial instruments".

"Customers", mainly includes the interest on payments in arrears billing system for the gas and electricity customers.

"Other financial income" mainly includes capital gains earned from the sale of equity investments, dividends received from non-consolidated investee companies and income related to discounted receivables..

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

	2018	2017	Changes
Post-closure landfills	14.1	12.8	1.3
Restoration of third-party assets	5.8	7.0	(1.2)
Employee leaving indemnity and other benefits	0.9	1.0	(0.1)
Finance leases	0.3	0.4	(0.1)
Plants dismantling	0.2	0.2	-
Total	**21.3**	**21.4**	**(0.1)**

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

- the decrease in the discount rate used to determine the present value of the "Post-closure landfill fund", following the updating of its parameters to reflect current market conditions, as well as the revision of the assumptions on the timing of future disbursements in relation to certain depleted landfills;
- a lower incidence of adjusting the present value of the "Provision for restoration of third party assets" compared to the previous year, when the significant reduction in the discount rate used had led to a significant increase of financial charges.

"Write-downs of financial assets" mainly includes:

- loan of 4.5 million euro provided to the affiliate company Tamarete Energia Srl following the impairment test, as explained in Note 31 "Impairment Test";
- investment in the associated company Q.tHermo Srl for 1.5 million euro, the value of which is no longer considered recoverable in light of the significant uncertainties regarding the positive outcome of the authorisation process that would allow it to start operating;
- investment and financing of the Ioota Srl for a total of 0.5 million euro, the value of which is no longer considered recoverable as it is no longer part of the Groups development strategies;

The item "Valuation at depreciated cost of financial liabilities" represents the breakdown (depreciation) of the costs associated with financial liabilities for the entire duration of the loans using the effective interest method. The item is affected by the first application of the accounting principle IFRS 9, as illustrated in section 2.02.02, which should be consulted for further details.

"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:

	2018	2017	Changes
Current taxes (Ires, Irap and substitute tax)	132.6	166.8	(34.2)
Deferred taxes	5.9	1.5	4.4
Pre-paid taxes	(16.7)	(75.7)	59.0
Total	**121.8**	**92.6**	**29.2**

Taxes for the fiscal period increase from 92.6 million euro in 2017 to 121.8 million euro in 2018; The tax rate for 2018 is thus 29.1% as compared to the 25.8% of the previous year.
It should be noted that the tax rate of the previous year benefited from exemption operations, through payment of substitute tax, controlling shares and goodwill for a total of 19.2 million euro. Consequently, the tax rate of 29.1% for the 2018 financial year, if compared to that of the previous year, net of the exemption operations, in the amount of 30.9%, nevertheless improved. The benefits in terms of maxi and over amortization contributed in particular to this trend (the latter relating to substantial investments in capital goods needed for the technological and digital transformation of the company as it moves towards Industria 4.0) as well as to the concessions relating to the patent box and the tax credit for research and development.

Current taxes are broken down as follows:

	2018	2017	Changes
Ires	105.0	113.0	(8.0)
Irap	27.1	29.6	(2.5)
Substitute tax	0.5	24.2	(23.7)
Total	**132.6**	**166.8**	**(34.2)**

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

	2018		2017	
	Nominal effect	**Percentage effect**	**Nominal effect**	**Percentage effect**
Earnings before taxes	418.4		359.4	
Ires				
Standard rate	(100.4)	(24.0)%	(86.3)	(24.0)%
Irap deduction	0.8	0.2%	0.6	0.2%
Participation exemption and impairment	(1.2)	(0.3)%	(2.4)	(0.7)%
Impairment of assets and goodwill	(0.7)	(0.2)%	(2.8)	(0.8)%
Tax benefits and incentives	8.5	2.0%	6.3	1.8%
IRES in previous financial periods	(0.2)	(0.0)%	4.3	1.2%
Other changes (increases and/or decreases)	(0.5)	(0.1)%	(1.7)	(0.5)%
Irap and other current taxes				
Irap	(27.5)	(6.6)%	(21.7)	(6.0)%
Exemption	(0.6)	(0.1)%	11.1	3.1%
Taxes	**(121.8)**	**(29.1)%**	**(92.6)**	**(25.8)%**

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

The item "Tax benefits and incentives" includes benefits relating to patent boxes, tax credits for research and development, maxi and over amortization.

The item "Exemption" includes the substitute tax reported in the financial period and the release of the relevant amount of substitute tax associated with operations carried out in previous years. The value of the previous year mainly included the substitute tax recognised in the period and the tax asset recognised for IRES purposes for the exemption of controlling shareholdings and goodwill carried out in 2017.

The prepaid and deferred taxes relating to the year 2018 refer to the following variations between taxable income and profit recorded in the financial statements:

Deferred tax assets	**2018**			**2017**		
	Differences	**Tax effect (Ires + Irap)**	**Other minor changes**	**Differences .**	**Tax effect (Ires + Irap)**	**Other minor changes**
Pre-paid taxes with effect on the income statement and the statement of comprehensive income.						
Allowance for bad debts	176.6	42.4		138.9	33.3	
Provisions for risks and charges	158.8	41.9		152.1	35.3	
Provisions for employee benefits	10.4	2.8		13.8	3.7	
Depreciation	376.0	94.9		368.8	94.0	
Equity investments	143.9	40.3		149.4	41.8	
Cash flow hedge	9.2	2.2		0.7	0.1	
Other	70.0	18.9		47.1	12.5	
Total tax effect	**944.9**	**243.4**	**4.4**	**870.8**	**220.7**	**1.7**
Credited (or debited) amount to the statement of comprehensive income		1.6			0.1	
Credited (or debited) amount to the income statement		16.7			75.7	

Deferred tax liabilities	**2018**			**2017**		
	Differences	**Tax effect (Ires + Irap)**	**Other minor changes**	**Differences .**	**Tax effect (Ires + Irap)**	**Other minor changes**
Deferred taxes with effect on the income statement and the statement of comprehensive income.						
Provisions for risks and charges	45.7	13.2		48.0	13.8	
Provisions for employee benefits	2.3	0.7		2.2	0.6	
Depreciations (fta - fair value as deemed cost)	283.9	81.2		282.8	80.6	
Deductible goodwill	29.2	8.2		26.2	7.4	
Leases	3.4	0.9		3.4	1.0	
Accrued capital gain	1.0	0.2		1.6	0.4	
Cash flow hedge	26.7	7.7		5.1	1.5	
Other	67.3	16.3		51.0	12.2	
Total tax effect	**459.5**	**128.4**	**5.0**	**420.3**	**117.5**	**23.5**
Credited (or debited) amount to the statement of comprehensive income		-			-	
Credited (or debited) amount to the income statement		(5.9)			(1.5)	

"Changes in equity" includes the balances of deferred tax assets and liabilities arising from:

- business combination operations that were accounted for in accordance with the international accounting principle IFRS3 revised (please see paragraph 2.02.03 for the specific values recorded during 2018).
- the first application of the accounting principle IFRS 9 "Financial instruments", (illustrated in section 2.02.02, which should be consulted for further details).
- marginal reclassifications arising between deferred tax assets and liabilities

These changes do not have an effect on the income statement or the statement of comprehensive income.

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by law 244 of December 24th 2007, and associated implementational decrees, Ministerial Decree of April 1st 2009, no. June 8th 2011, to coordinate international accounting standards with the rules to determine the taxable base for IRES and IRAP purposes, as per article 4, paragraph 7-quarter, of 38/2005. In particular, the reinforced derivation principle of article 83 of the Consolidated Tax Act (TUIR) was applied, which calls for entities that use IFRSs to use, including in a departure from the provisions of the TUIR, "the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards"

Reporting on tax litigations

Below is a brief summary of tax litigations as of December 31st 2018:

- 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 over time referred to tax periods from 2008 to 2014 and altogether amount to 10.2 million euro. In relation to the years 2008 and 2009, the rulings that the court of Ferrara issued in 2016 were all in favour of the Company. Subsequently, following the favourable, definitive rulings on the classification, on February 11th 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 EUR 0.7 million 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 consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- Notices of assessment for ICI/IMU were served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. These notices of assessment relate to tax periods from 2011 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 2018, resulting in an outlay of 1.8 million euro. The Group, having obtained the advice of its legal counsel, decided to maintain a provision of 0.2 million euro to cover residual risks;
- Request to appear for non-payed Ici/Imu from 2010 to 2015 served to the Frullo Energia Ambiente Srl company, concerning the real estate registry classification of the waste to energy plant located in the municipality of Granarolo dell'Emilia. Notices of assessment issued during 2016 and 2017 related to tax periods from 2010 to 2015 and altogether amount to 29.2 million euro (including taxes, fines and interests). The Company filed appeals against these notices over the course of 2017 and the ruling by the Provincial Tax Committee, filed February 12th 2018, was unfavourable. On May 31st 2018 appeals were lodged with the Regional Tax Commission of Emilia Romagna in reference to the two unfavourable rulings. Finally, on October 23rd 2018, a judicial settlement was signed between the parties, providing for the payment of 4.5 million euro for taxes, penalties and interest; consequently, the Regional Tax Committees declared the trial to be extinguished due to the cessation of the dispute. It should be noted that the overall impact for company amounted to 2.3 million euro, seeing as 2.2 million euro can be reported in the context of the economic-financial plan (EFP) for the environmental tariff in relation to the amount of municipal solid waste disposed of by the company;
- Tax audits to Herambiente Spa, for tax 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 appeal hearing has not yet been scheduled 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 has filed appeals and a hearing has not yet been scheduled. In 2016, additional notices of assessment were served for the 2012 and 2013 tax years, against which the Company filed the relevant appeals. On November 10th 2017 the relative rulings were filed, both unfavourable to the Company. On May 8th 2018, the Company filed appeals against the abovementioned rulings. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- 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 January 18th 2018 the ruling was filed as unfavourable to the Company, but without the application of penalties, while on July 17th 2018 the company filed an appeal. In response to this ruling, on March 6th 2018, one third of the tax was paid, plus interest, for a total of 0.9 million euro; on March 29th 2018, the second third of the tax was paid, plus interest, in the amount of 0.7 million euro. On September 7th 2017 a similar assessment notice was served for IRES 2012, amounting to 0.5 million euro in taxes, for which a presidential suspension of execution was obtained. The hearing was held on January 30th 2018 and the ruling, which was unfavourable to the company, was filed on May 8th 2018. An appeal was therefore lodged on December 7th 2018 and two-thirds of the amount was provisionally paid for EUR 0.3 million euro. On July 20th 2018 an assessment notice was served in relation to 2014, for 0.4 million against which an appeal was filed on October 17th 2018. In relation to that year, the suspension request was rejected and on December 20th 2018 one-third of the amount was provisionally paid for EUR 0.2 million euro. As of the current moment, the appeal hearing has yet to be scheduled. On September 20th 2018 an assessment notice was served in relation to Ires additional rate, so called Robin tax, 2013 for 0.4 million. On November 9th 2018 an appeal was filed and on February 13th 2019 one-third of the amount was provisionally paid. As of the current moment, the hearing has yet to be scheduled. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.

- Assessment notices for the tax periods from 2013 to 2017 for TOSAP and COSAP, notified on June 28th 2018 and July 20th 2018 to Hera Spa by the Municipality of Riccione, relating to the permanent occupation of public land with waste bins, for a total amount of 3.5 million euro. On September 26th 2018, the related appeals for Tosap were submitted and the hearing was held on March 13th 2018. On February 18th 2019, the company received an assessment notice for 2014 from the Municipality of San Giovanni in Marignano concerning Tosap, amounting to 25 thousand euro. In this case, an appeal is being prepared. The Group, having also consulted its lawyers, has decided not to make any provision to the risk provision for the litigations in question.

12 Earnings per share

	2018	2017
Profit or loss for the period attributable to holders of ordinary shares of the parent entity (A)	281.9	251.4
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss) per share		
basic (B)	1,467,966,686	1,471,004,233
diluted	1,467,966,686	1,471,004,233
Earnings (loss) per share (in euro)		
basic (A/B)	**0.192**	**0.171**
diluted (A/C)	**0.192**	**0.171**

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

As of this writing, the share capital of the parent company, Hera S.p.A., consisted of 1,489,538,745 ordinary shares, unchanged from December 31st 2017, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	Dec 31st 18	Dec 31st 17	Changes
Land and buildings	591.7	571.3	20.4
Plants and machinery	1,174.1	1,201.6	(27.5)
Other movable assets	131.1	120.3	10.8
Assets under construction	104.2	119.9	(15.7)
Total operating assets	**2,001.1**	**2,013.1**	**(12.0)**
Investment property	2.6	2.6	-
Total	**2,003.7**	**2,015.7**	**(12.0)**

The following are held on the basis of finance leasing arrangements:

- "Land and buildings" for 16.3 million euro (16.8 million euro as at December 31st 2017);
- "Plants and machinery" for 5.3 million euro (6.5 million euro as at December 31st 2017);

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

	opening balance	invest-ments	Dis-investments	de-preciation and amor-tisation	changes in the scope of consolidation	other changes	net closing balance	of which gross final amount	of which amortisation provision
Dec 31st 17									
Land and buildings	564.3	6.6	(1.7)	(19.0)	18.1	3.0	571.3	768.3	(197.0)
Plants and machinery	1,233.3	39.5	(7.7)	(120.7)	13.9	43.3	1,201.6	2,653.0	(1,451.4)
Other movable assets	119.2	22.5	(4.0)	(27.5)	1.5	8.6	120.3	445.5	(325.2)
Assets under construction	99.6	81.4	(3.1)	-	0.1	(58.1)	119.9	119.9	-
Total	**2,016.4**	**150.0**	**(16.5)**	**(167.2)**	**33.6**	**(3.2)**	**2,013.1**	**3,986.7**	**(1,973.6)**
Dec 31st 18									
Land and buildings	571.3	19.5	(1.7)	(19.1)	0.6	21.1	591.7	807.5	(215.8)
Plants and machinery	1,201.6	44.5	(4.0)	(120.5)	0.8	51.7	1,174.1	2,724.5	(1,550.4)
Other movable assets	120.3	26.1	(1.7)	(28.2)	-	14.6	131.1	466.0	(334.9)
Assets under construction	119.9	69.0	(0.7)	-	0.2	(84.2)	104.2	104.2	-
Total	**2,013.1**	**159.1**	**(8.1)**	**(167.8)**	**1.6**	**3.2**	**2,001.1**	**4,102.2**	**(2,101.1)**

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

"Land and buildings", totalling 591.7 million euro, consisted of 118.5 million euro in land and buildings and 473.2 million euro in buildings. These are mainly company-owned properties on which the majority of the sites and production plants stand. Investments during the period mainly related to the renewal and construction of the Group's office buildings.

"Plant and machinery", amounting to 1,174.1 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 year related to waste treatment and heat management, for a total of 21.8 and 7.9 million euro respectively. It should be noted that in 2018 the useful life of the waste-to-energy plant in Granarolo dell'Emilia (BO) was re-evaluated on the basis of an appraisal drawn up by an independent expert. This reassessment led to a redefinition of the amortisation rates recorded in the current and future income statements.

"Other moveable assets", equal to 131.1 million euro, include the equipment, waste disposal bins for 65.4 million Euro, moveable assets, furniture and electronic machines for 17.6 million Euro, and vehicles and cars for 48.1 million Euro.

"Assets under construction and advance payments", amounting to 104.2 million Euro, include mainly investment for development of district heating and electricity distribution, cogeneration facilities and waste recycling plants. Ongoing investments for the latter, including the new digester for the production of biomethane in Sant'Agata Bolognese, have an overall value of 34.6 million euro.

"Other changes" includes adjustments for 3.8 million euro to dismantlement and reactivation costs - as estimated when the plants were created or expanded - for the year 2018, (as compared with 13.7 million euro in 2017). This item 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 contract are involved.

For further details on the "Changes in the scope of consolidation", reference should be made to paragraph 2.02.03 "Scope of consolidation".

Real guarantees

	Dec 31st 18	Dec 31st 17
Real guarantees to third parties	164.1	162.5

These include as of December 31st 2018:

- Special mortgages and privileges on land, plants and machinery pledged by the subsidiary Frullo Energia Ambiente Srl to the banking syndicate that issued financing in the amount of 150 million euro;
- Mortgages on a building owned by the subsidiary Waste Recycling Spa to a banking institute in the amount of 10 million euro;
- Mortgages on two buildings owned by the subsidiary Marche Multiservizi Spa to a banking institute in the amount of 3.7 million euro;

Compared with the previous year, there was an increase of 1.6 million euro in the mortgage on a building of the Pesaro and Urbino headquarters owned by Marche Multiservizi Spa, acquired through the merger by incorporation of Megas Net Spa.

14 Intangible assets

	Dec 31st 18	Dec 31st 17	Changes
Industrial patents and intellectual property rights	78.6	55.8	22.8
Concessions, licences, trademarks and similar rights	74.9	86.7	(11.8)
Public services under concession	2,689.1	2,574.3	114.8
intangible assets under construction and public services under concession	172.2	161.3	10.9
intangible assets under construction	51.6	63.9	(12.3)
Customer lists	153.8	148.1	5.7
Other intangible assets	34.7	36.9	(2.2)
Total	**3,254.9**	**3,127.0**	**127.9**

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	dis-investments	de-preciation and amortisation	changes in the scope of consolidation	other changes	net closing balance	of which gross final amount	of which amortisation provision
Dec 31st 17									
Industrial patents and intellectual property rights	59.8	7.4	-	(25.7)	-	14.3	55.8	351.3	(295.5)
Concessions, licences, trademarks and similar rights	95.5	1.7	-	(12.8)	-	2.3	86.7	385.8	(299.1)
Public services under concession	2,539.6	142.2	(0.6)	(145.5)	-	38.6	2,574.3	4,242.4	(1,668.1)
intangible assets under construction and public services under concession	111.1	103.8	(0.5)	-	-	(53.1)	161.3	161.3	-
intangible assets under construction	48.5	32.1	(0.1)	-	-	(16.6)	63.9	63.9	-
Customer lists	86.1	-	-	(11.7)	73.7	-	148.1	179.8	(31.7)
Other intangible assets	27.4	2.9	(0.1)	(8.2)	13.9	1.0	36.9	122.9	(86.0)
Total	**2,968.0**	**290.1**	**(1.3)**	**(203.9)**	**87.6**	**(13.5)**	**3,127.0**	**5,507.4**	**(2,380.4)**
Dec 31st 18									
Industrial patents and intellectual property rights	55.8	11.2	-	(31.3)	-	42.9	78.6	405.4	(326.8)
Concessions, licences, trademarks and similar rights	86.7	0.7	-	(12.5)	-	-	74.9	386.3	(311.4)
Public services under concession	2,574.3	152.2	(1.5)	(154.4)	37.1	81.4	2,689.1	4,548.2	(1,859.1)
Intangible assets under construction and public services under concession	161.3	100.0	(0.4)	-	-	(88.7)	172.2	172.2	-
Intangible assets under construction	63.9	34.5	-	-	-	(46.8)	51.6	51.6	-
Customer lists	148.1	2.0	-	(13.7)	17.1	0.3	153.8	199.1	(45.3)
Other intangible assets	36.9	4.7	(0.3)	(9.0)	-	2.4	34.7	129.6	(94.9)
Total	**3,127.0**	**305.3**	**(2.2)**	**(220.9)**	**54.2**	**(8.5)**	**3,254.9**	**5,892.4**	**(2,637.5)**

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

"Industrial patents and intellectual property rights," in the amount of 78.6 million euro, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licences, trademarks and similar rights," amounting to 74.9 million euro, primarily comprises the value of the rights relating to the activities of gas distribution and integrated water management, classified as intangible assets even before the IFRIC 12 - service agreements interpretation was first applied.

"Public services under concession", amounting to 2,689.1 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 17 '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 interpretation 12. Investments for the year related mainly to the water networks, in the amount of 80.1 million euro, and gas distribution networks, in the amount of 64.3 million euro.

"Intangible assets under construction and public services under concession," amounting to 172.2 million euro, refers to investments related to the these same contracts that have yet to be concluded at year-end. The significant increase in investments compared to the previous period is mainly due to the works carried out on the water network under management.

"Intangible assets in progress and advance payments", equal to 51.6 million euro, essentially comprises IT projects that are still incomplete.

"Customer lists", amounting to 153.8 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 item "Other intangible assets", amounting to 34.7 million euro, refers mainly to use rights for networks and infrastructures for the passage and laying down of telecommunication networks, as well as multi-year contractual rights.

"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.

For further details on the "Changes in the scope of consolidation", reference should be made to paragraph 2.02.03 "Scope of consolidation".

15 Goodwill

	Dec 31st 18	Dec 31st 17	Changes
Goodwill	381.3	384.1	(2.8)

The change from the previous year was due to the complete depreciation, following an impairment test on the assets of the subsidiary company ASA Scpa. Indeed, the company is close to ceasing operations and the financial assets recorded, added to the residual cash flows, are sufficient exclusively to meet future obligations in relation to the post-closure management of the landfill under concession, which represent its only business.

The value of the goodwill as of December 31st 2018 mainly reflects the following operations:

- integration resulting in the creation of Hera S.p.A. in 2002, 81.3 million euro;
- acquisition of control through the merger of Agea Spa, effective beginning 1 January 2004, 41.7 million euro:
- acquisition of control over Gruppo Meta which took place at the end of the 2005 financial year, as a result of the merger of Meta Spa into Hera Spa, 117.7 million euro;
- acquisition of control over Sat Spa through the merger into Hera Spa, effective beginning 1 January 2008, 54.9 million euro:
- acquisition of control over the Gruppo Aliplast in early 2017, 25 million euro;
- acquisition of control over the Marche Multiservizi Spa Group, 20.8 million euro;
- acquisition of control over the Hera Comm Marche Srl, 4.6 million euro;

The carrying amounts of goodwill were tested for impairment, the results of which are outlined in note 31 "Impairment test".

16 Equity investments

	Dec 31st 18	Dec 31st 17	Changes
Investments valued using the equity method	136.0	135.6	0.4
Other Equity investments	13.1	13.2	(0.1)
Total	**149.1**	**148.8**	**0.3**

The changes in joint ventures and associated companies as compared to December 31st 2017 take into account the pro-quota losses and profits reported by the respective companies (including the other components of the comprehensive income statement) as well as the possible reduction of the value for any dividends that were distributed and for depreciations due to the impairment test. The share of profit/(loss) pertaining to companies accounted for by the equity method is shown in note 9 "Share of profit (loss) of joint ventures and associated companies".

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

	Dec 31st 17	Investments	Valuation net equity	Dividends paid out	Other changes	Dec 31st 18
Aimag Spa	48.1	-	2.6	(1.7)	-	49.0
Enomondo Srl	15.3	-	2.6	(1.8)	-	16.1
EstEnergy Spa	12.8	-	5.2	(5.9)	(0.8)	11.3
Set Spa	34.8	-	0.6	-	-	35.4
Sgr Servizi Spa	22.1	-	3.9	(2.9)	-	23.1
Other minor	2.5	0.1	-	-	(1.5)	1.1
Total	**135.6**	**0.1**	**14.9**	**(12.3)**	**(2.3)**	**136.0**

The item "Other minor" includes the investment in Tamarete Energia Srl, whose the book value, however, was written down to zero as a result of the depreciations.

The changes outlined in the item “Depreciation and other changes” include:

- the write-down of the investments in QtHermo Srl for 1.5 million euro, see Note 10 "Financial income and expenses"
- the decrease of net equity in EstEnergy Spa, amounting to 0.8 million euro, represents the effect on the shareholders' equity of the company (for the portion pertaining to the Group) of the adoption of the new IFRS 9 standard, specifically with reference to the valuation of receivables using the expected loss method.

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

	Dec 31st 17	Investments	Disinvestments	Depreciation	Other changes	Dec 31st 18
Calenia Energia Spa	7.0	-	-	-	-	7.0
Veneta Sanitaria Finanza di Progetto Spa	3.6	-	-	-	-	3.6
Other minor	2.6	0.2	(0.1)	(0.2)	-	2.5
Total	**13.2**	**0.2**	**(0.1)**	**(0.2)**	**-**	**13.1**

The fair value assessment of the investment in Calenia Energia Spa generated a value substantially in line with the cost of the investment of 7 million euro, already recorded as of December 31st 2017. Although the company's profitability in the medium term is positive, in fact, the critical issues still present in the electricity generation sector add uncertainty to future scenarios, while enabling the investment to be fully recovered.

The carrying amounts of the equity investments representing vehicles through which the Group owns production quotas for electrical generation plants (Set Spa, Tamarete Energia Srl and Calenia Energia Spa) were tested for impairment, the results of which are outlined in note 31 "Impairment test".

Below are presented the main aggregate values of jointly controlled companies (Enomondo Srl and EstEnergy Spa) as well as companies with significant influence (Aimag Spa, Q.Thermo Srl, Set Spa, Sgr Servizi Spa, Sosel Spa, and Tamarete Energia Srl):

Assets	**Subsidiaries Joint ventures**	**Subsidiaries Associated companies**	**Total**
Non-current assets			
Property, plant and equipment	34.3	406.5	440.8
Intangible assets	-	47.4	47.4
Goodwill	-	39.3	39.3
Equity investments	-	11.0	11.0
Financial assets	0.1	3.7	3.8
Deferred tax assets	1.8	7.4	9.2
Total non-current assets	**36.2**	**515.3**	**551.5**
Current assets			
Inventories	0.7	5.8	6.5
Trade receivables	46.7	231.6	278.3
Contract work in progress	-	1.3	1.3
Financial assets	-	-	-
Current tax assets	0.2	0.2	0.4
Other current assets	10.8	19.8	30.6
Cash and cash equivalents	16.0	29.3	45.3
Total current assets	**74.4**	**288.0**	**362.4**
Total assets	**110.6**	**803.3**	**913.9**

Net assets and liabilities	Subsidiaries Joint ventures	Subsidiaries Associated companies	Total
Share capital and reserves			
Share capital	15.7	88.0	103.7
Reserves	23.2	238.5	261.7
Profit (loss) for the year	15.5	25.2	40.7
Group net equity	**54.4**	**351.7**	**406.1**
Non-controlling interests	-	9.6	9.6
Total net equity	**54.4**	**361.3**	**415.7**
Non-current liabilities			
Non-current financial liabilities	-	171.3	171.3
Post-employment and other benefits	0.1	8.7	8.8
Provisions for risks and charges	0.3	32.1	32.4
Deferred tax liabilities	0.5	0.5	1.0
Financial instruments - derivatives	-	-	-
Total non-current liabilities	**0.9**	**212.6**	**213.5**
Current liabilities			
Current financial liabilities	9.0	49.4	58.4
Trade payables	38.2	140.2	178.4
Current tax liabilities	2.2	0.1	2.3
Other current liabilities	5.9	39.7	45.6
Total current liabilities	**55.3**	**229.4**	**284.7**
Total liabilities	**56.2**	**442.0**	**498.2**
Total net assets and liabilities	**110.6**	**803.3**	**913.9**

Income statement	Subsidiaries Joint ventures	Subsidiaries Associated companies	Total
Revenues	146.1	505.4	651.5
Other operating revenues	9.1	3.9	13.0
Use of raw materials	(66.4)	(275.2)	(341.6)
Service costs	(55.9)	(99.8)	(155.7)
Personnel costs	(4.6)	(34.9)	(39.5)
Amortisation, depreciation and provisions	(5.8)	(42.9)	(48.7)
Other operating costs	(0.8)	(13.3)	(14.1)
Operating earnings	**21.7**	**43.2**	**64.9**
Financial income	0.3	1.2	1.5
Financial expenses	(0.4)	(6.0)	(6.4)
Total financial management	**(0.1)**	**(4.8)**	**(4.9)**
Other recurrent non-operating revenues	-	0.4	0.4
Other non-recurrent non-operating revenues	-	(0.6)	(0.6)
Earnings before taxes	**21.6**	**38.2**	**59.8**
Taxes for the period	(6.1)	(11.8)	(17.9)
Net revenues for the period	**15.5**	**26.4**	**41.9**

17 Current and non-current financial assets

	Dec 31st 18	Dec 31st 17	Changes
Loan receivables	65.8	78.4	(12.6)
Portfolio securities	2.5	2.5	-
Receivables for construction services	17.4	12.7	4.7
Other financial receivables	32.7	31.6	1.1
Total non-current financial assets	**118.4**	**125.2**	**(6.8)**
Loan receivables	8.6	9.0	(0.4)
Portfolio securities	0.1	0.2	(0.1)
Other financial receivables	28.6	32.3	(3.7)
Total current financial assets	**37.3**	**41.5**	**(4.2)**
Total cash and cash equivalents	**535.5**	**450.5**	**85.0**
Total financial assets, cash and cash equivalents	**691.2**	**617.2**	**74.0**

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

	Dec 31st 18			Dec 31st 17		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe SpA	8.5	0.8	9,3	9.2	0.8	10.0
Calenia Energia Spa	14.6	2.5	17.1	17.0	0.3	17.3
Set Spa	24.3	2.7	27.0	27.0	4.5	31.5
Tamarete Energia Srl	12.9	2.6	15.5	19.4	2.5	21.9
Other minor	5.5	0.0	5.5	5.8	0.9	6.7
Total	**65.8**	**8.6**	**74.4**	**78.4**	**9.0**	**87.4**

Loans to companies representing vehicles through which the Group owns production quotas for electrical generation plants (Set Spa, Tamarete Energia Srl and Calenia Energia Spa) were tested for impairment, the results of which are outlined in note 31 "Impairment test". With regard to the active loan toTamarete Energia Srl, the impairment test required a writedown for 4.5 million euro.

"Portfolio securities" include, for the non-current part, 2.5 million euro in bonds, funds and insurance policies to guarantee post-closure management of the landfill managed by the subsidiary Asa Scpa, the book value of which is substantially in line with the fair value at the end of the financial period. These securities are measured at fair value through other comprehensive income components.

"Receivables for construction services" from municipalities for the construction of public lighting systems identified in keeping with the financial asset model provided by the IFRIC 12 interpretation, as shown in greater detail in the section describing the evaluation criteria for the item "Loans and receivables";

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

- the municipality of Padua, a receivable regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 17.9 million euro;
- the "Collinare" Consortium of Municipalities, in the amount of 12.1 million euro, represents the credit for the compensation owed to the outgoing provider when the gas distribution contract comes to an end;
- the municipality of Riccione, for a multi-year repayment plan signed in 2018 involving an overall cash outlay of 1.6 million euro.

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

- public grant receivables to be received from various different subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region, among others) in the amount of 13.7

- receivables for collections to be received from the Consorzio Stabile Enrgie Locali (Csel) following the award of the public tender for the lighting service (launched by Consip to award the contract to serve public administrations) in the amount of 7.8 million euro.
- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the commencement of the calls for tender, in the amount of 4.6 million euro;

"Cash and cash equivalents" includes cash, cash equivalents, and bank cheques and drafts for a total of 535.4 million euro.

To better understand the financial dynamics taking place during the 2018 financial year, see the financial statement and the comments shown in the management report.

18 Deferred tax assets and liabilities

	Dec 31st 18	Dec 31st 17	Changes
Pre-paid tax assets	243.4	220.7	22.7
Offsetting of deferred tax liabilities	(85.3)	(72.0)	(13.3)
Substitute tax credit	1.1	1.8	(0.7)
Total net deferred tax assets	**159.2**	**150.5**	**8.7**
Deferred tax liabilities	128.4	117.5	10.9
Offsetting of deferred tax liabilities	(85.3)	(72.0)	(13.3)
Total net deferred tax liabilities	**43.1**	**45.5**	**(2.4)**

"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.

The change as compared to the previous year is also related to the reporting of deferred tax liabilities as a result of business combination operations as described in paragraph 2.02.03 "Scope of consolidation".

For more details about the composition and dynamics of deferred tax assets and liabilities, see note 11 "Taxes"

19 Financial instruments - derivatives

Non-current assets and liabilities							
		Dec 31st 18			Dec 31st 17		
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 mn	26.1	4.5	1,000 mn	60.8	
Loans	2	563.3 mn		33.4	571.7 mn		34.5
Total non-current derivatives			**26.1**	**37.9**		**60.8**	**34.5**
Exchange rate derivatives							
Loans	2	20 bn Jpy	19.2		20 bn Jpy	5.3	
Total non-current derivatives			**45.3**	**37.9**		**66.1**	**34.5**

Current assets and liabilities							
		Dec 31st 18			Dec 31st 17		
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	3,359,619 MWh	10.0		1,894,963 MWh	3.8	
Formulas Electricity	2	11,512,401 MWh	86.2		8,298,664 MWh	36.4	
Foreign gas hubs	3	1,095,324 MWh		1.2	115,358 MWh		0.2
Raw oil	2	0 Bbl		-	7,000 Bbl		0.1
Refined oil products/coal	2	1,320 Ton		0.0	4,100 Ton		0.2
Electricity formulas	2	7,556,092 MWh		62.2	7,892,951 MWh		45.5
Total current commodity derivatives			**97.1**	**63.5**		**40.2**	**46.0**
Interest rate derivatives							
Loans	2	500 mn	14.8	2.7			
Loans	2	2.7 mn		0.1			
Total current rate derivatives			**14.8**	**2.8**		**-**	**-**
Total current derivatives			**111.9**	**66.3**		**40.2**	**46.0**

Derivative financial instruments classified under non-current liabilities amounted to 45.3 million euro (66.1 million euro as at December 31st 2017); they refer to interest rate derivatives for 26.1 million euro and to derivatives on exchange rates in connection to loans for 19.2 million euro. Derivative financial instruments classified under non-current assets amounted to 37.9 million euro (34.5 million euro as at December 31st 2017) and referred entirely to interest rate derivatives.
Financial instruments reported as current assets and liabilities represent derivative contracts whose execution is expected to take place within the next financial year. Derivative financial instruments classified under current assets amounted to 111.9 million euro (40.2 million euro as at December 31st 2017); they refer to commodity derivatives for 97.1 million (mainly the price of electric power) and to derivatives on exchange rates for 14.8 million. Derivative financial instruments classified under non-current liabilities amounted to 66.3 million euro (46 million euro as at December 31st 2017); they refer to commodity derivatives for 63.5 million and to derivatives on exchange rates for 2.8 million. In 2018, interest rate derivatives related to loans and bonds that are expected to be repaid by 2019 were reclassified to the current categories.

With regard to derivatives on current and long-term interest rates in the form of Interest Rate Swaps (IRS) as of December 31st 2018, the Group's net exposure was positive by 0.2 million euro, compared with a positive exposure of 26.3 million euro as of December 31st 2017. The decrease in the fair value as compared to the previous year, in view of interest rate curves that were depressed and mainly stable rates over the financial periods, is due to the achievement of the positive differential.

The fair value of derivatives set up to hedge the exchange rate and the fair value of foreign currency loans in the form of Cross Currency Swaps (CCS) is positive in the amount of 19.2 million euro as at December 31st 2018, as compared to an assessment that was positive, amounting to 5.3 million euro, as at December 31st 2017. The positive change in fair value in the amount of 13.9 million euro is due prevalently to the exchange rate, since the Japanese yen gained remarkably on the euro during 2018.

At December 31st 2018, the net fair value of commodity derivatives pertaining trade operations was positive for 33.6 million euro, as compared to a negative fair value of 5.8 million euro at December 31st 2017. The increase in absolute terms in the fair value of assets and liabilities is mainly due to the increase in the volumes of the existing Formule Energia Elettrica - Electricity formula contracts and to the greater volatility of the national standard price during the year.

Interest and exchange rate derivatives

Interest rate and foreign exchange derivative instruments held as of December 31st 2018, subscribed in order to hedge loans, can be classed into the following categories:

Hedging interest/exchange rate derivatives Financial management						
Type	**Dec 31st 18**			**Dec 31st 17**		
	Notional	**Fair value assets**	**Fair value liabilities**	**Notional**	**Fair value assets**	**Fair value liabilities**
Cash flow hedge	416.2 mn	-	9.7	421.9 mn	-	0.9
Fair value hedge	149.8 mn	19.2	23.7	149.8 mn	5.3	25.7
Non hedge accounting	1,000 mn	41.0	7.3	1,000 mn	60.8	7.9
Total fair value		**60.1**	**40.6**		**66.1**	**34.5**
Type	**Dec 31st 18**			**Dec 31st 17**		
	income	**expenses**	**Effect net**	**income**	**expenses**	**Effect net**
Cash flow hedge	0.2	(0.7)	(0.5)		(0.9)	(0.9)
Fair value hedge	20.3	(8.1)	12.2	10.4	(28.9)	(18.5)
Non hedge accounting	37.2	(37.2)	0.0	38.9	(38.8)	0.1
Total income (expenses)	**57.7**	**(46.0)**	**11.7**	**49.3**	**(68.6)**	**(19.3)**

Interest rate derivatives identified as cash flow hedges are mainly attributable to a future financing operation, for an overall amount of 400 million euro and expected to be issued in 2020.
The negative fair value of derivative financial instruments classified as cash flow hedges, amounting to 9.7 million euro (0.9 million euro as at December 31st 2017), is mainly generated by derivatives hedging the above-mentioned future financing operation. These derivatives do not provide for the

settlement of differentials before the underlying issuing transaction is carried out, and therefore do not produce effects in the form of income or expenses incurred. As of December 31st 2018, the breakdown of net charges relating to derivatives classified as cash flow hedges amount to 0.5 million euro (0.9 million as of December 31st 2017). Charges associated with this class of derivatives refer to cash flows realised, or to the recording of shares of flows in this period, which shall have a financial impact in the following period. No significant ineffective portions were found in the financial year.
In the 2018 financial year, the hedge relationships between the above derivative contracts and their underlying current or future liabilities resulted in recording net expenses. Gross of the fiscal effect, for 8.7 million euro to the statement of comprehensive income (as compared with 0.4 million euro of net income recorded as of December 31st 2017), divided as follows:

Cash flow hedges	**Dec 31st 18**			**Dec 31st 17**		
	Positive components	**Negative components**	**Net effect**	**Positive components**	**Negative components**	**Net effect**
Changes to expected cash flows		(9.2)	(9.2)		(0.3)	(0.3)
Reserve transferred to the income statement	0.5		0.5	0.7		0.7
Overall effect of derivatives on the statement of comprehensive income cash flow hedge	**0.5**	**(9.2)**	**(8.7)**	**0.7**	**(0.3)**	**0.4**

The derivatives on interest rates and exchange rates, identified as fair value hedges of liabilities reported in the balance sheet have an overall negative fair value of 4.5 million euro as compared to a negative fair value of 20.4 million euro, as at December 31st 2017. This positive change in the period is mainly due to the effect of Cross Currency Swaps (CCS) illustrated above.

As of December 31st 2018, the assessment of derivatives classified as fair value hedges generated net earnings for a total of 12.2 million euro (18.5 million euro as at December 31st 2017).
The table below provides a breakdown of financial income and expense associated with derivatives designated as fair value hedges and related underlying liabilities, as adjusted for the income and losses attributable to the hedged risk:

Fair value hedges	**Dec 31st 18**			**Dec 31st 17**		
	Income	**Expenses**	**Net effect**	**Income**	**Expenses**	**Net effect**
Assessment of derivatives	15.9	-	15.9	5.7	(20.5)	(14.8)
Accrued interest	0.1		0.1		(0.2)	(0.2)
Realized cash flows	4.4	(8.1)	(3.7)	4.7	(8.2)	(3.5)
Economic effect fair value hedge derivatives	**20.3**	**(8.1)**	**12.2**	**10.4**	**(28.9)**	**(18.5)**

Underlying amounts hedged	**Dec 31st 18**			**Dec 31st 17**		
	income	**expenses**	**Net effect**	**income**	**expenses**	**Net effect**
Assessment of financial liabilities	-	(15.9)	(15.9)	20.5	(5.7)	14.8

The derivatives on interest rates, identified as non-hedge accounting hedges, have an overall positive fair value of 33.7 million euro (52.9 million euro as at December 31st 2017). In this regard, it should be noted that, during 2015, the Group decided to restructure its portfolio of derivatives as part of a move to review the balance between debt at fixed rates and debt at variable rates. This restructuring resulted in revoking certain hedging relationships and signing new derivative contracts that do not qualify for hedge accounting under IFRS 9. The new derivative contracts, despite being classified as non-hedge accounting, have as their main objective to provide coverage from interest rate fluctuations and have no impact on the income statement (mirroring).

As at December 31st 2018 the breakdown of net charges and revenues relating to derivatives classified as non-hedge accounting is as follows:

Non-hedge accounting	Dec 31st 18			Dec 31st 17		
	income	expenses	Net effect	income	expenses	Net effect
Assessment of derivatives	2.0	(21.3)	(19.3)	3.6	(22.8)	(19.2)
Accrued interest	0.1		0.1		(0.1)	(0.1)
Realized cash flows	35.1	(15.9)	19.2	35.3	(15.9)	19.4
Economic effect non-hedge accounting derivatives	**37.2**	**(37.2)**	**0.0**	**38.9**	**(38.8)**	**0.1**

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

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.
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 (cash flow hedges and Fair Value hedges) in relation to a portion of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currencies.
This Risk Mitigation policy is detailed in the management report, which can be consulted for further information on this topic (see in particular the section "Rate Risk " and "Exchange rate risk not connected to the commodity risk")

Sensitivity Analysis - Financial transactions
In conjecturing an instant shift of -25 basis points in the interest rate curve with respect to the interest rates effectively applied for the assessments as at December 31st 2018, 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 6.7 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 6.6 million euro.
These changes in fair value of financial instruments accounted for as hedges would have no effect on the income statement if it were not for their potential ineffective portion, which moreover is not significant.
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.
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 December 31st 2018 would amount to approximately 17.3 million euro. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 21.2 million euro. As exchange rate derivatives related to financing 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 ineffective part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

Commodity derivatives

Commodity derivative instruments held as at December 31st 2018 can be classed into the following categories:

Commodity/exchange derivatives Operating management						
Type	**Dec 31st 18**			**Dec 31st 17**		
	Fair value assets	**Fair value liabilities**	**Net effect**	**Fair value assets**	**Fair value liabilities**	**Net effect**
Hedge accounting	33.7	0.7	33.0	6.2		6.2
Non hedge accounting	63.4	62.8	0.6	34.0	46.0	(12.0)
Total fair value	**97.1**	**63.5**	**33.6**	**40.2**	**46.0**	**(5.8)**
Type	**Dec 31st 18**			**Dec 31st 17**		
	income	**expenses**	**Net effect**	**income**	**expenses**	**Net effect**
Assessment of derivatives	79.4	(74.7)	4.7	107.5	(105.1)	2.4
Realized cash flows	28.2		28.2	7.6	(1.1)	6.5
Economic effect of derivatives	**107.6**	**(74.7)**	**32.9**	**115.1**	**(106.2)**	**8.9**

Commodity derivatives designated as cash flow hedges refer to planned future operations for the purchase of electricity and gas that are viewed as highly likely. The increase as compared with the previous financial period is mainly due to the increase in the volumes underlying outstanding contracts. The hedge relationships between the above derivative contracts and their underlying operations resulted in recording net revenues, gross of the associated fiscal effect, for 26.8 million euro to the income statement (as compared with 6.2 million euro as of December 31st 2017), divided as follows:

Hedge accounting commodities	**Dec 31st 18**			**Dec 31st 17**		
	Positive components	**Negative components**	**Net effect**	**Positive components**	**Negative components**	**Net effect**
Changes to expected cash flows	40.5		40.5	6.2		6.2
Reserve transferred to the income statement		(13.6)	(13.6)			-
Overall effect of derivatives on the statement of comprehensive income cash flow hedge	**40.5**	**(13.6)**	**26.9**	**6.2**	**-**	**6.2**

The commodity derivatives classified as non-hedge accounting mainly include contracts put in place substantially for hedging purposes, but which, on the basis of the requirements set forth by international accounting standards, cannot be formally classified under 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.
Overall, the commodity derivatives, in the 2018 financial year, generated a net income of 32.9 million euro (8.9 million as of December 31st 2017), which essentially correspond to respective changes in the opposite direction in the costs of raw materials (gas and electricity) and in all respects form an integral part of this.

Market risk and currency risk on commercial transactions
Concerning the wholesale business carried on by Hera Trading S.R.L., 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).

With reference to these risks, the Group has set up a number of commodities derivatives aimed at pre-establishing the effects on sales margins irrespective of changes in market conditions.
These derivatives, even those not formally falling under the IFRS 9 standard to be accounted for under hedge accounting, effectively serve the function of simply hedging for fluctuations in prices and exchange rates on raw materials purchased, and fall within the Risk Mitigation Policy detailed in the management report; please refer to this report for further information (see in particular the section "risks associated with the macroeconomic environment").

Sensitivity Analysis - Commercial transactions
In assuming an instant 10 dollar-per-barrel rise in the Brent price, with no change in the Euro/Dollar exchange rate, and no change in the curve of the national standard price, the potential reduction in the fair value of derivative financial instruments held as at December 31st 2018 would amount to approximately 12.6 million euro. On the contrary, an instant fall in the same amount would bring about a potential decrease in the fair value of the instruments of approximately 12.6 million euro.
In assuming an instant +5 Euro/MWh change in the national standard price curve, with no change in the Euro/Dollar exchange rate, and no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at December 31st 2018 would amount to approximately 25.9 million euro. On the contrary, an instant change of -5 euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 25.9 million euro.

20 Inventories

	Dec 31st 18	Dec 31st 17	Changes
Raw materials and stocks	95.1	73.5	21.6
Materials earmarked for sale and final products	15.1	15.5	(0.4)
Contract work in progress	47.1	32.2	14.9
Total	**157.3**	**121.2**	**36.1**

"Raw materials and stocks", stated net of an obsolescence provision, mainly comprise gas stocks, for 53.6 million euro (32.6 million euro as at December 31st 2017), spare parts and equipment used for maintenance and running of operating plants and networks, equal to 33.8 million euro (34.6 million euro as at December 31st 2017) and plastic materials earmarked for regeneration in the amount of 7.7 million euro (6.3 million euro as at December 31st 2017). The change in the gas stock values as compared to December 31st 2017 is mainly due to higher stocked amounts at the end of the period.

"Materials earmarked for sale" mainly consists of:

- GVG system - Steam Grid Generator and complementary plant components for a total of 9.6 million euro (the value assessed as of December 31st 2017 is confirmed in the lack of significant new elements for the identification of the recoverable value).
- plastic products made in the Group's regeneration plants equal to 5.1 million euro (5.5 million euro as of December 31st 2017).

"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 14.4 million euro and 21.9 million euro), as well as for design activities aimed at acquiring commissions in the national and international markets (6.6 million).

21 Trade receivables

	Dec 31st 18	Dec 31st 17	Changes
Receivables from customers	1,408.6	1,317.4	91.2
Allowance for bad debts	(342.1)	(271.0)	(71.1)
loans to customers for bills and invoices not yet issued	775.7	714.5	61.2
Total	**1,842.2**	**1,760.9**	**81.3**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after December 31st 2018, as well as receivables for revenues coming due during the period, referring to the water sector which will be billed in the following period, in accordance with the billing methods for final customers established by the relevant Authority.

Changes in the provisions for bad debts are as follows:

	Final balance previous period	Adoption of IFRS 9	Opening balance	Provisions	Changes scope of consolidation	Uses and other movements	Closing balance
2017 financial year	211.1	-	211.1	103.4	0.5	(44.0)	271.0
2018 financial year	271.0	18.2	289.2	89.3	0.8	(37.2)	342.1

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 following paragraph "credit risk".

As a result of the application of the impairment model based on the expected credit loss, the adoption of IFRS 9 resulted in an adjustment in the provision in the amount of 18.2 million euro, with particular reference to receivables not yet past due. Reference should be made to paragraph 2.02.02 "Adoption of IFRS 9" for a more detailed explanation of the new assessment model for financial assets.

The change in the scope of consolidation as of December 31st 2018 reflects the acquisition of Blu Ranton Srl for 0.5 million euro and Megas Net Spa into Marche Multiservizi Spa for 0.3 million euro.

The following table displays these receivables from clients on the basis of bills issued, organized by degree of past-due:

	Dec 31st 18	Inc.%	Dec 31st 17	Inc.%	Changes
Not yet due	646.9	46%	394.9	30%	252.0
Due 0-30 days	91.4	6%	107.8	8%	(16.4)
Due 31-180 days	129.7	9%	171.5	13%	(41.8)
Due 181-360 days	118.5	8%	139.7	11%	(21.2)
Due beyond 360 days	422.1	30%	503.5	38%	(81.4)
Total	**1,408.6**		**1,317.4**		**91.2**

Credit risk

The value of trade receivables reported in the financial statements at December 31st 2018 represents the Group's maximum exposure to credit risk. The Group's credit management model makes it possible to analytically determine the different risks associated with the collectability of trade receivables from customers 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 mass client base receivables, write-downs are carried out on the basis of future-oriented analysis regarding the amount of probable future income, taking into consideration the seniority of the receivables, the type of recovery action undertaken and the status of the creditor. From time to time, analyses are conducted on the individual credit positions yet to be resolved, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down.

22 Current tax assets and liabilities

	Dec 31st 18	Dec 31st 17	Changes
Income tax receivables	14.8	8.2	6.6
IRES refund receivables	19.5	21.6	(2.1)
Total current tax assets	**34.3**	**29.8**	**4.5**
Income tax payables	6.0	23.6	(17.6)
Substitute tax payables	-	14.3	(14.3)
Total current tax liabilities	**6.0**	**37.9**	**(31.9)**

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

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

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

"Substitute tax payables": during the 2018 financial year, the amount due for a controlling shareholding franking operation was paid, which had already been planned and approved by management at the end of the previous financial year.

23 Other current assets

	Dec 31^{st} 18	Dec 31^{st} 17	Changes
Energy efficiency bonds and emissions trading	55.1	104.7	(49.6)
Security deposits to suppliers	53.2	32.3	20.9
VAT, excise and additional taxes	38.7	50.0	(11.3)
Incentives from renewable sources	29.7	32.1	(2.4)
Fund for electricity and environmental services for standardisation and continuity income	24.0	21.5	2.5
Prepaid costs	18.3	18.3	-
Advances to suppliers and employees	12.6	8.4	4.2
Other receivables	49.6	36.0	13.6
Total	**281.2**	**303.3**	**(22.1)**

The breakdown and changes in the main items are described compared with December 31^{st} 2017.

"Energy efficiency bonds and emissions trading", includes:

- white certificates, 39.6 million euro (92.5 million euro as of December 31^{st} 2017);
- green certificates, 9.8 million euro, in line with the previous financial year;
- grey certificates, 5.7 million Euro (2.4 million euro as of December 31^{st} 2017);

In relation to white certificates, the value decrease is mainly due to the lower economic value of the certificates recognised as achieving energy efficiency objectives as well as different completion timings of the requirements as compared to the previous year.
In relation to green certificates, by virtue of the incentive mechanism valid beginning in 2016 for the production of electricity from renewable sources, according to which green certificates are no longer recognized and replaced by a special rate for the sale of the electricity produced, 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 increase in the value of the portfolio is mainly due to the remarkable increase of the market value of this type of certificates as compared with the previous year.

"Security deposits", mainly include:

- security deposit made to Acosea Impianti S.r.l. in the amount of 12.5 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 31.4 million euro;
- security deposits required by Customs amounting to 2.3 million euro.

The change with respect to December 31^{st} 2017 is mainly due to the Group's increased activity on the European commodity trading markets, which requires to pay security deposits to guarantee the transactions carried out.

"VAT, excise and additional taxes", is comprised of tax credits receivables to the treasury for value added tax in the amount of 30.7 million euro and for excise and additional taxes in the amount of 8 million euro. The change as compared to December 31^{st} 2017 is attributable to a decrease of 13.2 million euro in receivables for value added tax (43.9 million euro s at December 31^{st} 2017) and an increase of 1.9 million euro in receivables for excise and additional taxes (6.1 million euro as at December 31^{st} 2017). These changes should be interpreted together with the same change shown in note 30 "Other current liabilities". In particular, with regard to excise duties and additional taxes, the procedures that govern the financial relations with the tax authorities should be taken into account: as a matter of fact, advance payments made during the year are calculated on the basis of the quantities of gas and electricity billed in the previous year. These methods can generate credit or debit positions with differences that may be significant even between one period and another.

"Incentives from renewable sources", consist of receivables from the GSE for the new incentive mechanism to promote the production of electricity from renewable sources, which replaced the mechanism for recognising green certificates.

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

"Prepaid costs" are mainly costs for a future period deriving from external work and services in the amount of 4.7 million euro (5.5 million euro as of December 31st 2017), costs incurred for insurance policies, surety, bank fees and charges in the amount of 3.8 million euro (3.6 as of December 31st 2017) and fees due in the amount of 3.5 million euro (3.2 as of December 31st 2017).

24 Assets and liabilities held for sale

As of December 31st 2017, in accordance with IFRS 5, this item almost exclusively represented the contribution that Medea Spa, identified as a disposal group, made to the consolidated financial statements in terms of assets and liabilities. During the course of 2018, the sale of the entire investment was completed, with the consequent derecognition of all assets and liabilities.

It should be noted that, as of December 31st 2017, assets and liabilities held for sale were entered at their book value, as they were valued at less than their fair value, and were included in the item "Attributed net working capital" of the "Gas" operating segment in the disclosure by operating segment provided in section 2.02.07.

25 Share capital and reserves

Compared to December 31st 2017, shareholders' equity increased by 140.7 million euro due to the combination of the following effects:

- overall revenues for the period in the amount of 311.1 million euro;
- the distribution of dividends in the amount of 152.3 million euro;
- increase due to changes in the scope of consolidation, in the amount of 34.4 million euro;
- decrease due to transactions on treasury shares, in the amount of 23.1 million euro;
- decrease due to the transition to accounting standard IFRS 9, in the amount of 19.9 million euro;
- decrease due to transactions on treasury shares, in the amount of 9.5 million euro.

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

Share capital
The share capital as at December 31st 2018 amounted to 1,465.3 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 December 31st 2018 was 23.6 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 913.5 million euro, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 946.4 million euro, cumulative losses in the other components of comprehensive income for 13.3 million euro and negative reserves for operations on treasury shares in the amount of 19.6 million euro. These latter items reflect transactions carried out on treasury shares as at December 31st 2018. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 2.1 million euro.

Non-controlling interests
This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. In particular, it includes minority equity interests in the Herambiente Group and the company Marche Multiservizi Spa.

26 Current and non-current financial liabilities

	Dec 31st 18	Dec 31st 17	Changes
Bonds and loans	2,651.7	2,856.9	(205.2)
Payables for the acquisition of controlling interests and potential payments	17.4	17.4	-
Financial leasing payables	12.2	13.9	(1.7)
Other financial liabilities	3.3	4.0	(0.7)

Total non-current financial liabilities	**2,684.6**	**2,892.2**	**(207.6)**
Bonds and loans	463.5	55.3	408.2
Payables for the acquisition of controlling interests and potential payments	9.1	7.0	2.1
Financial leasing payables	1.7	2.0	(0.3)
Other financial liabilities	67.0	28.3	38.7
Overdrafts and interest expenses	70.3	187.0	(116.7)
Total current financial liabilities	**611.6**	**279.6**	**332.0**
Total financial liabilities	**3,296.2**	**3,171.8**	**124.4**

"Bonds and loans" increased mainly as a result of the following loans taken out during the year:

- the assumption on June 15th 2018 of a new loan, granted by the European Investment Bank, with a nominal value of 110 million euro to be repaid by 2030, to support the implementation of an investment programme in the waste collection, treatment and disposal sector;
- the assumption on December 21st 2018 of a new loan, granted by Unicredit Spa, to be repaid by 2021;
- the assumption on December 21st 2018 of a new loan, granted by Mediobanca Spa, with a nominal value of 50 million euro and to be repaid by 2021;
- In addition, the amortized cost method used to value the bonds issued in 2018 resulted in an increase of 11 million euro for these items.

In addition, 401.9 million euro were reclassified from non-current financial liabilities to current financial liabilities of the bond maturing December 3rd 2019 with a nominal value of 394.6 million euro.

"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. As of December 31st 2018 this item mainly refers to:

- Aliplast Group, in the 2017 financial year, in the non-current part for 17.4 million euro and in the current part for 4.2 million euro;
- Blu Ranton Srl , in 2018, for a total of 3.5 million euro in the current portion;
- Biogas Srl, merged by incorporation into Herambiente Spa, in 2017, for 1 million euro in the current portion.

The item "Financial leasing payables" represents the recording of payables due from leases arising from accounting for leasing transactions using the financial method.
The change as compared to December 31st 2017 is due to paying down overdue principal instalments.
The value of the lease payments still due on December 31st 2018 amounted to 15.6 million euro.

The item "Other financial liabilities", in relation to the portion due after the current period, includes 3.3 million euro due to the Municipal Pension Fund of the Municipality of Trieste. The current part mainly consists of payables due to:

- Advances for 27.6 million euro for contracts for the exchange of electric power carried out on the Eex platform, which provide for the daily settlement of differentials;
- collections from customers under safeguard, gas customers for last resort services and customers affected by seismic events since May 20th 2012, against advances already received for the same, amounting to 20.8 million euro (4.2 million euro as of December 31st 2017);
- collection of receivables factored without recourse still to be transferred to factoring companies at year-end, in the amount of 13.7 million euro;
- RAI licence fee collection for 3 million euro (2.5 million euro at December 31st 2017);

In "Overdrafts and interest expenses", the change compared with the previous year is represented by the reimbursement of a short-term loan in December 2018, issued in the previous period in the form of hot money, amounting to 100 million euro.

At December 31st 2018 the Hera Group provided the following security interests for certain bank loans. Specifically:

- mortgages and special liens on property, plants and equipment by the Hera Group to the syndicate of banks in relation to the project financing for the waste-to-energy plant in Granarolo (Bo), whose nominal amount outstanding is 5.4 million euro;

- mortgages on buildings in Pesaro and Urbino held by a bank that provided a loan to the subsidiary Marche Multiservizi Spa with a nominal outstanding value of 0.7 million euro.
- mortgages securing the loan granted to the subsidiary AcegasApsAmga Spa, with a nominal outstanding value of 0.6 million Euro.

The table below shows the financial liabilities broken down by category as at December 31st 2018, with an indication of the portion expiring within the period, within 5 years and after 5 years:

Type	Residual amount June 31st 18	Portion due within the period	Portion due within 5th year	Portion due beyond 5th year
Bond	2,422.6	401.9	360.8	1,659.9
Bank loans	692.6	61.6	314.5	316.5
Payables for the acquisition of controlling interests and potential payments	26.5	9.1	17.4	-
Finance lease payables	13.9	1.7	5.8	6.4
Other financial liabilities	70.3	67.0	3.3	-
Overdrafts and interest expenses	70.3	70.3	-	-
Total	**3,296.2**	**611.6**	**701.8**	**1,982.8**

The main conditions of the bonds outstanding as of December 31st 2018 are as follows:

Financing and Bonds	Negotiation	Duration (years)	Maturity	Nominal value (mn)	Coupon	Annual interest rate
Eurobond	Listed	10	Dec 3rd 19	394.6 Eur	Annual	4.50%
Bond	Listed	8	Oct 4th 21	289.8 Eur	Annual	3.25%
Bond	Listed	10	May 22nd 23	68.0 Eur	Annual	3.375%
Green bond	Listed	10	Jul 4th 24	500.0 Eur	Annual	2.375%
Bond	Unlisted	15	Aug 5th 24	20,000 Jpy	Six monthly	2.93%
Bond	Listed	12	May 22nd 25	15.0 Eur	Annual	3.50%
Bond	Listed	10	Oct 14th 26	400.0 Eur	Annual	0.875%
Bond	Unlisted	15/20	May 14th 27/32	102.5 Eur	Annual	5.25%
Bond	Listed	15	Jan 29th 28	700.0 Eur	Annual	5.20%

As of December 31st 2018 the outstanding bonds, totalling a nominal value of e 2,619.7 million (unchanged from December 31st 2017), were recorded at amortized cost of 2,428.1 million euro with a fair value of 2,890.8 million euro (3,023.4 as of December 31st 2017) determined by market quotations where available.
There are no covenants on the debt except that, for some loans, which requires the company not to have even one agency lower its rating below "investment grade" (BBB-). As of the balance sheet date this covenant has been complied with.

Liquidity risk
Liquidity risk concerns the inability to meet the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done through the centralised management of cash inflows and outflows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.
Current cash and lines of credit, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, at December 31st 2018, the Group had unused "committed" lines of credit amounting to approximately 300 million euro, long-term lines of credit, stipulated in December, for 350 million euro of which 100 million were used, as well as wide margins on "uncommitted" credit lines amounting to 668.5 million euro.

The analysis of cash flows, broken down by maturity date, related to borrowings outstanding at the balance sheet date is illustrated in the Report on operations in the section 1.06.03 "Financial policy and rating".

Sureties and guarantees

	Dec 31st 18	Dec 31st 17
Sureties and bank guarantees	911.6	935.9
Sureties and insurance guarantees	408.0	379.7
Total	**1,319.6**	**1,315.6**

"Sureties and bank guarantees", the value as at December 31st 2018 comprises the following:

- 545.8 million euro for sureties made to public institutions (the Ministry of the Environment, the Regions, provinces and municipalities) and private entities to guarantee the suitable management of plants for treating waste, for the suitable provision of waste disposal and intermediation services, for reclamation work and for the proper fulfilment of contractual commitments;
- 365.8 million euro for guarantees and comfort letters issued to guarantee timely payment for the sourcing of raw materials

"Sureties and insurance guarantees", as at December 31st 2018, refers to sureties issued to public entities (provinces, municipalities and the Ministry of the Environment) and third parties to guarantee the suitable management of public utility and waste disposal services, the proper execution of the work to lay company pipelines across land owned by private individuals, reclamation work, managing waste treatment and disposal systems.

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 matured receivables of the employee at the presumed date of leaving the company.

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly solely to settle payments made to eligible retirees. The "tariff reduction" provision was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The table below shows the changes in the above provisions during the year:

	Dec 31st 17	Service cost	Financial expenses	Actuarial income (losses)	Uses & other move-ments	Changes scope of consol.	Dec 31st 18
Post-employment	126.3	0.7	0.8	(2.0)	(10.9)	0.4	115.3
Tariff reduction	7.3	-	0.1	(0.7)	(0.3)	-	6.4
Premungas	4.4	-	-	0.1	(0.5)	-	4.0
Gas discount	4.3	-	-	(0.1)	(0.4)	-	3.8
Total	**142.3**	**0.7**	**0.9**	**(2.7)**	**(12.1)**	**0.4**	**129.5**

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.

"Uses and other movements" refers almost exclusively to the amounts paid to employees over the course of the period, equal to 12 million euro.

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

	Hera Group (Central area)	Hera Group (north-eastern area)
Technical actuarial yearly rate	0.86%	0.71%
Overall increase of salary yearly rate	2.50%	
Yearly frequency of exit from work for reasons other than death	1.57%	1.49%
Yearly average frequency of use severance pay provision	2.00%	1.80%

In interpreting said assumptions, account is taken of the following:

- regarding inflation rates, the inflation scenario was derived employing an IPCA index of 1.4%;
- for probabilities of death, Istat 2017 tables were consulted;
- in the actuarial valuations, account was taken of the new effective dates for pensions under Law Decree December 6th 2011, no. 201 entitled "Urgent measures for growth, equity, and the consolidation of public finances", as amended by Law 214 December 22nd 2011, as well as the regulation for adjusting requirements for accessing the pension system in view of increased life expectancies in accordance with Article 12 of Legislative Decree no. . 78 of May 31st 2010 as amended by Law 122 of July 30th 2010; .
- for the probability of leaving employment for reasons other than death, an average yearly exit rate of 1.57% was hypothesized, since the analysis differentiated by professional level and sex did not result in statistically significant results;
- to take into account the phenomenon of early leaving, the incidence and amount of average anticipated severance pay were hypothesized. The frequency of advance payments as well as the average percentage of severance pay requested as an advance were drawn from corporate data. The rate of severance pay requested as an advance was hypothesized at 70% of severance pay or the maximum amount set by current regulations;

Lastly, actuarial projections were made on the basis of the Euro Composite AA yield curve as of December 31st 2018.

Sensitivity Analysis - Obligations of defined-benefit plans

Assuming a 50 bps increase in the internal rate of return compared to the discount rate actually applied to value the liabilities at December 31st 2018, all other actuarial assumptions being equal, the potential decrease of the present value of the obligations of the existing defined-benefit plans would amount to about 1.4 million Euro. Likewise assuming a reduction of this rate of 50 bps, there would be an increase in the present value of the liabilities of about 1.4 million euro.

Assuming a 50 bps increase in the in the rate of inflation compared to that actually applied to value the liabilities at December 31st 2018, all other actuarial assumptions being equal, the potential increase of the present value of the obligations of the existing defined-benefit plans would amount to about 0.9 million euro. Likewise assuming a reduction of this rate of 50 bps, there would be a decrease in the present value of the liabilities of about 0.8 million Euro.

Changes in the remaining actuarial assumptions would not produce significant effects on the present value of the liabilities of the defined-benefit plans reported in the financial statement.

28 Provisions for risks and charges

	Dec 31st 17	Provisions	Financial expenses	Uses and other movements	Changes scope of consol.	Dec 31st 18
provision for third-party asset restoration	193.6	10.0	5.8	(9.5)	-	199.9
Provision for closure and post-closure landfill costs	143.2	7.2	14.1	(16.9)	-	147.6
provision for legal cases and disputes brought by personnel	14.1	5.6	-	(3.4)	-	16.3
Plants dismantling provision	7.4	-	0.2	-	-	7.6
Waste disposal provision	7.1	6.6	-	(6.7)	-	7.0
Other provisions for risks and charges	67.1	17.8	0.0	(4.7)	-	80.2
Total	**432.5**	**47.2**	**20.1**	**(41.2)**	**-**	**458.6**

The "provision for landfill closure and post-closure expenses" represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently managed. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting and provision procedure due to changes in the assumptions on future outlays, following the change in estimates both on current and 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 fo landfill closure and post-closure expenses" decreased by 17.7 million euro, as follows:

- decreases in the amount of 18.9 million euro due to current cash outlays for the management of landfills, 7.3 million euro of which refer to internal costs included in "other operating revenues";
- increases in the amount of 3.8 million euro due to changes in the assumptions on future outlays, following the change in estimates on current landfills.
- increases in the amount of 2.6 million euro due to changes in the assumptions on future outlays, following the change in estimates on closed landfills.

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

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

“Plants dismantling provision” represents the amount set aside to cover future dismantling work on waste-to-energy plants.

"Waste disposal fund" records the estimated costs of disposal of the waste already stored at the Group's plants. The provisions, amounting to 6.6 million euro, reflect the estimated costs of contributions for the year 2018 not yet processed at the end of the financial period, while the uses, amounting to 6.7 million euro, represent the costs incurred as of December 31st 2018 for the processing of waste that was residual at the end of the previous year.

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

- 18.8 million euro related to the potential risk of the amount of the WTE green certificates not being recognised calculated according to the difference between auxiliary services resulting from total self-consumption and services estimated on the basis of the benchmark percentage;
- 11.3 million euro, due to the potential liability related to existing obligations (guarantee on financial exposure given by AcegasApsAmga S.p.A.) in case of abandonment of the operations run by the foreign subsidiary Aresgas (Bulgaria).
- 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.
- 7.4 million euro, for the risk associated with the enactment of the Decree of the Ministry of Economic Development of November 20th 2012 "New procedures to determine the component of the avoided fuel cost (CEC)", under measure CIP6/92, which introduced new calculation criteria for determining the bonus that are different from those initially expected for the years 2011 and 2012;
- 6 million euro for uncertainties regarding how to calculate the reimbursement value of the networks when participating in tenders for the gas distribution service in certain areas already served by the Group;
- 4.5 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;
- 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 Fund for Energy and Environmental Services recover the amounts that the Group would have been unduly received for the electricity produced by the Granarolo (Bo) WTE plant.

"Provisions" for the year under the item "Other provisions for risks and charges" refer, in particular, to the following risks:

- 8.1 million euro related to the likelihood that a portion of the green certificates produced by Imola cogeneration plan will not be recognized
- 4.5 million euro for the likelihood that the CIP6 incentives for the waste to energy plant in Trieste will not be recognised for the years 2010-2012, in the period when the Group was managing the plant;
- 2.4 million euro, for the risk associated with the enactment of the Decree of the Ministry of Economic Development of November 20th 2012 "New procedures to determine the component of the avoided fuel cost (CEC)", under measure CIP6/92.

“Uses and other movements" of the item "Other provisions for risks and charges" decreased by 3.9 million euro net, as follows:

- uses in the amount of 1.8 million euro incurred in connection with the settlement of conciliation agreements with Ravenna Entrate Spa (June 27th 2018 and November 28th 2018) for the payment of Ici/Imu resulting from changes in the income attributed to certain environmental facilities;
- de-provisioning for 0.5 million euro due to the fact that the risk of incurring penalties for failure to comply with safety regulations applicable to gas distribution for the years 2015-2017 is no longer probable;
- de-provisions for 0.3 million euro following the end of the period in which charges could be announced for interruptions in the electricity supply in the municipalities of Modena and Imola.

29 Trade payables

	Dec 31st 18	Dec 31st 17	Changes
Payables to suppliers	602.0	716.8	(114.8)
Payables to suppliers for invoices not yet received	758.4	679.1	79.3
Total	**1,360.4**	**1,395.9**	**(35.5)**

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

30 Other current liabilities

	Dec 31st 18	Dec 31st 17	Changes
Payables for advances to the fund for energy and environmental services	274.1	221.5	52.6
plant investment grants	190.7	174.5	16.2
Security deposits from clients	101.2	103.5	(2.3)
Fund for components and equalization of the Electricity and Gas Sectors	76.6	74.0	2.6
Personnel	48.7	47.2	1.5
Payables to social security institutions	47.0	45.6	1.4
VAT, excise and additional taxes	31.5	13.7	17.8
Employee withholding	16.6	16.4	0.2
Environmental damage	13.7	19.2	(5.5)
Payables for damage in customs	13.6	12.8	0.8
Anticipated revenues and other accrued expenses	9.7	9.2	0.5
Other payables	43.5	31.8	11.7
Total	**866.9**	**769.4**	**97.5**

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

- 239.6 million euro of payables 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 up to December 31st 2016;
- 32.1 million euro in compliance with the integration mechanism set forth in Law 239 of 23 August 2004 and by Arera's Tivg , for the charges for delinquency of services of last resort in the natural gas sector (Fui, Ftf and Fdd) until the 2016-2017 thermic year.
- 1.6 million euro in compliance with the recognition mechanism established by Arera resolution 627/2015/R/com for overdue charges related to the supply of electricity, gas and integrated water service to the populations affected by the 20 May 2012 earthquakes in the Emilia-Romagna region;

The change of 52.6 euro as compared to December 31st 2017 is mainly due to the collection of advances relating to the reporting of overdue and unpaid receivables due from customers managed as protected customers for 2016 and from customers managed under default gas regime for the 2016-2017 thermic year and for adjustments relating to previous periods.

"Plant investment grants" refers mainly to investments made in the water and environment sector; this item decreases in proportion to the amount of depreciation calculated on the fixed assets in question and increases as a result of new investments subject to grants. Specifically, this item includes 40 million euro in contributions related to the new Servola purification plant, built in the Municipality of Trieste, and 39.1 million euro in contributions related to the FoNI fund (new water system investment fund) and 16.4 million euro in contributions related to the construction of laminating tanks and submarine ducts in the Rimini area . The change as compared to December 31st 2017 is mainly due to the grants received for investments in the water sector, net of the company's share for the period.

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

"Fund for components and equalisation of the energy and environmental services", reflects the liabilities for the Fund for energy and environmental services mainly due to the equalization on the gas distribution and measurement, of some system components of the gas and electricity service for the protected market categories and equalization of the electricity service. The decrease as compared to December 31st 2017 is mainly due to a higher credit for certain components of gas and electricity distribution and sales amounting to 15.9 million euro, counterbalanced by a lower debt for components of gas distribution and sale as well as by lower debt due to equalization of both the gas and electricity service for a total of 13.3 million euro.

“Personnel" includes the vacation time accrued and not used, as well as the productivity bonuses accounted for by department, as of December 31st 2018.

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

"VAT, excise and additional taxes" include payables for value added tax amounting to 0.9 million euro (0.5 million euro at December 31st 2017) and excise duties and additional taxes amounting to 30.6 million euro (13.2 million euro at December 31st 2017). As illustrated in note 23, "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.

"environmental damage" represents the payments to be made to municipalities, on the basis of specific agreements, as compensation for activities that impact on the environment for waste delivered to plants in their territory. The amount of these contributions is related to the amount of waste disposed of annually, which were less that those disposed of during the previous financial year.

"Payables for damage in customs", amounting to 13.6 million euro, includes the value of insurance deductibles that the Group must repay directly to damaged third parties or insurance companies.

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

- requirement to return Energy Efficiency Certificates for 6 million euro, comprising almost entirely grey certificates, to the competent authorities (2.1 million euro as of December 31st 2017).
- payments on account and specific tariff subsidies payable to customers amounting to 3.9 million euro (4.3 million euro as of December 31st 2017);
- liabilities owed to minority shareholders for dividends, amounting to 3.9 million euro (1 million euro as at December 31st 2017);
- sundry tax payables of 2.2 million euro (2.5 million euro as of December 31st 2017);

31 Impairment test

Cash-generating and start-up units

As required by the reference accounting standards (IAS 36), assets and goodwill have been subjected to impairment tests by determining the value in use, which is the current value of operating cash flows (duly discounted according to the DCF - discounted cash flow method) resulting from the 2018 - 2022 business plan approved by the Board of Directors of the parent company at its meeting January 10th 2019.

The impairment test was applied to the following CGUs (Cash generating units): gas, electricity, integrated water management, environmental and other services (Public lighting, telecommunications and minor businesses) that are consistent with the business areas used for internal periodic reporting and with the information contained in the annual financial report in paragraph 2.02.07 "Information by operating segments".

In relation to this, it should be noted that the Group has implemented a structured process for preparing and reviewing the business plan, which involves formulating the Plan on an annual basis according to an external context scenario that takes into account the market trends and rules for regulated businesses, with the support of all the business units and following a "bottom-up" logic.

Specifically, assumptions were implemented in developing the 2018-2022 Business Plan consistent with those used in previous plans and, on the basis of the final reported values, forecasts were defined that refer to the most authoritative and up external sources available wherever necessary.

Revenues for regulated business areas were developed on the basis of the evolution of the rates deriving from national regulations and/or agreements with the Area Authority. In particular, revenues from energy distribution were forecasted according to the principles of the Authority 775/16 (RTDG) and 654/15 (TIT) resolutions for gas and electricity respectively, and taking into account the respective WACC values, approved through Resolution no. 639/18 for the three year period 2019-2021 in relation to the electric power sector and for 2019 for the gad distribution and measurement, and were updated for the following years in line with the methodology of resolution no. 583/15 and according to the forecasts of the financial and fiscal parameters integrated into the approved Business Plan. Revenues from energy sales under protected conditions have been estimated on the basis of the respective regulatory AEEGSI reference texts, i.e. the TIV (resolution 301/12) for electricity and TIVG (resolution 64/09) for gas. For integrated water management, the hypothesis used to forecast revenues assumed no change in the volumes distributed and was based on the rates originating from the agreements in effect with ATERSIR at the date the Plan and the application of the Water Rate method (MTI) set forth by AEEGSI resolution no. 664/15, also taking account the parameters underlying the hedging of financial and tax charges, among other factors. For urban sanitation, the hypothesis formalized involved achieving full rate coverage over all the areas served within the duration of the plan, consistent with the provisions of rules currently in effect.

Price trends for electric energy and gas bought and sold in the open market were worked out on the basis of business considerations consistent with the energy scenario under which the business plan was prepared, considering the forecasts provided by a panel of institutional observers.

The development of plants for the treatment and recycling of waste is consistent with the forecasts of the provincial plans in which the Hera Group operates. The investment schedule and the subsequent start of new plants is the result of the best estimate of the managers in charge.

The inertial evolution of the Group's costs in the plan timeframe was developed by formulating hypotheses based on the information available at the time the plan was prepared. Therefore, the most recent levels of inflation recorded in the final balance were taken into account, along with the anticipated trends outlined in the Economic and Financial Planning Document, as well as the forecasts made available by the Bank of Italy and European Commission. In relation to employees and labour costs, instead, the indications included in the various types of employment contracts were taken into account.

The first year of the Plan represents the base reference for identifying economic, financial and management objectives that converge in the annual Budget, the guiding operational element for achieving the Group's growth objectives.

The cash flows generated were therefore determined using the forecasted data for the 2019 - 2022 period as a base. In particular, the Net Profit Margin was used, from which taxes were deducted, depreciation and provision were added and the maintenance investments planned for each year of the plan were deducted.

Following the last year of the plan, normalized Cash Flows (Normalized Free Cash Flows) were considered equal to the value of the Net Operating Profit for the last year of the plan, in the event that the value of depreciation and provisions remains equal to the investments.

In the event that the plan does not take into account the prediction of future events that significantly influence estimated cash flows as a result of its medium-term timeframe, adjustments were applied in order to also incorporate the effects of such events. The cash flows are calculated by applying the growth rate ("g") to the "normalized Free Cash Flows" with the medium/long-term timeframe for the relevant sector (2% on average) for the 2023-2038 period (20 years total). For regulated services, these flows are brought into line with the expected continuation of market share following the completion of the expected calls for tenders.

These flows are supplemented by the current value of perpetuity, calculated as follows:

- for activities under market (gas and electricity sales), the cash flow resulting from the application of the perpetuity criterion for the last year (2038) was considered, assuming an average factor growth of 2%;
- for assets under contract, the terminal value was established by considering the cash flow resulting from the application of the perpetuity criterion weighted by the percentage of competitive bidding processes that the Group is expected to win at the end of the contract periods (100% for network services, 80% for urban sanitation services) and the redemption value of assets weighted by the proportion of competitive bidding processes which the Group expected not to win; this value was estimated as equal to the current value of the net book value of assets owned and leasehold improvements, less the recovery values, in order to properly represent the non-renewal of the contract and the subsequent sale of the assets to the new operator with a value equal to the remaining book value.

To discount unlevered cash flows, the rate used was the weighted average cost of capital (WACC), which represents the yield expected by the funders and shareholders of the company for the use of equity capital, adjusted for the risk of the specific country in which the asset being valued. The value of the specific country risk to be included in the discount rate is defined on the basis of information provided by external providers.
The cash flows are thus differentiated according to the specific characteristics and consequent risks characterizing business areas as well as the countries in which the Group operates. For Italy, a WACC of 5.55% was used for the environment and 4.73% for other businesses, while for the gas distribution managed in Bulgaria a WACC of 4.82% was used.

The results of the tests were positive. A sensitivity evaluation was also conducted. In this regard, it should be noted that the Group's business model, with its distinct resilience thanks in part to the diversified portfolio of assets under management, has made it possible to achieve constantly improving results over the years with no overall significant changes in the planned hypotheses despite the adverse macroeconomic environment.

In view of this, the sensitivity analysis that was developed focused on the marginality of the individual businesses, hypothesizing a 5% decrease that would result in a reduction in the cash flows developed in the years covered by the plan and subsequent years. In this context, the values obtained are much higher than those recorded in the balance sheets, therefore this analysis further confirmed the carrying values.

Electricity generation assets
With reference to the market for electric generation, in the presence of impairment indicators and in keeping with previous financial periods, an in-depth analysis was performed to determine the recoverable amount of the Group's investments, and related financial assets, operating in the sector. In particular, the analysis was conducted by duly discounting to present value the cash flows expected to be generated over the remaining useful lives of the plants of Calenia Energia S.p.A., Set S.p.A. and Tamarete Energia S.r.l. for the purpose of verifying the recoverability of financial assets, equity investments and receivables recorded for them in the amounts of 24.1 million euro, 62.4 million euro and 15.5 million euro respectively at the end of the valuation process.

The negative trend in the electricity generation market highlighted a few years ago characterized the 2018 financial year as well, although signs of improvement appearing in recent years confirm that the expectation of consolidating this recovery in the medium to long term remains valid. The factors that have determined the performance of the electricity generation market during this decade are due to the combination of multiple factors on both demand and supply sides. The main factors affecting current price dynamics are to be found in:

- the introduction of significant production capacity in renewable energy in the past few years;

- low levels of energy demand caused by the negative economic cycle, with a resulting impact on the reserve margin of the system, which reached a historical high immediately before 2015, as well as on combined-cycle plants.

The current economic condition is expected to change in the medium/long term, particularly due to:

- lack of financial sustainability, over this period, of the current spark spread levels for single-technology operators (CCGT) not integrated along the value chain (particularly in the absence of end customers) which, if the negative margins generated by their assets continued, will be faced with two alternative strategies: a) new capital injections to continue to operate in generation to benefit from higher margins in the long term (not easy to implement, due to unfavourable financial market conditions and increased exposure in the generation sector); b) exit from the generation market, with a resulting reduction of capacity on the supply side and price rise, an effect that has been observed in part also in the short-term;
- lack of productive investments in the expansionary phase, specifically in the gas generation sector, due to current overcapacity, which discourages the construction of new generation plants (currently there seem to be no new projects under way, indeed, a process of phasing-out less efficient plants is currently taking place);
- the growing role of non-programmable production from renewable sources, which requires the support of programmable and flexible generation facilities thus enhancing the role of plants such as combined cycle plants
- the progressive return of demand for electricity toward pre-crisis levels, with consequent reduction in the system's reserve margin.

That said, future cash flows have been determined on the basis of a medium/long-term energy scenario, formulated by an independent expert and consistent with growth expectations for energy demand, installed power, the demand for combined cycle and the system's expected reserve margin, as well as the most likely scenario expected by the Group on the basis of current evidence. These future cash flows, discounted to the weighted average cost of capital at 5.35% (calculated using the same methods illustrated for the units generating financial flows) are higher than the carrying amounts for the investments and related financial assets for Calenia Energia Spa and Set Spa, while for Tamarete the outcome of the test entailed an adjustment of 4.5 million euro on the value of the receivable recorded among non-current financial assets, in consideration of the specific nature of the asset.

In addition, a sensitivity analysis was carried out by changing the discount rate used. The break-even value that would cause a zeroing of all the higher values identified during the valuation is 7.9%.

32 Comments to the consolidated cash flow statement

Investments in companies and business operations

During 2018, the Group acquired control of Megas Net Spa, a company that owns distribution networks, and of Blu Ranton Srl, a sales company that sells natural gas and electricity, and Sangroservizi Srl, a company active in the gas sale sector.
Smaller investments were also made in subsidiaries of a non-relevant size. The table below details the main cash disbursements and cash holdings acquired:

Dec 31st 18	**Blu Ranton Srl**	**Megas Net Srl**	**Sangroservizi Srl**	**Other Equity investments**	**Total investments**
Cash outlays leading to the acquisition of control	(5.1)		(3.5)		(8.6)
Cash outlays in non-consolidated companies				(0.1)	(0.1)
Amounts to disburse	(3.5)				(3.5)
cash holdings acquired	1.0	1.1	0.2		2.3
Investments in equity holdings, net of liquid assets	**(7.6)**	**1.1**	**(3.3)**	**(0.1)**	**(9.9)**

Acquisition of Interests in consolidated companies

The amount refers to the cash outlays related to the purchase by the parent company Hera Spa of shares in the company Marche Multiservizi Spa, as described in section 2.02.02 "scope of consolidation"

Divestiture of interests in consolidated companies

The value refers to the income from the sale of a non-controlling stake in Hera Comm Marche Srl, as described in paragraph 2.02.02 "Scope of consolidation".

The main changes in liabilities generated by financing activities

The following is a breakdown of information on changes in financial liabilities during the 2018 financial year, differentiating between cash flows and non-cash flows.

Type	Dec 31st 18	Dec 31st 17	Changes	Non-cash flows				Cash flows
				Acquisitions, divestitures	Diff.s in exchange rates	Changes in fair value	Other changes	
Banks and financing coming due after the current financial period	2,672.4	2,878.3	(205.9)	2.6	-	15.9	(443.2)	218.8
Banks and financing coming due during the current financial period	609.9	277.6	332.3	0.7	-	-	463.0	(131.4)
Finance lease payables	13.9	15.9	(2.0)	-	-	-	0.3	(2.3)
Liabilities generated by financing activities	**3,296.2**	**3,171.8**	**124.4**	**3.3**	**-**	**15.9**	**20.1**	**85.1**

33 Classification of financial assets and liabilities pursuant to IFRS 7

The table below illustrates the composition of the Group's assets, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 19.

Dec 31st 18	Fair value recognized Income statement	Amortized cost	Fair value recognized in statement of comprehensive income	Total
Other Equity investments	-	-	13.1	13.1
Non-current financial assets	-	115.9	2.5	118.4
Non-current assets	**-**	**115.9**	**15.6**	**131.5**
Trade receivables	-	1,842.2	-	1,842.2
Current financial assets	-	37.2	0.1	37.3
Other assets	20.3	295.2	-	315.5
Current assets	**20.3**	**2,174.6**	**0.1**	**2,195.0**

Dec 31st 17	Fair value recognized Income statement	Amortized cost	Fair value recognized in statement of comprehensive income	Total
Other Equity investments	-	-	13.2	13.2
Non-current financial assets	-	122.7	2.5	125.2
Non-current financial assets	**-**	**122.7**	**15.7**	**138.4**
Trade receivables	-	1,760.9	-	1,760.9
Current financial assets	-	41.3	0.2	41.5
Other assets	16.4	316.7	-	333.1
Current assets	**16.4**	**2,118.9**	**0.2**	**2,135.5**

With respect to "Other equity investments" reference is made to note 16 Please note that "Other equity investments", after the initial assessment, are measured at fair value through other comprehensive income components, in compliance with what set forth by the IFRS 9 accounting standard.
With respect to "Non-current financial assets" reference is made to note 17
With respect to "Current assets" reference is made to notes 17, 21, 22 and 23.

The table below illustrates the composition of the Group's liabilities, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 19.

Dec 31st 18	Fair value recognized Income statement	Hedged elements (fair value hedge)	Amortized cost	Total
Non-current financial liabilities	**-**	**144.4**	**2,540.2**	**2,684.6**
Trade payables	-	-	1,360.4	1,360.4
Current financial liabilities	-	-	611.6	611.6
Other liabilities	6.0	-	866.9	872.9
Current liabilities	**6.0**	**-**	**2,838.9**	**2,844.9**

Dec 31st 17	Fair value recognized Income statement	Hedged elements (fair value hedge)	Amortized cost	Total
Non-current financial liabilities	**-**	**128.6**	**2,763.6**	**2,892.2**
Trade payables	-	-	1,395.9	1,395.9
Current financial liabilities	-	-	279.6	279.6
Other liabilities	2.1	-	805.2	807.3
Current liabilities	**2.1**	**-**	**2,480.7**	**2,482.8**

With respect to "non-current liabilities" reference is made to note 26.
With respect to "current liabilities" reference is made to notes 22, 26, 29 and 30.

2.02.07
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 assests for business support functions, in keeping with the internal control model, are entirely associated to operational businesses.

As of December 31st 2018, the Hera Group was organized into the following business lines:

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

The following are assets and liabilities by business line for the 2017 and 2018 financial years:

Dec 31st 18	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets (tangible and intangible)	1,500.6	555.6	1,874.6	1,207.2	120.6	5,258.6
Goodwill	93.8	42.1	43.0	197.6	4.8	381.3
Equity investments	62.1	42.6	18.7	25.7	-	149.1
Fixed assets not attributed						116.1
Net fixed assets	**1,656.5**	**640.3**	**1,936.3**	**1,430.5**	**125.4**	**5,905.1**
Attributed net working capital	7.6	168.3	(154.9)	34.8	(2.3)	53.5
Net working capital not attributed						61.9
Net working capital	**7.6**	**168.3**	**(154.9)**	**34.8**	**(2.3)**	**115.4**
Other provisions	(159.1)	(24.6)	(141.4)	(258.4)	(4.7)	(588.2)
Net invested capital	**1,505.0**	**784.0**	**1,640.0**	**1,206.9**	**118.4**	**5,432.3**

Dec 31st 17	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets (tangible and intangible)	1,435.3	546.8	1,806.9	1,237.6	116.1	5,142.7
Goodwill	93.8	42.1	43.0	200.4	4.8	384.1
Equity investments	59.7	44.3	18.3	26.2	0.3	148.8
Fixed assets not attributed						105.0
Net fixed assets	**1,588.8**	**633.2**	**1,868.2**	**1,464.2**	**121.2**	**5,780.6**
Attributed net working capital	61.3	166.4	(174.2)	(18.7)	2.3	37.1
Net working capital not attributed						(13.9)
Net working capital	**61.3**	**166.4**	**(174.2)**	**(18.7)**	**2.3**	**23.2**
Other provisions	(155.1)	(26.1)	(134.3)	(255.2)	(4.1)	(574.8)
Net invested capital	**1,495.0**	**773.5**	**1,559.7**	**1,190.3**	**119.4**	**5,229.0**

The following are the main result measures by business line for the 2017 and 2018 financial years:

2018	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	2,275.0	2,308.2	840.7	1,062.9	109.9	29.7	6,626.4
Revenues within the cycle	82.2	147.2	5.3	50.7	37.0	33.7	356.1
Total direct revenues	**2,357.3**	**2,455.4**	**845.9**	**1,113.6**	**146.9**	**63.4**	**6,982.5**
Indirect revenues	13.8	6.7	32.7	10.1	0.2	(63.4)	-
Total revenues	**2,371.0**	**2,462.1**	**878.6**	**1,123.7**	**147.1**	**-**	**6,982.5**
EBITDA	**316.5**	**183.5**	**249.7**	**252.0**	**29.3**	**-**	**1,031.1**
Direct amortisations and provisions	128.8	65.9	121.0	135.6	17.2	52.5	521.0
Indirect amortisations and provisions	6.0	1.1	25.0	19.9	0.4	(52.5)	-
Amort. and prov. totals	**134.8**	**67.0**	**146.0**	**155.6**	**17.7**	**-**	**521.0**
Operating profit	**181.7**	**116.5**	**103.8**	**96.5**	**11.7**	**-**	**510.1**

2017	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	1,897.6	2,260.7	828.0	1,025.5	100.5	24.7	6,136.9
Revenues within the cycle	72.6	114.1	6.1	49.4	35.3	26.0	303.5
Total direct revenues	**1,970.1**	**2,374.8**	**834.1**	**1,074.9**	**135.8**	**50.7**	**6,440.4**
Indirect revenues	10.1	5.4	25.9	9.0	0.4	(50.7)	-
Total revenues	**1,980.3**	**2,380.2**	**859.9**	**1,083.8**	**136.2**	**-**	**6,440.4**
EBITDA	**301.7**	**184.5**	**229.9**	**246.0**	**22.5**	**-**	**984.6**
Direct amortisations and provisions	135.8	75.7	104.8	138.3	15.7	53.6	523.7
Indirect amortisations and provisions	6.2	4.1	23.7	19.3	0.2	(53.6)	-
Amort. and prov. totals	**142.0**	**79.8**	**128.5**	**157.5**	**15.9**	**-**	**523.7**
Operating profit	**159.7**	**104.6**	**101.4**	**88.5**	**6.7**	**-**	**460.9**

2.03
Net financial indebtedness

2.03.01
Net financial indebtedness

		Dec 31st 18	Dec 31st 17
a	**Cash and cash equivalents**	**535.5**	**450.5**
b	**Other current financial receivables**	**37.3**	**41.5**
	Current bank debt	(70.3)	(187.0)
	Current portion of bank debt	(451.5)	(55.3)
	Other current financial liabilities	(76.1)	(35.3)
	Finance lease payables due within 12 months	(1.7)	(2.0)
c	**Current financial debt**	**(599.6)**	**(279.6)**
d=a+b+c	**Current net financial debt**	**(26.8)**	**212.4**
	Non-current bank debt and bonds issued	(2,644.3)	(2,825.3)
	Other non-current financial liabilities	(20.7)	(21.4)
	Finance lease payables due after 12 months	(12.2)	(13.9)
e	**Non-current financial debt**	**(2,677.2)**	**(2,860.6)**
f=d+e	**Net debt - CONSOB Communication No. 15519/2006**	**(2,704.0)**	**(2,648.2)**
g	**non-current financial receivables**	**118.4**	**125.2**
h=f+g	**Net financial indebtedness**	**(2,585.6)**	**(2,523.0)**

2.03.02

Net financial indebtedness according to the Consob notice DEM/6064293 of 2006

		Dec 31st 18					Dec 31st 17				
			A	B	C	D		A	B	C	D
a	**Cash and cash equivalents**	**535.5**	**-**	**-**	**-**	**-**	**450.5**				
	of which related parties										
b	Other current financial receivables	37.3					41.5				
	of which related parties		0.1	5.3	2.7	3.9		0.1	7.3	2.4	1.6
	Current bank debt	(70.3)	-	-	-	-	(187.0)	-	-	-	-
	Current portion of bank debt	(451.5)	-	(0.8)	-	-	(55.3)	-	(0.8)	-	-
	Other current financial liabilities	(76.1)	-	-	(0.4)	-	(35.3)	-	-	(1.1)	-
	Finance lease payables due within 12 months	(1.7)	-	-	-	-	(2.0)	-	-	-	-
c	**Current financial debt**	**(599.6)**					**(279.6)**				
	of which related parties		**-**	**(0.8)**	**(0.4)**	**-**		**-**	**(0.8)**	**(1.1)**	**-**
d=a+b+c	**Current net financial debt**	**(26.8)**					**212.4**				
	of which related parties		**0.1**	**4.5**	**2.3**	**3.9**		**0.1**	**6.5**	**1.3**	**1.6**
	Non-current bank debt and bonds issued	(2,644.3)	-	-	-	-	(2,825.3)	-	-	-	-
	Other non-current financial liabilities	(20.7)	-	-	(3.3)	-	(21.4)	-	-	(4.0)	-
	Finance lease payables due after 12 months	(12.2)	-	-	-	-	(13.9)	-	-	-	-
e	**Non-current financial debt**	**(2,677.2)**					**(2,860.6)**				
	of which related parties		**-**	**-**	**(3.3)**	**-**		**-**	**-**	**(4.0)**	**-**
f=d+e	**Net debt - CONSOB Communication No. 15519/2006**	**(2,704.0)**					**(2,648.2)**				
	of which related parties		**0.1**	**4.5**	**(1.0)**	**3.9**		**0.1**	**6.5**	**(2.7)**	**1.6**
g	**non-current financial receivables**	**118.4**					**125.2**				
	of which related parties		**-**	**38.9**	**18.3**	**26.9**		**0.2**	**48.1**	**18.7**	**30,1**
h=f+g	**Net financial indebtedness**	**(2,585.6)**					**(2,523.0)**				
	of which related parties		**0.1**	**43.4**	**17.3**	**30.8**		**0.3**	**54.6**	**16.0**	**31.7**

Legend of column headings for related parties:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04 Financial statement formats as per Consob resolution 15519/2006

2.04.01

Income statement as per Consob resolution 15519/ 2006

	notes	2018	of which related parties						2017	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	6,134.4	-	79.7	298.4	14.0	392.1	6.4%	5,612.1	-	91.0	322.8	8.2	422.0	7.5%
Other operating revenues	2	492.0	-	0.2	13.8	0.5	14.5	2.9%	524.8	-	0.6	8.4	0.1	9.1	1.7%
Use of raw materials and consumables	3	(2,984.1)	-	(28.4)	-	(46.3)	(74.7)	2.5%	(2,606.8)	-	(37.2)	-	(49.2)	(86.4)	3.3%
Service costs	4	(2,040.5)	-	(14.0)	(27.4)	(32.8)	(74.2)	3.6%	(1,952.3)	-	(9.8)	(32.7)	(33.1)	(75.6)	3.9%
Personnel costs	5	(551.4)	-	-	-	(1.1)	(1.1)	0.2%	(551.6)	-	-	-	(1.0)	(1.0)	0.2%
Other operating costs	6	(62.5)	-	-	(1.4)	(0.9)	(2.3)	3.7%	(84.6)	-	-	(4.3)	(0.8)	(5.1)	6.0%
Capitalized costs	7	43.2	-	-	-	-	-		43.0	-	-	-	-	-	
Amortisation, depreciation and provisions	8	(521.0)	-	-	-	-	-		(523.7)	-	-	-	-	-	
Operating earnings		**510.1**	**-**	**37.5**	**283.4**	**(66.6)**	**254.3**		**460.9**	**-**	**44.6**	**294.2**	**(75.8)**	**263.0**	
Share of profits (losses) pertaining to joint ventures and associated companies	9	14.9	-	14.9	-	-	14.9	100.0%	14.7	-	14.7	-	-	14.7	100.0%
Financial income	10	96.9	-	2.4	-	0.4	2.8	2.9%	105.0	-	2.7	-	0.3	3.0	2.9%
Financial expenses	10	(203.5)	(0.2)	(6,3)	(0.1)	-	(6.6)	3.2%	(221.2)	-	(9.5)	(0.2)	-	(9.7)	4.4%
Financial management		**(91.7)**	**(0.2)**	**11.0**	**(0.1)**	**0.4**	**11.1**		**(101.5)**	**-**	**7.9**	**(0.2)**	**0.3**	**8.0**	
Earnings before taxes		**418.4**	**(0.2)**	**48.5**	**283.3**	**(66.2)**	**265.4**		**359.4**	**-**	**52.5**	**294.0**	**(75.5)**	**271.0**	
Taxes	11	(121.8)	-	-	-	-	-		(92.6)	-	-	-	-	-	
Net profit for the year		**296.6**	**(0.2)**	**48.5**	**283.3**	**(66.2)**	**265.4**		**266.8**	**-**	**52.5**	**294.0**	**(75.5)**	**271.0**	
Attributable to:															
Shareholders of the parent company		281.9							251.4						
Minority shareholders		14.7							15.4						
Earnings per share	**12**														
basic		**0.192**							**0.171**						
diluted		**0.192**							**0.171**						

Legend of column headings for related parties:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04.02

Statement of financial position as per Consob resolution 15519/ 2006

	notes	Dec 31st 18	of which related parties						Dec 31st 17	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Assets															
Non-current assets															
Property, plant and equipment	13.31	2,003.7	-	-	-	-	-		2,015.7	-	-	-	-	-	
Intangible assets	14.31	3,254.9	-	-	-	-	-		3,127.0	-	-	-	-	-	
Goodwill	15.31	381.3	-	-	-	-	-		384.1	-	-	-	-	-	
Equity investments	16.31	149.1	0.2	137.2	-	7.2	144.6	97.0%	148.8	0.2	136.7	-	7.2	144.1	96.8%
Non-current financial assets	17.33	118.4	-	38.9	18.3	26.9	84.1	71.0%	125.2	0.2	48.1	18.7	30.2	97.2	77.6%
Deferred tax assets	18	159.2	-	-	-	-	-		150.5	-	-	-	-	-	
Financial instruments - derivatives	19	45.3	-	-	-	-	-		66.1	-	-	-	-	-	
Total non-current assets		**6,111.9**	**0.2**	**176.1**	**18.3**	**34.1**	**228.7**		**6,017.4**	**0.4**	**184.8**	**18.7**	**37.4**	**241.3**	
Current assets															
Inventories	20	157.3	-	-	-	-	-		121.2	-	-	-	-	-	
Trade receivables	21.33	1,842.2	0.1	21.8	66.6	17.4	105.9	5.7%	1,760.9	0.1	26.8	58.4	21.0	106.3	6.0%
Current financial assets	17.33	37.3	0.1	5.3	2.7	3.9	12.0	32.2%	41.5	0.1	7.3	2.4	1.6	11.4	27.5%
Current tax assets	22.33	34.3	-	-	-	-	-		29.8	-	-	-	-	-	
Other current assets	23.33	281.2	-	0.8	1.0	17.6	19.4	6.9%	303.3	-	1.0	2.7	14.2	17.9	5.9%
Financial instruments - derivatives	19	111.9	-	-	-	-	-		40.2	-	-	-	-	-	
Cash and cash equivalents	17.32	535.5	-	-	-	-	-		450.5	-	-	-	-	-	
Total current assets		**2,999.7**	**0.2**	**27.9**	**70.3**	**38.9**	**137.3**		**2,747.4**	**0.2**	**35.1**	**63.5**	**36.8**	**135.6**	
Assets held for sale	24	-	-	-	-	-	-		22.9	-	-	-	-	-	
Total assets		**9,111.6**	**0.4**	**204.0**	**88.6**	**73.0**	**366.0**		**8,787.7**	**0.6**	**219.9**	**82.2**	**74.2**	**376.9**	

Legend of column headings for related parties:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

	notes	Dec 31st 18	of which related parties	Dec 31st 17	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		1,465.3	-	-	-	-	-		1,473.6	-	-	-	-	-	
Reserves		913.5	-	-	-	-	-		820.2	-	-	-	-	-	
Profit (losses) for the period		281.9	-	-	-	-	-		251.4	-	-	-	-	-	
Group net equity		**2,660.7**	**-**	**-**	**-**	**-**	**-**		**2,545.2**	**-**	**-**	**-**	**-**	**-**	
Non-controlling interests		186.0	-	-	-	-	-		160.8	-	-	-	-	-	
Total net equity		**2,846.7**	**-**	**-**	**-**	**-**	**-**		**2,706.0**	**-**	**-**	**-**	**-**	**-**	
Non-current liabilities															
Non-current financial liabilities	26. 33	2,684.6	-	-	3.3	-	3.3	0.1%	2,892.2	-	-	4.0	-	4.0	0.1%
Post-employment and other benefits	27	129.5	-	-	-	-	-		142.3	-	-	-	-	-	
Provisions for risks and charges	28	458.6	-	-	-	-	-		432.5	-	-	-	-	-	
Deferred tax liabilities	18	43.1	-	-	-	-	-		45.5	-	-	-	-	-	
Financial instruments - derivatives	19	37.9	-	-	-	-	-		34.5	-	-	-	-	-	
Total non-current liabilities		**3,353.7**	**-**	**-**	**3.3**	**-**	**3.3**		**3,547.0**	**-**	**-**	**4.0**	**-**	**4.0**	
current liabilities															
Current financial liabilities	26. 33	611.6	-	0.8	0.4	-	1.2	0.2%	279.6	-	0.8	1.1	-	1.9	0.7%
Trade payables	29. 33	1,360.4	0.3	10.9	18.1	25.0	54.3	4.0%	1,395.9	0.1	17.7	18.7	34.2	70.7	5.1%
Current tax liabilities	22. 33	6.0	-	-	-	-	-		37.9	-	-	-	-	-	
Other current liabilities	30. 33	866.9	-	2.3	6.5	0.2	9.0	1.0%	769.4	-	3.8	8.3	-	12.1	1.6%
Financial instruments - derivatives	19	66.3	-	-	-	-	-		46.0	-	-	-	-	-	
Total current liabilities		**2,911.2**	**0.3**	**14.0**	**25.0**	**25.2**	**64.5**		**2,528.8**	**0.1**	**22.3**	**28.1**	**34.2**	**84.7**	
Total liabilities		**6,264.9**	**0.3**	**14.0**	**28.3**	**25.2**	**67.8**		**6,075.8**	**0.1**	**22.3**	**32.1**	**34.2**	**88.7**	
Liabilities that can be associated with assets held for sale	24	-	-	-	-	-	-		5.9	-	-	-	-	-	
total net assets and liabilities		**9,111.6**	**0.3**	**14.0**	**28.3**	**25.2**	**67.8**		**8,787.7**	**0.1**	**22.3**	**32.1**	**34.2**	**88.7**	

Legend of column headings for related parties:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04.03
Financial statement as per Consob resolution 15519/2006

	Dec 31st 18	of which related parties
Earnings before taxes	**418.4**	
Adjustments to reconcile net profit to the cashflow from operating activities		
Amortisation and impairment of property, plant and equipment	167.9	
Amortisation and impairment of intangible assets	223.6	
Allocations to provisions	129.5	
Effect of valuation using the equity method	(14.9)	
Financial (income) expenses	106.6	
(Capital gains) Losses and other non-monetary elements (including valuation of commodity derivatives)	(18.0)	
Change in provisions for risks and charges	(29.0)	
Change in provisions for employee benefits	(12.2)	
Total cash flow before changes in net working capital	**971.9**	
(Increase) Decrease in inventories	(36.0)	
(Increase) Decrease in trade receivables	(183.3)	1.2
(Increase) Decrease in trade payables	(38.5)	(16.4)
(Increase) / Decrease in other current assets/ liabilities	124.4	(4.6)
Change in working capital	**(133.4)**	
Dividends collected	15.3	12.4
Interests income and other financial income collected	70.9	2.8
Interests expense and other financial charges paid	(126.6)	(0.2)
Taxes paid	(176.6)	
Cash flow from (for) operating activities (a)	**621.5**	
Investments in property, plant and equipment	(159.2)	
Investments in intangible fixed assets	(305.2)	
Investments in companies and business units net of cash and cash equivalents	(10.1)	(0.3)
Sale price of property, plant and equipment and intangible assets	5.8	0.9
Divestment of equity investments and contingent considerations	15.9	
(Increase) Decrease in other investment activities	15.2	8.1
Cash flow from (for) investing activities (b)	**(437.6)**	
New issues of long-term bonds	221.3	
Repayments for non-current financial liabilities	(0.2)	
Repayments and other net changes in financial payables	(133.7)	(1.4)
Lease finance payments	(2.3)	
Proceeds from the sale of shares without loss of control	1.8	
Acquisition of Interests in consolidated companies	(11.3)	
Dividends paid out to Hera shareholders and non-controlling interests	(151.4)	(57.3)
Changes in treasury share	(23.1)	
Other minor changes	-	

Cash flow from (for) financing activities (c)	**(98.9)**	
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	
Increase (decrease) in cash and cash equivalents (a+b+c+d)	**85.0**	
Cash and cash equivalents at the beginning of the period	450.5	
Cash and cash equivalents at the end of the period	535.5	

2.04.04
List of related parties

The values reported in the table as at December 31st 2018 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries

Black Sea Comp.Compr.Gas Ltd
SiGas Doo

Group B- affiliated and jointly controlled companies:

Adria Link Srl
Aimag Spa
Centro Idrico di Novoledo Srl
Energo Doo
Enomondo Srl
EstEnergy Spa
H.E.P.T. Co. Ltd
Natura Srl in liquidation
Oikothen Scarl in liquidation
Q.tHermo Srl
S2A Scarl
Set Spa
Sgr Servizi Spa
So.Sel Spa
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
Baldassi Srl
Calenia Energia Spa
Cartasi
CO.RA.B. Srl
Dama Srl
Eurizon Capital SGR Spa
Executive Advocacy Srl
Fiorano Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
Imola Gru Srl
Istituto Centrale Banche Popolari
KT Finance Srl
Maranello Patrimonio Srl
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
Sindaci, amministratori, dirigenti strategici, familiari di dirigenti strategici

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

Water sector

The water services managed by the Hera Group are carried out in the areas served in the Emilia-Romagna, Veneto, Friuli-Venezia Giulia and Marche regions. It is carried out on the basis of conventions with the relevant local agencies, with a variable duration, which is usually twenty years.
Hera's mandate of managing integrated water services refers to activities of water collection and drinking water treatment and distribution for civil and industrial applications as well as sewerage and sewage treatment. The agreements signed with the local area authorities also require the operator to carry out the planning and construction of new networks and plants aimed at providing the service. The conventions regulate the economic aspects of the contractual agreement, as well as the modes of managing the service, and the performance and quality standards.
Beginning in 2012, authority for rates was transferred from the state to the national agency ARERA which, as part of this task it has been assigned, approved a transitional rate method for the period 2012-2013, a two-year period of consolidation from 2014 to 2015 and a rate method in force for 2016-2019; under 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 2016-2019 is in continuity with the 2014-2015 two-year period; each operator is granted revenue (VRG) independently of the trends of the volumes distributed and it is established on the basis of operating costs (efficient and exogenous) and capital costs in relation to the investments made.
For the purpose of carrying out the service, the operator uses networks, facilities and other equipment owned by the company itself or the municipalities or asset companies. These assets, part of the inaccessible water stores, or granted or leased to the provider, must be returned to the municipalities, asset companies or local area authorities at the end of the concession to be made available to the incoming provider. Any work carried out by Hera for the water service must be returned to above mentioned entities following payment or the residual value of the assets in question.
Hera's relations with users are regulated by provisioning regulations as well as Service Charters drafted on the basis of templates approved by local area authorities in compliance with provisions set out by ARERA regarding the quality of the service and the resource.

Environment sector

The municipal waste service managed by Hera in the area it serves is provided on the basis of agreements with local authorities and comprises the exclusive management of the collection, transportation, sweeping and cleaning of streets, preparations for waste recovery or disposal, 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. The payments due to the operator for the services rendered, including municipal waste disposal/treatment/recovery activities, have been defined annually on the basis of the national rate method (Presidential Decree 158/1999), as supplemented by the regional regulation as far as waste disposal is concerned (Reg. no. . 467/2015), as well as the Tares/Tasi regulation, beginning in 2013. The 2018 amounts approved by local authorities were invoiced to individual municipalities or citizens, in which case the precise fee is applied.
To run treatment plants for municipal waste, the Hera Group is required to obtain provincial authorizations; furthermore, for 2018, 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.

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 quoted in the part "Regulations" of the report on operations. Inrete Distribution Energy Spa, an Hera Group company that took over natural gas and electricity distribution from Hera SpA, takes advantage of longer residual terms established for operators that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions issued by the agency in charge of this sector (ARERA). The area in which the Hera Group company Inrete Distribuzione Energia Spa provides gas distribution services is divided into rate zones in which a uniform distribution rate is applied to different categories of customers. The main tariff regulations in force at the time of approval of these consolidated annual financial statements are Resolutions 859/2017/R/Gas of December 14th 2017 (Update of tariffs for gas distribution and metering services, for the year 2018), which replaced the 774/2016/R/Gas in force for 2017 and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2018, as per article 40 of the RTDG and 775/2016/R/Gas of December 22nd 2016 (Intra-period updating of the tariff regulation for gas distribution and metering services) for the three-year period 2017-2019. RTDG approval for the 2017-2019 three-year period) that served to approve the new version of the regulations governing tariffs for natural gas distribution and metering services for the regulatory period 2014-2019 (RTDG), following the changes regarding recognized operating costs, determining the component of the tariff to cover the cost of metrological checks, accounting for the system costs of metering and management at a distance and concentrators and defining the standard costs of electronic measurement units for the 2017-2019 three-year period. Beginning January 1st 2014, in fact, the new Regulation governing gas distribution and metering service rates for the regulation period 2014-2019 (RTDG 2014-2019) went into effect, approved with resolution 367/2014/R/gas as subsequently modified and supplemented. Under the provisions of article 28 of the RTDG 2014-2019, the obligatory natural gas distribution and metering rates are differentiated into six rate areas:

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

The value of the components referred to in paragraph 27.3, sections c), d), e), f), g) and h) of the RTDG 2014-2019 is established by the Authority and subject to quarterly updating.
Consistent with the provisions of article 40, paragraph 9 of the RTDG, the fixed components of the mandatory rate for distribution and metering services have been divided into three bands based on the class of their size group.
With regard to electricity, the contracts (lasting thirty years and renewable pursuant to the current regulations) govern power distribution activities comprising, inter alia, the management of distribution networks and the operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development projects, and metering. The contract may be suspended or terminated, on the judgement of the sector Authority, if defaults and violations occur on the part of the concessionary company that seriously affect the performance of the distribution and metering of electricity. The concessionary company is obliged to apply the rates set by current regulations and resolutions adopted by the sector Authority. The rate regulations in effect at the time the annual consolidated financial statements attached to this report are approved is that of the Authority's

resolution 654/2015/R/Eel of December 23rd 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 December 31st 2015.

The mandatory rate for distribution services covers the costs of transporting electricity along distribution networks. 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 annually by the Sector Authority (ARERA) by means of a suitable measure, and on December 21st 2017 Resolution 882/2017/R/Eel was approved to update, for the year 2018, the mandatory tariffs for electricity distribution and metering services for non-domestic customers and on December 27th 2017 Resolution 907/2017/R/Eel updated tariffs for the provision of network services (transmission, distribution and metering) for domestic customers.

2.05
Equity investments

2.05.01
List of consolidated companies

Subsidiaries

Registered name	Registered office	Share capital (euro) where not otherwise specified	Percentage held		Total interest
			direct	indirect	
Parent company: Hera Spa	Bologna	1,489,538,745			
Acantho Spa	Imola (BO)	23,573,079	77.36%		77.36%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasApsAmga Servizi Energetici Spa	Udine	11,168,284		100.00%	100.00%
Alimpet Srl	Borgolavezzaro (NO)	50,000		75.00%	75.00%
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%
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%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Blu Ranton Srl	Pescara	100,000		84.00%	84.00%
Cerplast Srl	Formigine (MO)	100,000		75.00%	75.00%
EnergiaBaseTrieste Srl	Trieste	180,000		100.00%	100.00%
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 Srl	Imola (BO)	53,536,987	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		84.00%	84.00%
Hera Luce Srl	San Mauro Pascoli (FC)	1,000,000		100.00%	100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		57.89%	57.89%
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	10,000,000	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	16,388,535	46.20%		46.20%
Marche Multiservizi	Falconara Marittima (AN)	100,000		46.20%	46.20%

Falconara Srl					
Sangroservizi Srl	Atessa (CH)	10,000		100.00%	100.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Scarl	Padua	100,000		70.00%	70.00%
Umbroplast Srl	Gualdo Cattaneo (PG)	98,800		75.00%	75.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Variplast Srl	Quinto di Treviso (TV)	50,000		75.00%	75.00%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

Jointly controlled entities

Registered name	**Registered office**	**Share capital (euro)**	**Percentage held**		**Total interest**
			direct	**indirect**	
Enomondo Srl	Faenza (RA)	14,000,000		37.50%	37.50%
EstEnergy Spa	Trieste	1,718,096		51.00%	51.00%

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%
Q.tHermo Srl	Florence	10,000		39.50%	39.50%
Set Spa	Milan	120,000	39.00%		39.00%
So.Sel Spa	Modena	240,240		26.00%	26.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

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

2.05.02
Key figures in the financial statements of subsidiaries and associated companies

Summary of key figures of the financial statements of subsidiaries pursuant to Article. 2429, last paragraph, of the C.C.

thousand euro	Acantho Spa	AcegasApsAmga SpA	AcegasApsAmga Servizi Energetici Spa	Alimpet Srl	Aliplast Spa	Aliplast France Recyclage Sarl	Aliplast Iberia SL	Aliplast Polska SP O.O	Aresenergy Eood	AresGas EAD
Assets										
Fixed assets	60,302	1,076,362	76,544	13,160	28,841	486	661	493	24	74,481
current working assets	38,417	170,627	46,315	9,526	42,552	2,338	612	390	184	8,354
Total assets	**98,719**	**1,246,989**	**122,859**	**22,686**	**71,393**	**2,824**	**1,273**	**883**	**208**	**82,835**
Liabilities										
Share capital	23,573	284,677	11,168	50	5,000	25	815	272	26	11,541
Reserves	3,488	174,421	26,630	2,187	17,463	620	(30)	228	(14)	11,323
Net Profit /(Loss)	3,613	87,628	168	1,037	9,682	38	62	85	(49)	1,000
Provisions	6	25,613	-	4	273	-	-	-	-	367
provisions for severance pay	613	19,233	1,739	343	132	-	-	-	-	-
Payables	67,426	655,417	83,154	19,065	38,843	2,141	426	298	245	58,604
Total liabilities	**98,719**	**1,246,989**	**122,859**	**22,686**	**71,393**	**2,824**	**1,273**	**883**	**208**	**82,835**
Income statement										
Value of production	65,891	400,644	64,407	20,364	90,049	6,557	1,726	2,230	30	24,280
production costs	(59,411)	(352,348)	(66,513)	(18,613)	(78,973)	(6,519)	(1,663)	(2,136)	(76)	(21,338)
Financial income/ (expense)	(1,430)	50,603	1,479	(382)	1,700	-	(1)	(9)	(3)	(1,832)
Taxes for the period	(1,437)	(11,271)	795	(332)	(3,094)	-	-	-	-	(110)
Net Profit /(Loss)	**3,613**	**87,628**	**168**	**1,037**	**9,682**	**38**	**62**	**85**	**(49)**	**1,000**

As the companies AcegasApsAmga Spa and AcegasApsAmga Servizi Energetici Spa apply the international accounting standards, the values stated comply with them.

thousand euro	Asa Scpa	Black Sea Gas Company Eood	Blu Ranton Srl	Cerplast Srl	EnergiaBase Trieste Srl	Feronia Srl	Frullo Energia Ambiente Srl	Herambiente Spa	Herambiente Servizi Industriali Srl	Hera Comm Srl
Assets										
Fixed assets	3,506	1,172	29	1,204	3,378	5,394	61,723	1,094,604	1,292	162,489
current working assets	16,979	1,831	6,234	2,441	18,724	1,804	17,463	203,010	22,997	1,171,290
Total assets	**20,485**	**3,003**	**6,263**	**3,645**	**22,102**	**7,198**	**79,186**	**1,297,613**	**24,289**	**1,333,779**
Liabilities										
Share capital	1,820	3	100	100	180	100	17,139	271,600	1,748	53,537
Reserves	623	762	734	1,728	1,116	459	24,092	39,333	217	73,206
Net Profit /(Loss)		(98)	536	216	1,680	(92)	5,290	11,232	790	138,656
Provisions	15,672	183		2	3	5,294	8,740	117,981	1,560	3,627
provisions for severance pay	151	-	67	31	-		1,785	8,716	570	5,493
Payables	2,219	2,153	4,826	1,568	19,123	1,438	22,140	848,752	19,405	1,059,260
Total liabilities	**20,485**	**3,003**	**6,263**	**3,645**	**22,102**	**7,198**	**79,186**	**1,297,613**	**24,289**	**1,333,779**
Income statement										
Value of production	4,562	4,290	11,262	4,416	45,233	207	32,859	420,609	51,514	2,931,597
production costs	(4,697)	(4,372)	(10,511)	(4,097)	(42,868)	(381)	(24,000)	(390,550)	(50,333)	(2,777,421)
Financial income/ (expense)	154	(27)	12	(7)	2	59	(523)	(18,366)	4	36,865
Taxes for the period	(19)	11	(227)	(96)	(687)	23	(3,046)	(461)	(395)	(52,385)
Net Profit /(Loss)	**-**	**(98)**	**536**	**216**	**1,680**	**(92)**	**5,290**	**11,232**	**790**	**138,656**

The companies Energia Base Trieste Srl, Frullo Energia Ambiente Srl, Herambiente Spa. Herambiente Servizi Industriali Srl and Hera Comm Srl apply international accounting standards, therefore, the values stated comply with them.

thousand euro	Hera Comm Marche Srl	Hera Luce Srl	Hera Servizi Energia Srl	Heratech Srl	Hera Trading Srl	HestAmbiente Srl	Inrete Distribuzione Energia Spa	Marche Multiservizi Falconara Srl	Marche Multiservizi Spa	Sangroservizi Srl
Assets										
Fixed assets	28,464	58,563	9,196	371	4,094	86,960	1,120,469	3,099	187,597	346
current working assets	30,212	50,286	18,378	58,058	646,240	24,590	178,872	3,514	87,357	2,360
Total assets	**58,676**	**108,849**	**27,574**	**58,429**	**650,334**	**111,550**	**1,299,341**	**6,613**	**274,954**	**2,706**
Liabilities										
Share capital	1,977	1,000	1,110	1,981	22,600	1,010	9,809	100	16,388	10
Reserves	7,179	40,704	10,096	983	10,442	16,183	486,047	281	90,536	(653)
Net Profit /(Loss)	4,138	6,524	999	1,259	15,413	4,168	36,338	348	12,778	(257)
Provisions	20	68	372			7,117	106,192	80	38,340	
provisions for severance pay	560	1,502	451	8,123	552	1,242	11,417	1,062	6,587	
Payables	44,802	59,051	14,546	46,083	601,327	81,830	649,538	4,742	110,325	3,606
Total liabilities	**58,676**	**108,849**	**27,574**	**58,429**	**650,334**	**111,550**	**1,299,341**	**6,613**	**274,954**	**2,706**
Income statement										
Value of production	97,163	74,105	26,580	118,371	2,558,310	56,490	375,129	8,388	130,445	3,324
production costs	(90,586)	(65,773)	(25,104)	(116,454)	(2,537,863)	(46,813)	(304,978)	(7,797)	(112,279)	(3,640)
Financial income/ (expense)	(2,439)	772	(47)	(38)	(187)	(2,540)	(18,711)	(22)	(105)	3
Taxes for the period		(2,580)	(430)	(620)	(4,847)	(2,969)	(15,102)	(221)	(5,283)	56
Net Profit /(Loss)	**4,138**	**6,524**	**999**	**1,259**	**15,413**	**4,168**	**36,338**	**348**	**12,778**	**(257)**

The companies Hera Comm Marche Srl, Hera Luce Srl, HERAtech Srl, Hera Trading Srl, HestAmbiente Srl and Inrete Distribuzione Energia Spa apply international accounting standards, therefore, the values stated comply with them.

thousand euro	Sviluppo Ambiente Toscana Srl	Tri-Generazione Srl	Umbro Plast Srl	Uniflotte Srl	Variplast Srl	Waste Recycling Spa
Assets						
Fixed assets	1,784	2,567	2,273	87,284	665	38,422
current working assets	230	2,201	3,250	15,380	714	30,423
Total assets	**2,014**	**4,768**	**5,523**	**102,664**	**1,379**	**68,845**
Liabilities						
Share capital	10	100	99	2,254	50	1,100
Reserves	257	295	1,488	12,144	303	9,061
Net Profit /(Loss)	(102)	(6)	624	6,158	(250)	860
Provisions		-	7	34	-	4,320
provisions for severance pay		-	225	2,382	88	1,547
Payables	1,849	4,379	3,080	79,692	1,188	51,957
Total liabilities	**2,014**	**4,768**	**5,523**	**102,664**	**1,379**	**68,845**
Income statement						
Value of production		2,269	7,862	52,374	1,904	63,534
production costs	(36)	(2,092)	(6,964)	(42,677)	(2,193)	(61,583)
Financial income/ (expense)	(66)	(177)	(29)	(2,192)	(14)	(553)
Taxes for the period		(6)	(245)	(1,347)	53	(538)
Net Profit /(Loss)	(102)	(6)	624	6,158	(250)	860

The companies Tri-Generazione Srl and Uniflotte Srl apply international accounting standards, therefore, the values stated comply with them.

Summary of key figures of the financial statements of joint ventures pursuant to Article. 2429, last paragraph, of the C.C.

Thousand euro	Enomondo Srl	EstEnergy Spa
Assets		
Fixed assets	34,418	1,206
Current working assets	12,540	62,024
Total assets	**46,958**	**63,230**
Liabilities		
Share capital	14,000	1,718
Reserves	13,158	10,177
Net Profit /(Loss)	5,063	10,280
Provisions	353	2
Provisions for severance pay	50	84
Payables	14,334	40,969
Total liabilities	**46,958**	**63,230**
Income statement		
Value of production	24,106	131,132
Production costs	(16,798)	(116,899)
Financial income/ (expense)	(317)	172
Taxes for the period	(1,928)	(4,125)
Net Profit /(Loss)	**5,063**	**10,280**

The company EstEnergy Spa applies the international accounting standards, therefore, the values stated comply with them.

Summary of key figures of the financial statements of associated companies pursuant to Article. 2429, last paragraph, of the C.C.

Thousand euro	Aimag Spa	Q.tHermo Srl	Set Spa	Sgr Servizi Spa	So.Sel Spa	Tamarete Energia Srl
Assets						
Fixed assets	209,813	3,245	133,571	1,564	4,674	69,845
Current working assets	62,913	802	47,467	96,824	9,600	9,782
Total assets	**272,726**	**4,047**	**181,038**	**98,388**	**14,274**	**79,627**
Liabilities						
Share capital	78,028	10	120	5,982	240	3,600
Reserves	49,837	3,799	69,596	30,301	3,789	2,248
Net Profit /(Loss)	10,631	(103)	1,387	13,113	133	(99)
Provisions	26,424			49		2,090
Provisions for severance pay	3,299		241	1,054	3,602	
Payables	104,507	341	109,694	47,889	6,510	71,788
Total liabilities	**272,726**	**4,047**	**181,038**	**98,388**	**14,274**	**79,627**
Income statement						
Value of production	91,819	8	88,737	164,470	14,199	19,168
Production costs	(84,977)	(111)	(83,582)	(146,212)	(13,996)	(16,032)
Financial income/ (expense)	5,764		(2,944)	113	27	(3,040)
Extraordinary income/ (expense)			(140)			
Taxes for the period	**(1,975)**		**(684)**	**(5,258)**	**(97)**	**(195)**
Net Profit /(Loss)	10,631	(103)	1,387	13,113	133	(99)

2.06
Outline of article 149, duodecies, of the Consob issuer's regulation

thousand euro	2018
Services provided to certify the financial statements	749
Provision of other services for the issue of an attestation by the independent auditor company	279
Provision of other services by the independent auditor	24
Total	**1,052**

2.07
Information required by Law 124 of August 4th 2017 Art. 1 paragraphs 125-129

Law. 124/2017 introduces, in Article 1 paragraphs 125 to 129, some measures aimed at ensuring transparency in the system of public funding that is part of a European as well as national regulatory framework: for this purpose, see Legislative decree no. . 33/2013 reorganization of the discipline concerning the rights of civic access and publicity obligations, transparency and dissemination of information by public administrations.
The wording of the text contained in this provision immediately raised a number of interpretation and application issues for businesses. In this regard, the National Anti-Corruption Authority (ANAC) issued Resolution no. 1134 of November 8th 2017 identifying in the individual administrations the entities in charge of implementing and controlling the disbursements, as well as the correct fulfilment of the resulting obligations. The Council of State, through its decision of June 1st 2018 No. 1149, clarified that the first year of application is 2019 financial year, for the amounts received beginning January 1st to December 31st 2018.
More recently, Law. 12 of February 11th 2019, (Legislative decree 135 of December 14th 2018) ordered that for the purposes of Regulation 124,disbursements falling within the scope of the guidelines of the National Register of State Aid set up by Mise (Law. 115/2015) should not be declared.
Finally, please note that the circular Assonime no. 5 Business and competition activities, published on February 22nd 2019, which contains some guidelines and highlights the points of major uncertainty, calls for regulatory action by the relevant authorities to ensure proper and uniform compliance by companies, in addition to the non-application of sanctions contained in the regulation itself.
In view of the foregoing, the main criteria adopted by Hera Spa and its subsidiaries in accordance with the abovementioned Assonime Circular are listed below. Grants, contributions and economic benefits of any kind received from January 1st to December 31st 2018 have been taken into account. These amounts were accounted for pursuant to these regulations on a cash basis, although in compliance with the correct accounting principles, they were recognised in the financial statements mainly on an accruals basis. The amounts that were excluded, instead, were paid assignments, tax aid, disbursements from private individuals and those from public bodies of other States, or supranational bodies (for example, the European Commission).

The following table shows the cases present within the Group:

Grants received from the fund for energy and environmental services

Issuing entity	Description	Amount received
Energy and Environmental Services Fund	Subsidies to distributors	137,587,060
Energy and Environmental Services Fund	Subsidiaries to sales companies	69,154,935
Energy and Environmental Services Fund	Energivori	179,141

Incentives for the production of electricity from renewable sources

Issuing entity	Description	Amount received
Gse	Grants to renewable sources of electricity (FER)	28,874,274
Gse	All-inclusive rate	7,215,051
Gse	Interministerial Committee on Prices No. 6 of 1992 (CIP 6/92)	4,990,394

Gse	Feed-in tariff (photovoltaic)	447,896

Grants for current expenses

Issuing entity	Description	Amount received
Consorzio Corepla	Separate collection of plastic packaging	10,448,591
Consorzio Comieco	Separate collection of paper and cardboard	7,690,415
Consorzio Coreve	Separate collection of glass packaging	1,061,482
Emilia Romagna Region	Plan for urgent measures to combat the drinking water supply crisis	885,000
Atersir	Emilia-Romagna regional fund for Pay as you Throw tariff	828,205
Consorzio Rilegno	Separate collection of wood packaging	257,026
Emilia Romagna Region	Sfinge for Emilia-Romagna earthquake	203,803
Ministry of Education University and Research	Energy to Smart Grid (E2sg)	130,893
Consorzio Ricrea	Separate collection of steel packaging	118,286
Emilia Romagna Region	Reorganization of waste collection for the Municipality of Bologna)	109,339
RAAE coordination centre	Upgrading and adaptation of RAAE collection centres	20,000

Plant investment grants

Issuing entity	Description	Amount received
Municipality of Rimini	Construction of the Ausa lamination tank and submarine pipelines	6,559,913
Single Authority for Water Services and Waste - Friuli-Venezia Giulia Region	Regional fund for Servola purification plant in the Municipality of Trieste	2,476,691
Ministry of the Environment	Sewage intercept in the old town centre, Municipality of Pesaro	920,120
Authorith for water and waste services	Sewer works to construct first connection Duino-Aurisina lot (TS)	505,681
Emilia Romagna Region	Re-organization of urban waste collection services in the Municipality of Bologna	431,204
Ministry of the Environment	Connect.Gadana to new purifier Braccone	349,468
Municipality of Ravenna	Extension water network in via Sinistra Canale Molinetto	209,626
Marche Region	Sewer rising mains in the municipality of Orciano (PU)	207,440
Marche Region	Construction wastewater basin for the Foglia river (PU)	170,302
Municipality of Padua	Placement water-sewer system basin Montà (PD)	163,636
Gse	Grant for thermal insulation works on a building located in the Municipality of Santarcangelo (RN)	125,036
Toscana Region	Tender for aid for investment in research, development and innovation (call RSI - POR FESR 2014-2020 - Decree no.3389 of July 30th 2014)	114,583
Emilia Romagna Region	Structural works for the 2012 earthquake Ferrara headquarter	69,004
Municipality of San Giovanni Persiceto	Upgrading the purifier of S.Matteo Decima (BO)	45,455
Veneto Region	Construction sewerage system, Municipality of Pontelongo (PD)	15,614
Province of Ferrara	Redetermining the subsidy for upgrading the Argenta sewerage system (FE)	(6,788)

Training subsidies

Issuing entity	Description	Amount received
For. Te fund	Training	133,569
Fon. coop.	Training	69,900
Fonservizi	Training	30,099
Fondirigenti	Training	15,000

Governmental aid

Issuing entity	Description	Amount received
Ministry of the Environment	Asbestos removal works	11,231

2.08
Consolidated financial statement declaration as per article 154-bis of L/Dec. 58/98

1 – The undersigned Mr. Stefano Venier in his capacity as Managing Director, and Mr. Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154 bis, paragraphs 3 and 4, of the Legislative Decree no. 58 dated 24 February 1998

- the adequacy with reference to the nature of the company; and
- the actual application

of the administrative and accounting procedures for the preparation of the Consolidated financial statements for 2018.

2 – We also declare that:

2.1 – the Consolidated Financial statements:

a. were prepared in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002;
b. are consistent with the data contained in the accounting books and entries;
c. provide a true and accurate representation of the balance sheet and income statement of the issuer and of all its consolidated companies.

2.2 – The Directors' Report includes a reliable analysis of the trend and of the operating profit, the situation of the issuer and of all the consolidated companies together with the description of the major risks and uncertainties to which they are exposed.

The CEO The Manager in charge of the corporate accounting statements

Stefano Venier Luca Moroni

Bologna, 27 March 2019

2.09
Report by the independent auditor

Deloitte.

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Hera S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Hera group (Group), which comprise the statement of financial position as of December 31st, 2018, the income statement, statement of comprehensive income, statement of changes in net equity, cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31st, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Hera S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Revenue recognition – revenue earned but not yet billed

Description of the key audit matter	As disclosed in the notes to the consolidated financial statements in the paragraph addressing *"Accounting policies and consolidation principles - Revenue and cost recognition"*, revenue from sales of electricity, gas and water is recognised and accounted for when the service is rendered and includes an accrual for revenue earned but not yet billed at the reporting date. As disclosed in Note 1, this accrual, which as of December 31st, 2018 amounted to Euro 392 million, is determined, as far as electricity and gas are concerned, by estimating the daily consumption by customer, based on the customer's historical profile, adjusted to reflect the weather conditions and other factors that could impact consumption, while, as far as the integrated water network is concerned, by estimating the revenue guaranteed by the regulated reference tariff (guaranteed revenue commitment, *"VRG"*). We have considered the procedure used for the determination of the above accrual to be a key matter for the audit of the Group's consolidated financial statements for the year ended on December 31st, 2018 in view of: *i)* the discretionary component inherent in the estimated nature of the accrual; *ii)* the materiality of its total amount; *iii)* the high number of the Group's users; *iv)* the complexity of calculation algorithms adopted by the Group for the determination of the accrual, which made it necessary to have the support of IT specialists to perform the related audit procedures.
Audit procedures performed	The audit procedures performed by us on the accrual for revenue earned but not yet billed at the reporting date included the following: • analysis of the IT procedures adopted by the Group for the determination of the accrual for revenue earned but not yet billed and of the related calculation algorithms, with the support of our IT specialists; • identification and understanding of the key controls implemented by the Group to monitor the risk of an incorrect accrual and testing of the effectiveness thereof. This work was performed with the support of our IT specialists; • testing on a sample basis to verify the completeness and accuracy of the main data used by management to determine the accrual; • testing, based on a sample of users, of the process for the estimation of quantities consumed and the application of the correct reference tariffs; • a comparative analysis of the key parameters pertaining to users and consumption used for the determination of the above accrual; • verification of the correct determination of the guaranteed revenue using the regulated reference tariff; • review of the adequacy of disclosure provided on the recognition of revenue earned but not yet billed at the reporting date.

Deloitte.

Recognition and measurement of derivative financial instruments

Description of the key audit matter	On account of the business in which it operates and of its financial structure, the Group holds derivatives to hedge its exposure to the risk of fluctuations in interest rates, in exchange rates and in natural gas and electricity prices. As disclosed in the paragraph in the notes to the consolidated financial statements addressing *"Accounting policies and consolidation principles - Derivative financial instruments "*, the Group enters into transactions, which, if they satisfy the requirements laid down by International Financial Reporting Standards to qualify for hedge accounting, are designated as hedging instruments and are classified as fair value hedges or as cash flow hedges; alternatively, they are classified as held for trading. The determination of the fair value of derivatives is performed by the Group using models developed internally that include an estimation component. Moreover, the recognition methods vary based on the nature of the derivative. Lastly, the impact of the fair value measurement of derivatives is material to the results and financial position. Specifically, as disclosed in detail in Note 19 to the consolidated financial statements, the following are recognised in the consolidated financial statements for the year ended 31st December 2018: i) in the statement of financial position, assets and liabilities arising from the measurement of derivatives of Euro 157 million and Euro 104 million, respectively, and cash flow hedge reserve of Euro 17 million; ii) in the income statement, net operating income and net financial costs arising from the measurement of derivatives of Euro 5 million and Euro 3 million, respectively, as well as net operating income and net financial income realised during the year with reference to derivatives of Euro 28 million and Euro 15 million, respectively. For these reasons, we have considered the recognition and fair value measurement of derivatives to be a key matter for the audit of the Group's consolidated financial statements for the year ended on December 31st, 2018.
Audit procedures performed	The audit procedures performed by us on the recognition and measurement of derivatives included the following: • identification and understanding of the key internal controls implemented by the Group, as well as testing to check compliance with internal policy for the determination of the fair value of derivative financial instruments, for the designation of hedging instruments, for the measurement of their prospective effectiveness and for the determination of the ineffectiveness of the hedging relationship; • understanding of the fair value hierarchy allocation criteria, of the valuation techniques and methodologies used to verify the effectiveness of hedging relationships and for the measurement of any ineffectiveness and an analysis of the reasonableness thereof in compliance with market standards and best practices; • analysis and verification of the sources used by the Group for the determination of market parameters and verification of the reliability of the key market inputs used;

Deloitte.

- verification of the consistency of the accounting treatment adopted by the Group with applicable accounting standards;
- independent determination, on a sample basis, of fair value of some derivative financial instrument, with the support of financial instrument pricing specialists;
- verification, on a sample basis, of the formal documentation for the designation and verification of the measurement of effectiveness, as well as verification of the accuracy of the effectiveness test.

Lastly, we examined the compliance of the disclosures provided in the explanatory notes with applicable accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Deloitte.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Hera S.p.A. has appointed us on April 23, 2014 as auditors of the Company for the years from December 31st, 2015 to December 31st, 2023.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Hera S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Hera Group as of December 31st, 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Hera Group as of December 31st, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Hera Group as of December 31st, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Hera S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by other auditor.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
April 8, 2019

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

4

Remuneration Report

Executive Summary

Introduction

Section I - Remuneration policy

Section II - Remuneration components

Table 3B: Monetary incentive plans for members of the administrative body, General Managers and other management with strategic responsibilities.

Shareholdings by members of administrative and control bodies and General Managers

Proposed resolutions

EXECUTIVE SUMMARY

I. Aims, principles and governance of the Hera Group compensation policy

Aims and Principles

The remuneration policy adopted by Hera represents an indispensable instrument for supporting the Group's medium- and long-term strategies, conceived as a factor that contributes to improving corporate performance and the creation of value in the medium to long-term. in fact, the incentive capacity of the systems is ensured in accordance with the strategic objectives of the Group.

The company defines and applies a general policy on remuneration designed to attract, motivate and retain resources which possess the professional qualities needed to effectively pursue the Group's objectives.
The Policy is defined in such a way as to align the interests of management with those of shareholders, with the main goal being the creation of sustainable value in the medium to long-term, through the consolidation of the link between reward and performance, both of individuals and the Group.

The guiding principles adopted for defining the remuneration policy for the top management are:

- calibrating remuneration to performance in a long-term perspective;
- constantly referencing the external market, for the reference sector as well, in order to check the consistency of the company's remuneration scheme, with the dual purpose of retaining directors and keeping costs down;
- focusing on internal consistency between the level of remuneration offered and the complexity of the role performed;
- using and constantly updating the methodology for evaluating offices, with the objective of guaranteeing standardised remuneration comparisons and analyses that are consistent with the development of the Group's organisational framework over time.

The Group's remuneration policies are defined in order to guarantee the following aims:

- Increasing value for shareholders
- Achieving sustainable and stable results in the short and medium-long terms
- Retaining employees who hold positions that are strategic for governance and the business
- Promoting the corporate mission and values, also in terms of sustainability

Governance

The Hera Group has set up a governance process that involves both corporate bodies and part of the company management to regulate the activities of defining, implementing and managing remuneration policies.

II. Remuneration components

The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable components, taking the specific risk profile of the company into account, and the desire to maintain a close alignment between the level of company and individual performance and remuneration by effectively incentivising commitment, professional growth and the adoption of behaviours deemed functional for achieving the Group's corporate objectives. The total remuneration contains a balanced mix of fixed and variable components, with a focus on identifying the metrics deemed most effective to reflect the Group's long-term prospects.

The fundamental components of remuneration for Hera Group managers are:

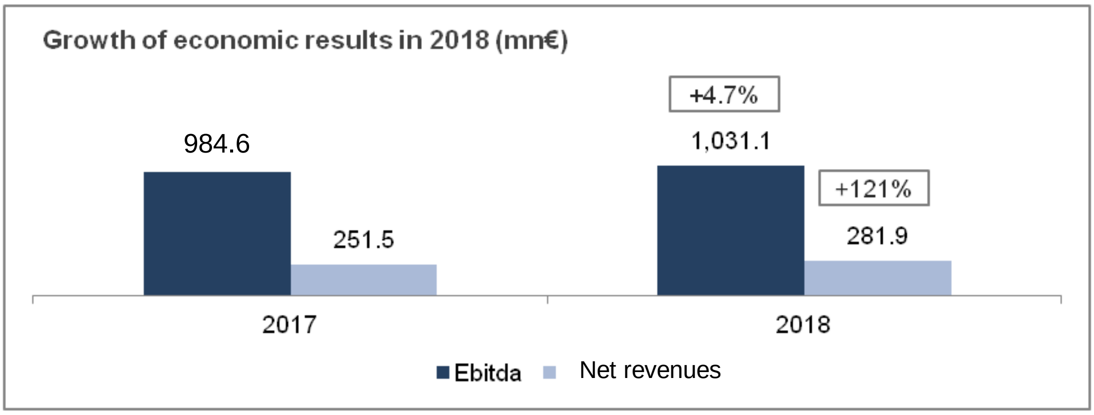
Component	Aims and characteristics	Implementation
Fixed compensation	Remunerates professional and managerial technical skills	Compensation profile assessed on the basis of performance, experience, level of responsibility, internal consistency with respect to the evolution of the organisation, and market benchmarks
Short-term variable compensation	Encourages the achievement of strategic and financial objectives as well as the adoption of behaviours consistent with the corporate leadership model	Assignment of individual objectives linked to the Group's Balanced Scorecard system for executives and executive directors
Deferred variable compensation for retaining managers	Retention measure for executives with strategic roles, high performance and high market risk	Reference period: three years. Bonus accrued in relation to the Group's results and the evaluation of the individual development process.
Non-monetary benefits	An integral part of the salary package, predominantly welfare and social security in character	Defined in accordance with industry standards and relevant company policies
Compensation	Severance compensation for the purpose of protecting the interests of the company	In the event of early termination or revocation of the office of Director

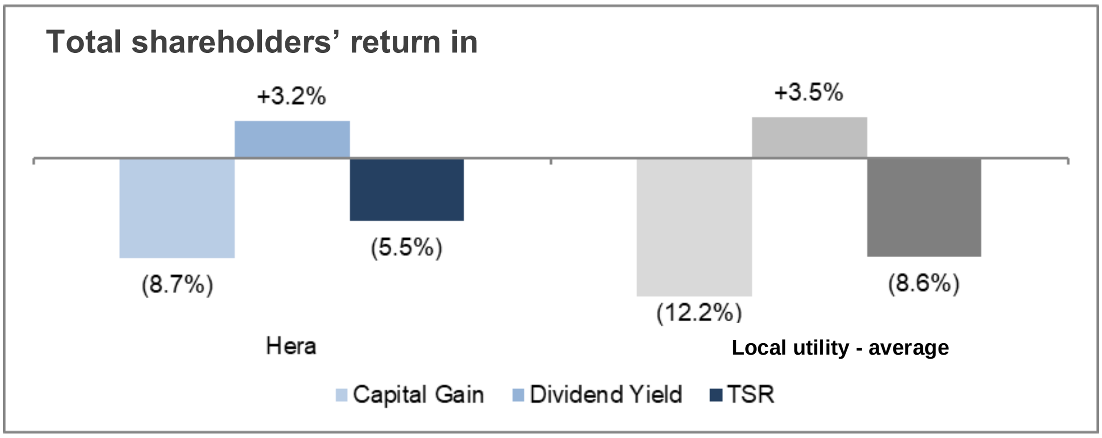
III. Pay for performance

Operating performance showed an increase in economic results, with the Gross Operating Margin increasing by + 4.7% and Net Profit by + 12.1%.

During 2018, the delicacy of the macroeconomic situation at the global level negatively affected the various forms of investment, and these latter gave negative returns on average.

In this context, Hera shares achieved a total shareholders' return (TSR) of -5.5%, higher than the average performance reported in the same period by local utilities (peers), which instead reported a TSR of -8.6%.





IV. Results of the shareholders' meeting vote on the remuneration report and shareholders' engagement activities

The shareholders' meeting of April 26th 2018 voted in favor of the section before the remuneration report, pursuant to Article 123-ter, paragraph 6, TUF, with a percentage of favorable votes equal to 78.72% of the shares with voting rights.

During 2018, relations were maintained with over 316 investors at the time of the presentation of the Business Plan to 2021 and through participation in conferences, as well as through relations with some investors who requested a more in-depth dialogue on specific issues of remuneration policies.

The feedback analysis of the main Proxy Advisors helped in understanding opportunities for evolution and improvement and in guiding the work of preparing whatever changes or clarifications were required. Hera constantly monitors the analyses performed on the Group by financial analysts and Proxy Advisors in order to grasp changes in the concerns of stakeholders and the evolution of best practices, as well as to promote continuous improvement in the satisfaction of investor requests.

The Chairman of the Group was directly involved in the aforementioned reports and dialogues; he promoted and supervised the in-depth work, analysis, and maintenance of a continuous and constructive exchange of information and ideas.

Introduction

This document was drafted in compliance with the regulations of Article 6 of the Code of Self Discipline for listed companies issued by Borsa Italiana Spa, as well as with Article 11 of Legislative Decree no. 123-ter of Legislative Decree 58/1998 (Testo Unico della Finanza, TUF), which requires listed companies to make available to the public a Remuneration Report prepared on the basis of the regulations laid out in article 84-quater and Annex 3A, Schedule 7-bis of the Regulation implementing the TUF adopted by Consob through resolution no. 11971 of May 14th 1999 (the "Issuer's Regulation"). This report also provides evidence of the investments held by the members of the Board of Directors, the members of the Board of Statutory Auditors, the General Managers or spouses not legally separated and the minor children of such persons.

This report, approved by the Board of Directors on the proposal of the Remuneration Committee on March 27th 2019, defines and illustrates:

- in section I, the policy Hera has adopted for the remuneration of top management, Directors and the General Manager of Operations, specifying the general aims pursued, the bodies involved and the procedures adopted for defining and implementing the policy;
- in section II, the compensation nominally paid in the 2018 financial year to the members of the administrative and control bodies and to the General Manager of Operations.

To make this report easier to understand and facilitate the process of reading it, a brief glossary is provided below with some of the most frequently-used terms:

BSC (Balanced scorecard)	indicates the incentive system adopted by the Group to which the short-term variable component of remuneration is linked, on the basis of achieving pre-established individual and corporate objectives
Group	indicates all the companies included in the scope of consolidation of Hera S.p.A.
Deferred monetary incentive plan for management retention	indicates the incentive system adopted by the Group to which a variable component of deferred remuneration is linked, on the basis of achieving pre-established objectives for a selected number of managers.
RAL (Gross annual salary)	indicates the fixed gross annual component of remuneration for recipients having an employment relationship with one of the Group companies.
RDA (Direct annual remuneration)	RGA + annual accrued portion of the deferred variable component received by those who have an employment relationship with one of the Group companies.
RGA (Total annual remuneration)	RAL + variable annual component received by those who have an employment relationship with one of the Group companies.
Target RGA	RAL + maximum theoretical annual variable component that can be reached by those who have an employment relationship with one of the Group companies.
Company top management	indicates the top management of the Group: the Chairman and the Chief Executive Officer.

Section I: Remuneration policy

1 Introduction

Section I of this report outlines the principles and basic characteristics of the remuneration policy as applied to the top figures of the Hera Group, a category which includes the Operations General Director.

The fundamental principle which underpins the Group's culture and directs its choices is its commitment to combining economic and social value with the ultimate goal of satisfying the legitimate expectations of all stakeholders. Hera seeks to be a business that withstands the test of time and to improve society and the environment for future generations to come.

The sense of responsibility that is the hallmark of its corporate culture and mission translates into an approach to remuneration that is similarly responsible. The remuneration policy was conceived as a factor that contributes to improving corporate performance and the creation of value in the medium to long-term.

With a view to responsible reward and in keeping with the recommendations contained in Article 6 of the Borsa Italian SpA Code of Conduct, the Board of Directors, with the support of the Remuneration Committee, has therefore defined the remuneration policy for 2018

Pursuant to paragraph 6 of article 123-ter of the TUF, the meeting is called on to decide on this Section I of the Remuneration Report.

2 Scope of application

In compliance with the provisions of Annex 3A for the implementation of the TUF adopted by Consob through Resolution no. 11971 of May 14th 1999 ("Issuers' Regulation"), the remuneration policy described in this document applies to the members of the administrative bodies and to the General Manager of Operations.

The table below lists the members, currently in office, of the Board of Directors and the Board of Statutory Auditors of Hera S.p.A., appointed at the Shareholders' Meeting of April 27th 2018, as well as the General Manager of Operations.

BOARD OF DIRECTORS	
Name, surname	**Position held**
Tomaso Tommasi di Vignano	Chairman
Stefano Venier	Chief Executive Officer
Giovanni Basile	Vice Chairman (independent)
Francesca Fiore	Director (independent)
Giorgia Gagliardi	Director (independent)
Massimo Giusti	Director (independent)
Sara Lorenzon	Director (independent)
Stefano Manara	Director (independent)
Danilo Manfredi	Director (independent)
Alessandro Melcarne	Director (independent)
Erwin P.W. Rauhe	Director (independent)
Duccio Regoli	Director (independent)
Federica Seganti	Director (independent)
Marina Vignola	Director (independent)
Giovanni Xilo	Director (independent)
BOARD OF STATUTORY AUDITORS	
Name, surname	**Position held**
Myriam Amato	Chairman
Antonio Gaiani	Standing auditor
Marianna Girolomini	Standing auditor
Stefano Gnocchi	Alternate auditor
Valeria Bortolotti	Alternate auditor
EXECUTIVES WITH STRATEGIC ROLES	
Name, surname	**Position held**
Roberto Barilli	Hera S.p.A. General Manager of Operations

3 Governance Model

3.01 Remuneration policy definition and approval process

The bodies and subjects involved in the preparation and approval of the Hera S.p.A. remuneration policy report, as well as the bodies or individuals responsible for the correct implementation of this policy, are summarized below:

Entity in charge	Responsibilities/Activities
Shareholders' Meeting;	Non-binding resolution concerning Section I of the remuneration report.
Board of Directors	Defines, examines and approves the remuneration policy for the directors and executives of the Group, following a proposal from the Remuneration Committee.
Remuneration Committee	Formulates proposals to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and the General Manager of Operations, as well as regarding the adoption of general remuneration criteria for managers.
Chairman	Proposes the policies for Group executives to the Remuneration Committee.
Personnel and Organization Central Director;	Supports the Remuneration Committee, in particular regarding technical aspects. Oversees the correct implementation of the remuneration policy.

3.02 Role, composition and responsibilities of the Remuneration Committee

The Remuneration Committee has the task of formulating proposals to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and the General Manager, as well as based on the suggestions put forward by the CEO, for the adoption of general remuneration criteria for managers.

The Committee also regularly evaluates the adequateness, overall consistency and concrete application of the general policy adopted for the remuneration of Executive Directors and the General Manager of Operations.

In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.

This Committee, initially set up at the meeting of the Board of Directors on November 4th 2002 and most recently renewed, in its latest format, on April 10th 2017, comprises the following non-executive, independent directors: Giovanni Basile acting as Chairman, Francesca Fiore, Massimo Giusti e Stefano Manara. Note that Chairman Giovanni Basile, as well as member Massimo Giusti, has experience in accounting and finance, deemed suitable by the Board of Directors at the time of appointment.

The Rumuneration Committee met 4 times in 2018, and all the members took part in 3 of these meetings, while almost all of them took part in the remaining one.

Composition of the Remuneration Committee			
Giovanni Basile (Chairman)	Majority list	4/4 meetings	4 meetings in 2018
Francesca Fiore	Minority list	4/4 meetings	
Massimo Giusti	Minority list	4/4 meetings	Average length of meetings: 1 hour and 30 minutes.
Stefano Manara	Majority list	3/4 meetings	

The committee is composed entirely of non-exective, independent members.

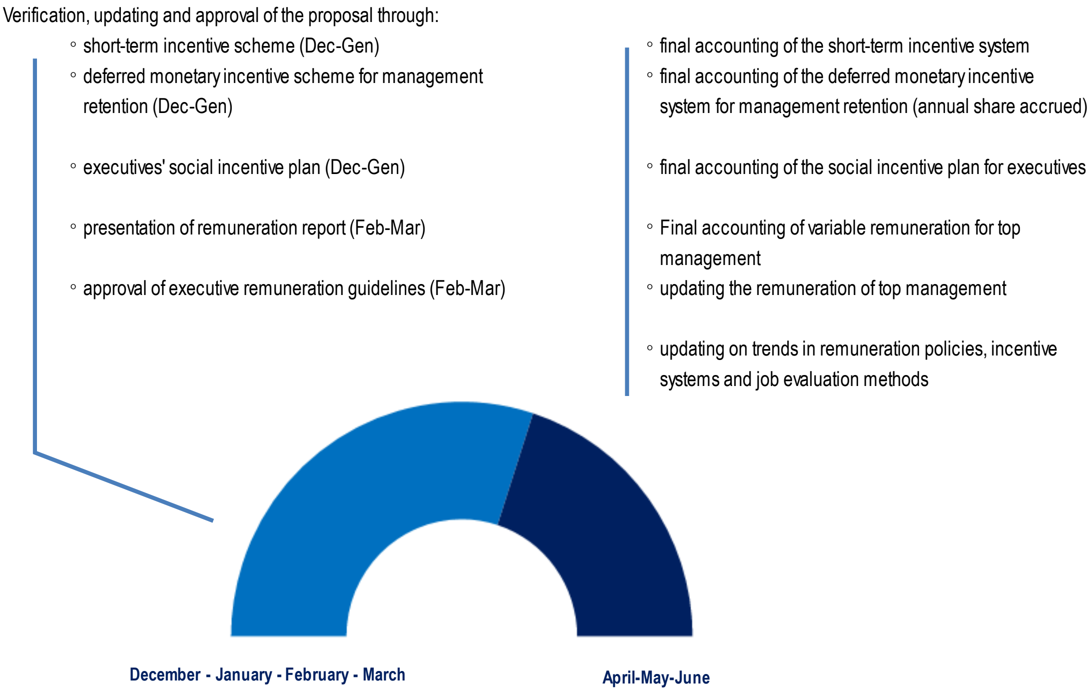
Upon the express invitation of the Chairman of the Remuneration Committee, the Chairman and the Chief Executive Officer participated in the work of the Committee, with the exception of the work involved in determining their own remuneration.

All were attended by the Hera S.p.A. Personnel and Organization Central Director, while 3 meetings were attended by the Hera S.p.A. General Manager of Corporate Social Responsibility.

The meetings of the Remuneration Committee, all regularly recorded in the minutes, lasted, on average, one hour and thirty minutes.

3.02.01 Remuneration Committee cycle of activity

The activities of the Committee are carried out according to an annual schedule that includes the following phases:



3.02.02 Activities carried out and planned

During the meetings held in the 2018 financial year, all regularly recorded in the minutes, the following subjects were discussed:

- 2018 BSC for Group Directors, Executives and Managers;
- remuneration report for the 2017 financial year;
- the Hera group remuneration policy;
- 2017 final balance - variable component - company objectives;
- 2017-2018 Welfare plan;
- final balance of 2017 variable remuneration for company top management;
- 2018 remuneration policies - managers and executives (RAL, RGA, RDA);
- long-term incentive plan for Hera Group management - 2018 activities;
- remuneration of the General Manager of Operations;
- 2019 BSC system for Group Directors, Executives and Managers;
- welfare plan for directors;
- executive management retention.

In addition, the Committee reported on the work carried out by the Boards of Directors.

4 Hera group remuneration policy

4.01 Aims and Fundamental Principles

The company defines and applies a General Policy on Remuneration designed to attract, motivate and retain resources which possess the professional qualities needed to effectively pursue the Group's objectives.

The Policy is defined in such a way as to align the interests of management with those of shareholders, with the main goal being the creation of sustainable value in the medium to long-term, through the consolidation of the link between reward and performance, both of individuals and the Group.

The guiding principles adopted for defining the remuneration policy for the top management are:

- focusing on internal consistency between the level of remuneration offered and the complexity of the role performed;
- using and constantly updating the methodology for evaluating offices and the relative weight of each office, with the objective of guaranteeing standardized remuneration comparisons and analyses that are consistent with the development of the Group's organizational framework over time.
- constantly referencing the external market, for the reference sector as well, in order to check the consistency of the company's remuneration scheme, and its capacity to both attract talent and retain directors;

4.02 Correlation between remuneration, risk profile and company performance

The Hera Group has defined an integrated risk management and internal control system in relation to the financial information process pursuant to the provisions of Article 123-bis, paragraph 2, letter b) of the TUF.

This system is aimed at identifying, evaluating, managing and monitoring the main risks that could compromise the achievement of the objectives of dependability, accuracy, reliability and timeliness of financial information. The Hera System takes its inspiration from the internationally recognised CoSO Framework reference model, for the analysis, implementation and evaluation of the risk management and internal control system.

In relation to the industry to which it belongs, the risk profile of the Hera Group occupies an intermediate position, between operators that concentrate more on regulated activities and operators involved in the more risky free market business operations. Overall, the risk profile is very conservative.

The remuneration currently offered is aimed at preventing management from behaving in a way that would expose the company to excessive risks or the non-sustainability of the Group's results in the medium to long-term.

Precisely in order to stress that it is coherant with the risk profile, the current remuneration policy involves a (variable remuneration) annual incentive plan based on a multi-faceted BSC system, with the objective of balancing the various perspectives of company stakeholders (reference shareholders, the market, institutional investors, customers, employees, the local area, etc.) with regard to the creation of value, sustainable performance and dividend development and policy.

In relation to the consistent growth of the Group in terms of business results, company and local area dimensions and the investment made over the years to ensure that valuable human resources are covering roles which are key for the development and sustainability of the corporate strategy, a deferred monetary incentive plan was developed for management retention that represents the most suitable retention tool consistent with the distinctive characteristics of the Group.

The performance targets based on which the variable remuneration components are assigned are put to the Board of Directors by the Remuneration Committee. In the proposal, the Committee differentiates between economic/financial indicators and sustainability indicators, and provides details concerning the relationship between variation in results and variation in remuneration, with the clear aim of bringing renumeration into line with individual and company-level performance.

4.03 Group leadership model

With the aim of further strengthening the link between remuneration, performance and management behaviour, the Group's leadership model is considered as a landmark example in the context of remuneration policies.

In view of a re-reading of the competitive context and the new challenges the Group is called on to engage with, during 2016 the model was revised and updated through a participatory method that involved all management in identifying the new, key competences. This process also included a wide-ranging market benchmark and careful analysis of strategic challenges.

The new model is based on four dimensions: I/we, today/tomorrow and involves four areas of expected results (each characterized by two distinctive competences): giving shape to results (energy and decision; realization), constructing common ground (cooperation; influence), adding value (excellence and simplification; managing complexity), and building the future (innovation; valorizing people).

The model stands out by virtue of its exemplary style and agility as an approach.
Each competence has been broken down in terms of distinctive behaviours for all the individual positions (directors, managers, middle managers, supervising employees and employees) on the basis of a scale from 1 to 5, ensuring that the model represents the behavioural reference point for the entire population involved.

Since 2017, the new leadership model has replaced the previous one in all the human resource management processes, including the process of performance management.

The assessment of the behaviours outlined by the leadership model is therefore an integral part of the remuneration policy for the Group's executives and also represents a part of the short-term individual objectives included in the BSC.

5 Balancing compensation and remuneration elements

The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable monetary and non-monetary components, taking the specific risk profile of the company into account.

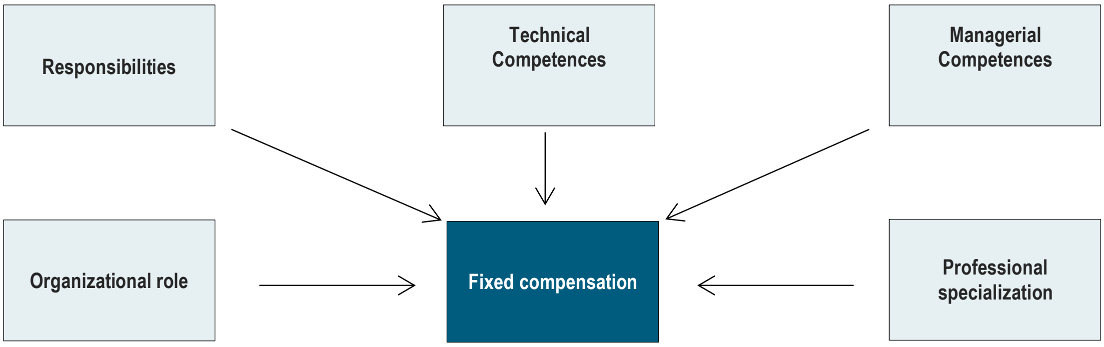
The fundamental components of remuneration for Hera Group executives are:

- fixed compensation;
- short-term variable compensation;
- deferred variable compensation for retaining managers;
- non-monetary benefits

5.01 Fixed compensation

The fixed component of compensation is usually determined by the professional specialization and the organizational role along with related responsibilities. It is therefore a reflection of technical, professional and managerial skills.

The levels of the fixed component of remuneration are established with respect to the specific nature of the company and its risk profile, so as to guarantee the ability to attract and retain talent with the professionalism the Group requires.



For each executive, the reference salary level is determined on the basis of the weight of the organizational position held, on the basis of which a benchmarking comparison is carried out in relation to selected external markets. The benchmarking, carried out by an external company, takes into consideration a total of 232 companies, 35% of which are Italian and 65% foreign. 14.6% of the companies have more than 5,000 employees.

These benchmarks are drawn from specialized, sector companies that carry out remuneration surveys, surveys in which the Group participates. On the whole, the remuneration level chosen as a reference point is in the medium band for the market (first quartile/median). These market references, combined with an evaluation of performance and managerial ability, form the basis of individual compensation reviews.

5.02 Short-term variable compensation - The BSC system

5.02.01 Recipients

The scope of the BSC system extends to include all Hera S.p.A. and Group subsidiary company Directors and Executives. The scope includes 46 Directors and 106 Executives. A similarly arranged evaluation form is also envisaged for the Chairman and the CEO. The short-term variable remuneration envisaged by the BSC system involves an amount expressed as a percentage of the fixed gross annual salary (RAL), divided by category of recipient:

- Chairman and CEO 40% of the RAL
- Directors 25% of the RAL
- A-class executives: 22% of the RAL
- B-class executives: 17% of the RAL

Executives are expected to have a maximum of two separate variable remuneration levels, based on the weight of the manager within the organization and the strategic value of the executive's duties.

5.02.02 Incentive and objective definition process

The short-term incentive system involves assigning an individual BSC for each of the recipients. Each BSC includes a series of objectives belonging to three evaluation areas:

- objective-oriented projects, defined according to the Group's Strategic Map, including projects aimed at enhancing the Corporate Social Responsibility profile;

- economic objectives of the individual budget units, evaluated through economic-financial type indicators;
- evaluation based on the extent of adoption of the nine types of behaviour set out in the leadership model adopted by the Group.

Each area is divided into a series of pre-set objectives, each with a specific performance indicator. The relative weight of each area under the scope of the individual BSC is different for Directors and Executives, and corresponds to the total of the weight of the individual objectives belonging to the same area.

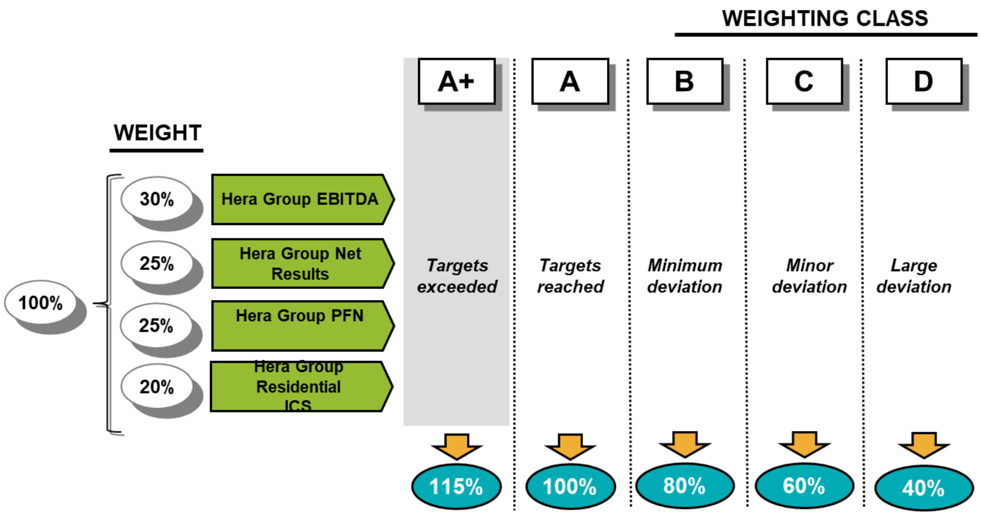
5.02.03 Performance measurement

The Committee defines a target at the beginning of each reference period and for each objective. The amount of the bonus to be paid to each recipient is determined according to whether the set targets are actually reached (result) and the specific weight of the individual objective.

The result of the evaluation carried out using the aforementioned individual BSC system is weighted through a company results profile, which takes into account the performance recorded by the Group with reference, for 2018, to four parameters:

- EBITDA
- Net Profit
- Net Financial Position (PFN)
- Customer Satisfaction Index (ICS)

On the basis of the performance profile achieved by the company on these four parameters, the weighting percentage to be applied to the individual individual results is defined in a range from 115% of the bonus (in the event of performance beyond that set out in the established company targets) and 40% of the bonus (in the event that performance is signficantly below set company targets) according to the following scheme:



Each parameter is evaluated separately. The weighting percentage is determined by calculating the weighted average of the percentage values that come from the results of each individual indicator. All the indicators in class D cause the weighting percentage to be reduced to zero.

The maximum variable, short-term bonus, expressed in percentage terms of fixed gross annual salary, varies according to the results of the incentive system and the office held by the recipient, specifically:

- For the Executive Chairman and Chief Executive Officer: a maximum variable remuneration of 46% of the total fixed gross remuneration [(46%) = maximum individual variable (40%) x maximum company weighting (115%)];
- For directors: a maximum variable remuneration of 28.8% of the total fixed gross remuneration [(28.8%) = maximum individual variable (25%) x maximum company weighting (115%)];
- For executives: there are two distinct levels of maximum variable remuneration based on the weight of the exective within the organization and the strategic importance of the executive's tasks :, equal to 25.3%, respectively [(25.3) = maximum individual variable (22%) x maximum company weighting (115%)] of the total fixed gross remuneration and 19.6% [(19.6%) = maximum individual variable (17%) x maximum company weighting (115%)] and of the total fixed gross remuneration.

The following table shows a summary of the maximum variable compensation for the various categories of recipients (in the event of maximum individual performance and outperformance of all corporate targets):

Position held	Maximum company weighting (A)	Maximum individual variable (B)	Maximum variable compensation (AxB)
Chairman and Chief Executive Officer	115%	40%	46%
Directors	115%	25%	28.8%
A-class executives:	115%	22%	25.3%
B-class executives:	115%	17%	19.6%

The BSC system entails a series of quali-quantitative assessments for the Directors/Executives listed below:

1. a quarterly assessment that is also shared in the management review (Management Committee):
2. the most important strategic projects are evaluated in terms of the progress made, the obstacles that might cause a possible slowdown of the project and what might be done to resolve them;
3. any instances of outperfomance are taken into consideration during the revised budget;
4. the assessment of projects is quali-quantitative
5. the evaluation of behaviors in keeping with the model takes place with the recipient's superior, who specifically assesses the executive's behavior according to the 8 dimensions identified by the leadership model:
    a. Energy and decision
    b. Realization
    c. Cooperation
    d. Influence
    e. Exellence and simplification
    f. Complexity management
    g. Innovation
    h. Valorization of people

This assessment system (described in section 4.3) encourages management not only to achieve the individual targets set, but also to implement behaviors that give rise to intangible value inside and outside the organization, important for granting greater strength and concreteness to the company's values in the daily work of all employees.

The table below illustrates the mechanism for measuring the bonus of a director:

Component	Description	Example: outperforming company targets and achieving the maximum individual assessment	Example: achieving company targets and the maximum individual assessment
A	Annual gross salary (EUR)	100,000	100,000
B	Target bonus (100% RAL)	25%	25%
C	Target bonus (EUR) = A x B	25,000	25,000
D	Individual objectives achieved (%)	100%	100%
E	Company performance weighting coefficient (%)	115%	100%
F	**Value of the bonus paid (EUR)** **= C x D x E**	**28,750 EUR**	**25,000 EUR**

With regard to transactions of strategic importance of an exceptional nature, with significant effects on the results of the company, the Board of Directors, following the proposal of the Remuneration Committee, can award discretionary bonuses to executive directors and management with strategic responsibilities. This discretionary bonus has never been awarded to either the Chairman or the CEO.

5.03 Deferred variable compensation for retaining managers

In its March 22nd 2016 meeting , the Board of Directors approved that a retention plan be applied to a limited number of exectives, taking into account the weight of their organizational positions and the performance evaluations they achieved as part of the development process, and "market risk”.

The Board of Directors has also deemed it appropriate to set up an annual evaluation mechanism for accessing and renewing/not renewing the aawarding of the monetary plan.

The Board of Director's decision to introduce the retention plan stemmed from its evaluation of a series of elements:

- since the establishment of Hera, the Group has grown significantly in terms of company size, area served and final results;
- from the point of view of executive management, the Group has reached a composition that is the result of a careful balancing between bringing in new skillsets, coming from the market, and specific, valuable competencies already present;
- the Group currently enjoys a strong reputation and good visibility on the market, and consequently it makes sense to engage in highly selected retention actions for those executives who hold strategic roles and display both high performance and high market risk.

From the point of view of keeping remuneration in line with performance, the retention plan encourages a commitment to "**developing individual managerial skills**" and the achievement of the "**strategic objectives of the Group**" in a three-year perspective.
The evaluation parameter of "**developing individual managerial skills**" considers the level achieved by recipients in the three-year period in relation to the 8 dimensions identified by the leadership model:

a. Energy and decision
b. Realization
c. Cooperation
d. Influence
e. Exellence and simplification
f. Complexity management
g. Innovation
h. Valorization of people

If the recipient shows maximum achievement in each of the 8 dimensions mentioned above in the three-year period, the level of individual managerial skills is included in calculating the bonus dictated by the retention plan at a maximum value of 100%.

The incentive awarded in 2016 matures over 2016 - 2017 - 2018 and is disbursed in 2019 For the Chief Executive Officer, the maximum three-year incentive value is 100% of the fixed annual remuneration (RAL) in the event that he/she outperforms corporate targets over the three-year period.

For the rest of Group management covered by the retention plan, the maximum three-year incentive is 100% of the fixed gross annual salary (with an annual quota equal to 33% of the fixed gross annual salary) or 50% of the fixed gross annual salary (with an annual share of 17% of fixed gross annual salary); variations in the amount of bonus assigned to various recipients is based on the weight of their organizational position, the performance evaluation they achieved as part of their development process and the "market risk" involved.

The evaluation parameter of "developing individual managerial skills" does not apply to the Chief Executive Officer, as these same evaluation elements are considered to already be expressed by the achievement level of Group KPIs.

If both company performance and managerial skills are found to be below the expected level, the result will be 0%. Intermediate achievement levels between 0% and 100% are also envisaged, depending on different combinations of company performance and managerial skills achievement.

The calculation model for the maturation of the annual retention plan quota and of the bonus to be paid after the end of the reference three-year period is shown below.

Maturation of three-year bonus

Component year n	=	RAL year n*	X	$\frac{50\% \text{ o } 100\%}{3}$	X	Group results level reached	X	Development process assessment parameter
Component year n+1	=	RAL year n+1*	X	$\frac{50\% \text{ o } 100\%}{3}$	X	Group results level reached	X	Development process assessment parameter
Component year n+2	=	RAL year n+2*	X	$\frac{50\% \text{ o } 100\%}{3}$	X	Group results level reached	X	Development process assessment parameter

Bonus pay-out at the end of the three-year period

Value of the bonus	=	Component year n	+	Component year n+1	+	Component year n+2

For the 2019-2021 three-year period, the retention plan is to evolve in terms of the parameter relating to the "strategic objectives of the Group"; three-year KPIs have been introduced that differ from those of the short-term incentive plan (BSC) and which further enhance the ability to create and share value, as well as further consolidating the Group's culture of financial solidity in the long term.

In particular, as established by the Board of Directors at the December 19th 2018 meeting, following the proposal by the Remuneration Committee, this evolution is based on the following new elements:

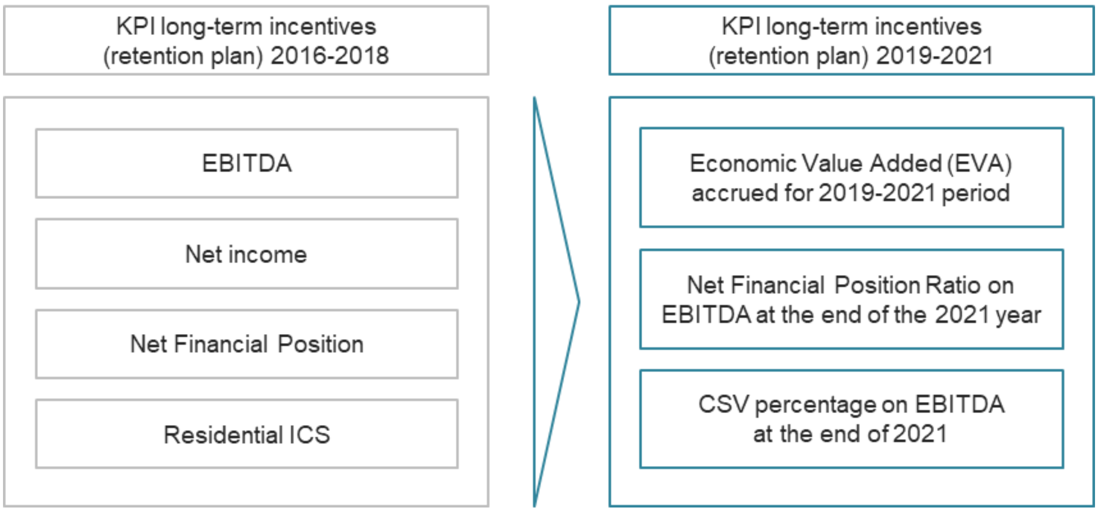
- change of objectives → differentiate the elements of evaluation of the Long-Term Incentive Plan from those of the Short-Term one (BSC);
- modifying the disbursement Plan → for current recipients, limit the risk of them abandoning their positions at the moment of the May 2019 pay-out;
- updating the list of potential recipients in line with the general criteria applied to 2018.

With regard to the **first macro area** (change of objectives), the proposed new structure aims to increase the bonus in proportion to the degree to which the set objective has been achieved.

Consequently, for the 2019-2021 three-year period, the type of objectives set was modified through the use of three new parameters (weighted equally):

- economic-financial indicator: Economic Value Added (**EVA**) or the cumulative target value for the 2019-2021 three-year period, equal to the difference between NOPAT (Net Operating Profit After Taxes) and WACC (Weighted Average Cost of Capital) for the capital invested;
- the year-end relationship as of 2021 between the **Net Financial Position and EBITDA**;
- the target percentage of Created Shared Value (**CSV**) on EBITDA at the end of the 2021 financial period.

The following diagram shows the Group's long-term strategic objectives for the new retention plan as compared to those used in the previous version:



The maximum amount of the bonus associated with the new 2019-2021 retention plan (scheduled for disbursement in May 2022) is determined on the basis of the following calculation: the April 2022 gross annual salary (RAL) of the recipient multiplied by the percentage of allocation of the incentive (50% or 100%, depending on the percentages laid out in the attribution system described above), multiplied by the level of achievement of the new pre-set corporate performance targets (with a maximum value of 100% in the event of exceeding all KPIs) and multiplied by the evaluation parameter of developing individual managerial skills (according to a three-year average, with a value of 100% if the assessment find maximum achievement).

If both company performance and managerial skills are found to be below the expected level, the result will be 0%. Intermediate achievement levels between 0% and 100% are also envisaged, depending on different combinations of company performance and managerial skills achievement.

In keeping with current functioning, the evaluation parameter of developing individual managerial skills does not apply to the Chief Executive Officer.

With regard to the **second macro area** (modifying the disbursement plan), the bonus is to be paid in the month of May of the 4th year, provided that the recipient is still part of the workforce.

In order to limit the risk of post-payment quitting - for recipients confirmed to be covered by the new Long-Term Incentive Plan - in May of the second year (i.e. in 2020) the theoretical sum accrued for the first year of the 2019-2021 three-year period (advance on the 1st year 16.67% - 33.33%) will instead be paid in the form of an “advance” (withheld in the event that the employment relationship is terminated).

The pay-out of the remaining portion (33.33% - 66.67%) is instead scheduled for 2022 (that is, at the end of the three-year period). If at the end of the period (at the end of the three-year period) the performance achieved merits a variable remuneration lower than the amount already paid as an advance, the differential will be deducted from the remuneration for the current year (4^{th} year).

Finally, with regard to the **third macro area** (updating of potential recipients), the following general criteria apply:

- applying the retention plan to a limited number of executives, based on gauging their organizational position, the performance evaluation they achieved as part of the development process, and age;
- annual evaluation mechanism for accessing and renewing/not renewing the awarding of the monetary plan, based on the above criteria;
- top management's responsibility in choosing recipients based on the operating model, also in view of assessment criteria based on current market risk of the professional profile in question.

5.04 Non-monetary benefits and social incentive plan

In line with best practices, they also receive D&O Liability insurance coverage against civil responsibility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

Executives who hold specific organizational positions are also to be assigned a company car for business and personal use.

Furthermore, beginning in 2017, an incentive plan was introduced, linked to the achievement of the Group's corporate objectives, that involves paying out welfare quotas that can be spent on the services included among those of the existing corporate welfare plan.

Payout is directly linked to the level of achievement of the Group KPIs already used as to weight the results of the BSC system following a scheme which, for each individual indicator, allows the bonus to be accessed only if performance exceeds the target associated with that indicator.

Each indicator is evaluated separately. The overall result is determined by calculating the weighted average of the percentage values that come from the results of each individual indicator.

The maximum value, on achieving 100% of plan objectives, is 6% of the individual theoretical variable, namely:

- executive members: there is a maximum social bonus equal to 6% of 40% of the total gross fixed remuneration (equivalent to 2.4% of the RAL);
- directors: there is a maximum social bonus equal to 6% of 25% of the total gross fixed remuneration (equivalent to 1.5% of the RAL);

- executives: there are two separate levels of maximum social bonus, equal to 6% of 22% of the total gross fixed remuneration (equivalent to 1.3% of the RAL) and 6% of 17% of the total gross fixed remuneration (equivalent to 1% of the RAL), respectively;

Furthermore, in keeping with the implementation of the Group welfare plan launched in 2016, access to a Flexible Benefit plan was established for all Group employees, involving the allocation of 385 euro in 2018.

Finally, the entire non-managerial population of the Group is allowed to convert up to 50% of the corporate performance bonus into the goods and services included as part of the corporate welfare plan.

6 Remuneration of Directors and the General Manager of Operations

6.01 Non-executive Directors

The following different types of directors can be found within the Board of Directors:
- executive directors holding specific offices to whom specific powers are delegated;
- non-executive directors (hereinafter referred to as "non-executive directors").

The current breakdown of the Hera S.p.A. Board of Directors is as follows:
- Executive directors: the Chairman of the Board of Directors Tomaso Tommasi di Vignano and the CEO Stefano Venier;
- Non-executive directors: the Vice Chairman of the Board of Directors Giovanni Basile, and Directors Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Stefano Manara, Danilo Manfredi, Alessandro Melcarne, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola and Giovanni Xilo.

With regard to non-executive directors, following their appointment, the Shareholders' Meeting on April 27th 2017 established that they would receive a gross annual payment of 40,000 euro, in addition to reimbursement of living expenses sustained while carrying out their office.

The Board of Directors, with regard to the offices held by Directors in Group companies, as well as in the HERA Group committes (Excecutive Committee, Remuneration Committee, Control and Risks Committee and Ethics and Sustainability Committee) decided to award these Directors a total sum of 20,000 euro gross per year.

The same Board of Directors decided, on June 28th 2017, to award the Vice Chairman a fixed annual sum of 85,000 euro for the duration of his office which includes the indemnity due as a director and any other fees for offices held in Group companies.

Office	2017 compensation	2018 compensation
Vice Chairman	85,000 euro	85,000 euro
Member of the Board of Directors	40,000 euro	40,000 euro
Member of Hera Group committees and/or the Board of Directors of Group companies	20,000 euro	20,000 euro

Note that, in line with best practices and the instructions in the Corporate Governance Code, there are no provisions for a variable component in the payment of non-executive directors.

In line with best practices, they also receive D&O Liability insurance coverage against civil responsbility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

6.02 Executive Directors and the General Manager of Operations

With regard to the offices of Executive Chairman and Chief Executive Officer, a fixed annual salary of 380 thousand euros, gross, was confirmed for each of them, just as the previous year (as resolved by the Board of Directors on June 28th effective April 27th 2017, thus entailing a period of effectiveness for 2017 lasting less than the entire year), inclusive of the compensation established for the office, as well as for offices held in Group companies. This remuneration, valid for the entire duration of the term, was determined by taking into account their positioning with respect to the market and the benchmark levels reported for top positions in listed multi-utility companies.

The Chairman, CEO and General Manager of Operations come under the scope of the remuneration policies defined for the top management of the company, the methodology of which is based, as stated previously, on the method of weighting their positions, carrying out comparisons with the market, and applying an incentive scheme based on the BSC system.

As for the variable component of short-term compensation, a variable compensation linked to the achievement of the Group's performance objectives was confirmed for the Executive Chairman and Chief Executive Officer for 2018: a bonus equal to 40% of the fixed annual salary in relation to the achievement of 2018 target economic-financial results (PFN, EBITDA and net result) and the results of 2018 customer satisfaction survey (LCS), and in compliance with the weighting criteria already applied to the individual results achieved by the population of directors and executives included in the BSC system.

Calculation on having reached 2017 company targets

Weight (A)	KPI	Result achieved	Result as compared to the target	Weighting class (B)	Weighting (AxB)
30%	EBITDA (mn€)	984.6	Exceeded	115%	34.5%
25%	Net income (mn€)	266.8	Exceeded	115%	28.75%
25%	PFN (mn€)	2,523	Exceeded	115%	28.75%
20%	Residential ICS	70	Reached	100%	20.0%
100%					112.0%

The variable short-term bonus for 2017 was therefore 44.8% (112.0% x 40%) of the fixed gross annual salary (as compared to the maximum theoretical bonus equal to 46% of the fixed gross annual salary).

The executive directors have no obligation to use their remuneration to invest in Hera shares.

As part of the tools for retaining executive management (at high market risk), a deferred variable remuneration was introduced for the CEO linked to the achievement of the economic-financial results of the Group in the years 2016, 2017 and 2018. The relative maximum economic value for the three-year reference period will be 100% of the RAL, with pay-out scheduled for the end of the 2018 financial year, upon approval of the associated financial statements by the Shareholders' Meeting, and on the condition that it is still in service for all intents and purposes in the Group companies as of that date.

The system for measuring the level of achievement of Group results involves a maximum bonus of 100% of the gross annual salary for the three-year period.

Furthermore, beginning in 2017, an incentive plan was introduced for the Chairman and CEO as well, linked to the achievement of the Group's corporate objectives, that involves paying out welfare quotas that can be spent on the services included among those of the existing corporate welfare plan, the form of which is comparable to that described above, in section 5.04.

The maximum value, on achieving 100% of plan objectives, is equal to 6% of the individual theoretical variable, specifically 6% of 40% of the total of fixed gross remuneration (equivalent to 2.4% of the total of fixed gross compensation).

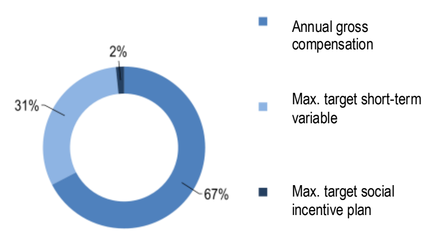
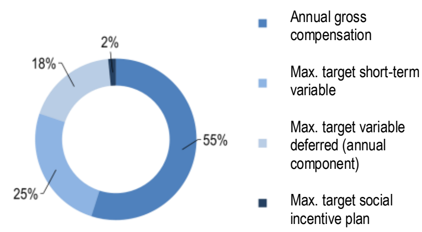
Finally, in keeping with the implementation of the Group welfare plan launched in 2016, the Chairman, by virtue of his position as a Group executive, is also granted access to a Flexible Benefit plan which entailed the allocation of a share of 385 euro in 2018.

With regard to the offices of Executive Chairman and Chief Executive Officer, the theoretical composition of the maximum remuneration package is summarized below:

Chairman	
Gross annual compensation	€ 380,000
Short-term variable compensation (max. 46% of the RAL)	€ 174,800
Social incentive plan (max. 2.4% of the RAL)	€ 9,120
TOTAL	**€ 563,920**

Chief Executive Officer	
Gross annual compensation	€ 380,000
Short-term variable compensation (max. 46% of the RAL)	€ 174,800
Social incentive plan (max. 2.4% of the RAL)	€ 9,505
Deferred variable compensation (annual pro-quota max. 33% of the RAL)	€ 126,667
TOTAL	**€ 690,972**

The following table shows the weight of the various components of remuneration in relation to the total gross annual amount (the theoretical maximum remuneration if all corporate targets were to be exceeded):

Position	Compensation	euro	Composition of compensation package
Chairman	Annual gross salary	380,000	
	Maximum target RGA	554,800	
	Maximum target RDA	554,800	
	Maximum target RDA + Maximum social incentive plan	563,920	
Chief Executive Officer	Annual gross salary	380,000	
	Maximum target RGA	554,800	
	Maximum target RDA	681,467	
	Maximum target RDA + Social incentive plan	690,972	

For the General Manager of Operations, there is a variable annual compensation equal to 25% of the total fixed gross remuneration on having achieved 100% of the set objectives; The individual result is then weighted in relation to a company results profile that takes into account the performance recorded by the Group with reference to the current year. The weighting envisages a maximum growth of individual results equal to 15%, thus generating a maximum variable remuneration equal to 28.8% of the total fixed gross remuneration.

In relation to non-monetary benefits, in addition to the insurance policies outlined previously in point 6.01, a company car is available for business and personal use.

Furthermore, beginning in 2017, an incentive plan was introduced for the General Manager of Operations linked to the achievement of the Group's corporate objectives, that involves paying out welfare quotas that can be spent on the services included among those of the existing corporate welfare plan, the form of which is comparable to that described above, in section 5.04.

The maximum value, on achieving 100% of plan objectives, is equal to 6% of the individual theoretical variable, specifically 6% of 25% of the total of fixed gross remuneration (equivalent to 1.5% of the RAL).

Finally, in keeping with the implementation of the Group welfare plan launched in 2016, the General Manager of Operations, by virtue of his position as a Group executive, is also granted access to a Flexible Benefit plan which entailed the allocation of a share of 385 euro in 2018.

7 Compensation

7.01 Resignation, lay-off or termination of the employment relationship

With the renewal of the Board of Directors that took place as part of the Chareholders' Meeting held April 27th 2017, a clause was inserted for Executive Directors establishing that, in case of removal from office (except for cases of just cause), he or she will be paid an amount, as compensation for damages, comprehensive of any other claim, equal to the sum he or she would have received as remuneration, pursuant to art. 2389 of the Civil Code in the amount of 18 monthly salaries.

As far as executive directors are concerned, termination compensation includes the notice required by the national labor contract.

7.02 Claw-back clause

With the renewal of the Board of Directors that took place as part of the Chareholders' Meeting held April 27th 2017, the claw-back clause was inserted that establishes ex-post corrective mechanisms for the exective directors' remuneration system.

This clause entails the obligation to return already paid-out variable components of remuneration (or to withhold sums subject to deferral) determined on the basis of data that subsequently proved to be incorrect, and is effective from the date of appointment throughout the entire duration of the term; the request to return funds can be made once the relevant assessments have been completed, within three years of disbursement in relation to the year in which the instance occurred.

Section II: Remuneration components

Introduction

Section II of this report outlines the items that make up the remuneration of members of the administrative and control bodies, as well as General Manager, with the aim of highlighting the consistency with the General Policy described in Section I.

With reference to the policies for directors' remuneration, it should be noted that, with respect to the positions held by the directors (excluding the Chairman, Chief Executive Officer and Vice Chairman) in the Group companies, in the Remuneration Committe, Risks and Controls Committee and Ethics and Sustainability Committee, well as the Executive Committee, the directors involved are awarded a total salary of gross 20,000 euro per year to be added to the remuneration established by the Shareholders' Meeting in the maount of 40,000 euro.

The value of the bonus received in 2018 by each figure is also indicated, in relation to the degree of achievement of the targets set in the previous year.

8 Description of the compensation paid to directors and general managers

This section contains the details of payments made during 2018, with reference, as far as the variable part is concerned, to the accrual criterion.

8.01 Chairman

The fixed compensation for Mr. Tomaso Tommasi di Vignano is composed exclusively of wages associated with his relationship as director. The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies. Note that during 2018 he received a monetary bonus based on the results of the previous year, equal to 170,240 euro, following the achievement of an overall performance index of 112%. With reference to the 2017 Social Incentive Plan, he also accrued the right to an additional bonus of 7,296 euro that can be spent on the services included in the existing corporate welfare plan, following the achievement of an overall performance index equal to 80%.

8.02 Chief Executive Officer

The fixed compensation paid to Mr. Stefano Venier is composed exclusively of gross annual salary as a Group executive and also includes all services/offices held in the Hera Group's subsidiary and associate companies.
Note that during 2018 he received a monetary bonus based on the results of the previous year, equal to 170,240 euro, following the achievement of an overall performance index of 112%. With reference to the 2017 Social Incentive Plan, he also accrued the right to an additional bonus of 7,296 euro that can be spent on the services included in the existing corporate welfare plan, following the achievement of an overall performance index equal to 80%, to be added to the 385 euro accrued under the corporate welfare plan by virtue of his position as a Group executive.

8.03 Vice Chairman

For holding the office of Vice Chairman, Mr. Giovanni Basile was paid the fixed compensation of 85,000 euro established as compensation for this office.

8.04 Non-executive Directors

Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Alessandro Melcarne, Stefano Manara, Danilo Manfredi, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola and non-executive directors of the company, received fixed remuneration (equal to 40,000 euro) for holding the position of director and additional compensation for participating in committees or in the boards of subsidiary or associated companies, as laid out by the remuneration policy of the Group.

8.05 General Manager

The General Manager of Operations, Mr. Roberto Barilli, received compensation of 342,230 euro in the form of gross annual remuneration. Note that during 2018 he received a bonus with regard to the results of the previous year, equal to 92,649 euro, following the achievement of an individual performance index of 97.2% and a Group performance index of 112%.
With reference to the 2017 Social Incentive Plan, he also accrued the right to an additional bonus of 4,085 euro that can be spent on the services included in the existing corporate welfare plan, following the achievement of an overall performance index equal to 80%, to be added to the 385 euro accrued under the corporate welfare plan by virtue of his position as a Group executive.

He furthermore received a non-recurring allowance of gross 20,000 euro in 2018 (equal to 5.8% of the fixed gross annual salary).

8.06 Statutory Auditors

Members of the Board of Statutory Auditors received fixed compensation for their position as Statutory Auditors as determined by the Shareholders' Meeting.

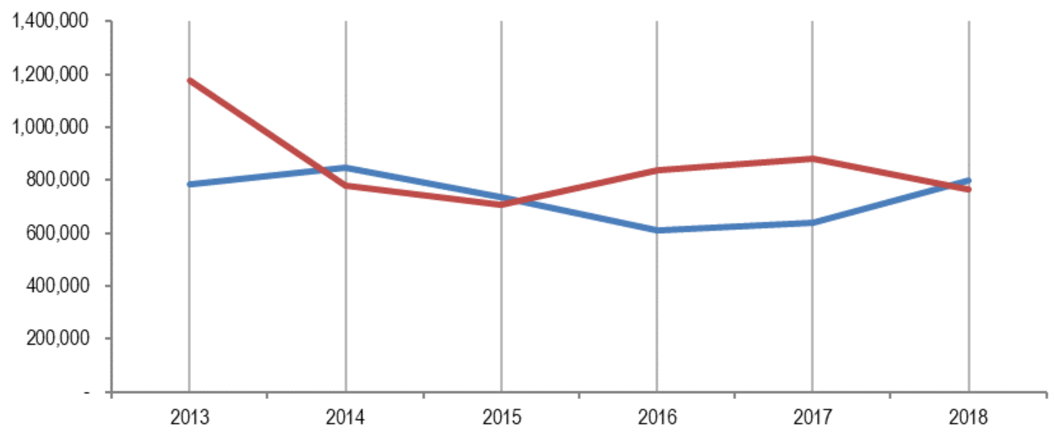
8.07 Compensation received in Group companies

Remuneration for the Executive Directors, Directors, General Manager of Operations and Executives for positions held in Group company structures and/or committees, are redirected in their entirety to Hera S.p.A.. The total redirected to the Parent Company for the year 2018 was approximately 800,763 euros.

The cost of the Board of Directors of Hera S.p.A. for the year 2018 was 764,237 euro, net of remuneration amounting to Euro 800,763 (for a gross total amount of Euro 1,565,000) received by Hera for the participation of directors/executives in the administrative bodies of its affiliates.

The reduction in the actual cost of the Board of Directors in 2018 is a result of the increase in fees collected by Hera for the participation of directors/exectives in the corporate bodies of its affiliates, without prejudice to the compensation paid to the directors of the Parent Company.

Cost of the Hera S.p.A. BoD



Compensation redirected	782,302 euro	845,223 euro	737,688 euro	608,321 euro	641,427 euro	800,763 euro

	to Hera						
■	**Real cost of the Hera BoD**	1,174,956 euro	780,069 euro	707,312 euro	836,679 euro	878,935 euro	764,237 euro

Bologna, March 27th 2019

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

TABLE 1: Compensation paid to members of administrative and control bodies, General Managers and other management with strategic responsibilities.

Administrative body

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Tomaso Tommasi di Vignano	Chairman	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				380,000		170,240		5,917	1,798	557,955		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**380,000**		**170,240**		**5,917**	**1,798**	**557,955**		
Notes								Includes 168 of welfare matured in 2018				

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Venier	Chief Executive Officer	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				381,549		170,240		24,237	2,243	578,269		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**381,549**		**170,240**		**24,237**	**2,243**	**578,269**		
Notes								Includes 7,719 of				

								welfare matured in 2018				

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giovanni Basile	Vice Chairman	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				85,000				4,157		89,157		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**85,000**				**4,157**		**89,157**		
Notes												

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits .	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Francesca Fiore	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	20,000			441		60,441		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**40,000**	**20,000**			**441**		**60,441**		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giorgia Gagliardi	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000				308		40,308		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				**60,000**				**308**		**60,308**		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Massimo Giusti	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	20,000			518		60,518		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**40,000**	**20,000**			**518**		**60,518**		
Notes					I) as a member of the Remuneration Committee and Chairman of the Ethics and Sustainability committee							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Sara Lorenzon	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	20,000			308		60,308		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**40,000**	**20,000**			**308**		**60,308**		
Notes					I) as a member of the Control and Risks Committee							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Manara	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	20,000			499		60,499		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**40,000**	**20,000**			**499**		**60,499**		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compen sation	Total	Fair value of equity compensati on	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Danilo Manfredi	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000				394		40,394		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				**60,000**				**394**		**60,394**		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation: Bonuses and other incentives	Variable non-equity compensation: Profit sharing	Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
Alessandro Melcarne	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	2,944			305		43,249		
(II) Compensation from subsidiaries and associated companies				17,056						17,056		
(III) Total				**57,056**	**2,944**			**305**		**60,305**		
Notes				II) for offices held in Group companies until 8-Nov-18	I) as a member of the Executive Committee Since 8-Nov-18							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation: Bonuses and other incentives	Variable non-equity compensation: Profit sharing	Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
Erwin P.W. Rauhe	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	20,000			866		60,866		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**40,000**	**20,000**			**866**		**60,866**		
Notes					I) as a member of the Control and Risks Committee							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Duccio Regoli	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	20,000			618		60,618		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**40,000**	**20,000**			**618**		**60,618**		
Notes					I) as a member of the Control and Risks Committee							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation: Bonuses and other incentives	Variable non-equity compensation: Profit sharing	Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
Federica Seganti	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000	20,000			468		60,468		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**40,000**	**20,000**			**468**		**60,468**		
Notes					I) as a member of the Executive Committee until 8-Nov-2018 and subsequently as member of the Ethics and Sustainability Committee							

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation: Bonuses and other incentives	Variable non-equity compensation: Profit sharing	Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
Marina Vignola	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000				389		40,389		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		

(III) Total				**60,000**				**389**		**60,389**		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation: Bonuses and other incentives	Variable non-equity compensation: Profit sharing	Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
Giovanni Xilo	Director	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				40,000				719		40,719		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				**60,000**				**719**		**60,719**		
Notes				II) for offices held in Group companies								

Control body

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Myriam Amato	Chairman of the Board of Statutory Auditors	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				120,000				345		120,345		
(II) Compensation from subsidiaries and associated companies				57,000						57,000		
(III) Total				**177,000**				**345**		**177,345**		
Notes												

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Marianna Girolomini	Standing Auditor	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				80,000				441		80,441		
(II) Compensation from subsidiaries and associated companies				81,292						81,292		
(III) Total				**161,292**				**441**		**161,733**		
Notes												

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Antonio Gaiani	Standing Auditor	1-Jan-18 31-Dec-18	Annual Financial Report approval as of 31.12.2019 31-Dec-19									
I) Compensation in the company preparing the financial statements				80,000				446		80,446		
(II) Compensation from subsidiaries and associated companies				62,594						62,594		
(III) Total				**142,594**				**446**		**143,040**		
Notes												

General Manager

Name and surname	Office	Period in which office was held	Expiry of term of office	Fixed compensation	Compensation for participation in committees	Variable non-equity compensation		Non-monetary benefits.	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Roberto Barilli	General Manager of Operations	1-Jan-18 31-Dec-18										
I) Compensation in the company preparing the financial statements				342,230		112,649		18,949	2,341	476,169		
(II) Compensation from subsidiaries and associated companies												
(III) Total				**342,230**		**112,649**		**18,949**	**2,341**	**476,169**		
Notes						Comprises a one-time payment of 20,000 .		Includes 2,752 of welfare matured in 2018				

Table 3B: Monetary incentive plans for members of the administrative body, General Managers and other management with strategic responsibilities.

Name and surname	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Tomaso Tommasi di Vignano	Chairman		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	170,240						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			**170,240**						

Name and surname	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Stefano Venier	Chief Executive Officer		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	170,240						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			**170,240**						

Name and surname	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Roberto Barilli	General Manager of Operations		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	92,649						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			**92,649**						

Name and surname	Office at Hera S.p.A.	Affiliate companies	no. of shares held at the end of the previous financial year	no. of shares purchased	no. of shares sold	no. of shares held at the end of the current financial year
Tomaso Tommasi di Vignano (1)	Chairman	Hera S.p.A.	31,764	-	-	31,764
Stefano Venier	Chief Executive Officer	Hera S.p.A.	-	-	-	-
Giovanni Basile	Vice Chairman	Hera S.p.A.	-	-	-	-
Francesca Fiore	Director	Hera S.p.A.	-	-	-	-
Giorgia Gagliardi	Director	Hera S.p.A.	-	-	-	-
Massimo Giusti	Director	Hera S.p.A.	-	-	-	-
Sara Lorenzon	Director	Hera S.p.A.	-	-	-	-
Stefano Manara	Director	Hera S.p.A.	-	-	-	-
Danilo Manfredi	Director	Hera S.p.A.	-	-	-	-
Alessandro Melcarne	Director	Hera S.p.A.	-	-	-	-
Erwin P.W. Rauhe (2)	Director	Hera S.p.A.	-	5,000	-	5,000
Duccio Regoli	Director	Hera S.p.A.	-	-	-	-
Federica Seganti	Director	Hera S.p.A.	-	-	-	-
Marina Vignola	Director	Hera S.p.A.	-	-	-	-
Giovanni Xilo	Director	Hera S.p.A.	-	-	-	-
Roberto Barilli	General Manager of Operations	Hera S.p.A.	-	-	-	-

(1) indirect ownership, through spouse

Proposed resolution

Dear Shareholders,

The Shareholders' Meeting is required to cast its vote on Section I of the remuneration report, which refers to your company's remuneration policies and the procedures used to adopt and implement this policy. This report has been prepared in accordance with applicable laws and regulations and the Corporate Governance Code for listed companies, to which Hera adheres.
If you agree with the contents indicated therein, we propose that you vote in favour of Section I of the remuneration report by adopting the following resolution:

"The shareholder's meeting of Hera S.p.A., pursuant to the limits established by Article 123-ter of the TUF, as well as to carry out the previsions of Article 84-quater of the Consob Issuers' Regulation:

having acknowledged the remuneration policies adopted by the Group;

and viewed the first section of the remuneration report;

resolves

to approve Section I of the Hera Group remuneration report".

Hera Spa
Registered Office: Viale C. Berti Pichat 2/4 - 40127 Bologna
phone: +39 051.28.71.11 fax: +39 051.28.75.25

www.gruppohera.it

Share capital Euro 1.489.538.745 fully paid up
Tax code/VAT and Bologna Business Reg. no. 04245520376