2016 Consolidated Financial Statements

GRUPPO HERA

2016
Consolidated Financial Statements

Focus on results and performance numbers

GRUPPO HERA

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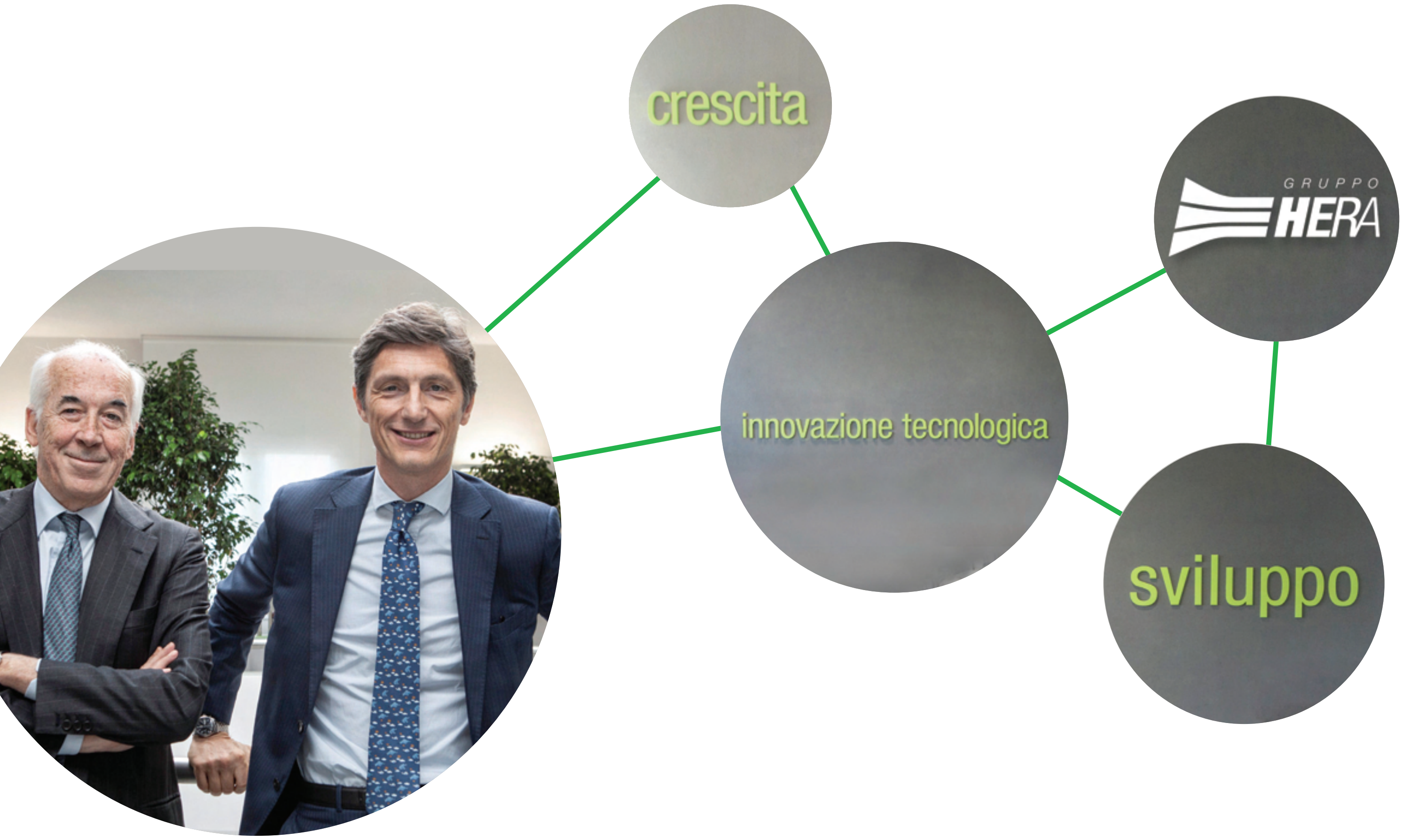
INTRODUCTION



LETTER FROM THE CHAIRMAN TO SHAREHOLDERS

pre Meeting

GOVERNANCE AND CONTROL BODIES

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice President	Giovanni Basile
Director	Mara Bernardini
Director	Forte Clò
Director	Giorgia Gagliardi
Director	Massimo Giusti
Director	Riccardo Illy
Director	Stefano Manara
Director	Luca Mandrioli
Director	Danilo Manfredi
Director	Cesare Pillon
Director	Tiziana Primori
Director	Bruno Tani
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing Auditor	Antonio Gaiani
Standing Auditor	Marianna Girolomini
Control and Risk Committee	
Chairman	Giovanni Basile
Member	Massimo Giusti
Member	Stefano Manara
Member	Danilo Manfredi
Remuneration Committee	
Chairman	Giovanni Basile
Member	Mara Bernardini
Member	Luca Mandrioli
Member	Cesare Pillon
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice President	Giovanni Basile
Member	Stefano Venier
Member	Riccardo Illy
Ethics Committee	
Chairman	Massimo Giusti
Member	Mario Viviani
Member	Filippo Maria Bocchi
Independent auditing firm	
	Deloitte &Touche

CORPORATE STRUCTURE

Parent company Hera Spa: effective operations management

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, 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: leading the environmental sector

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.

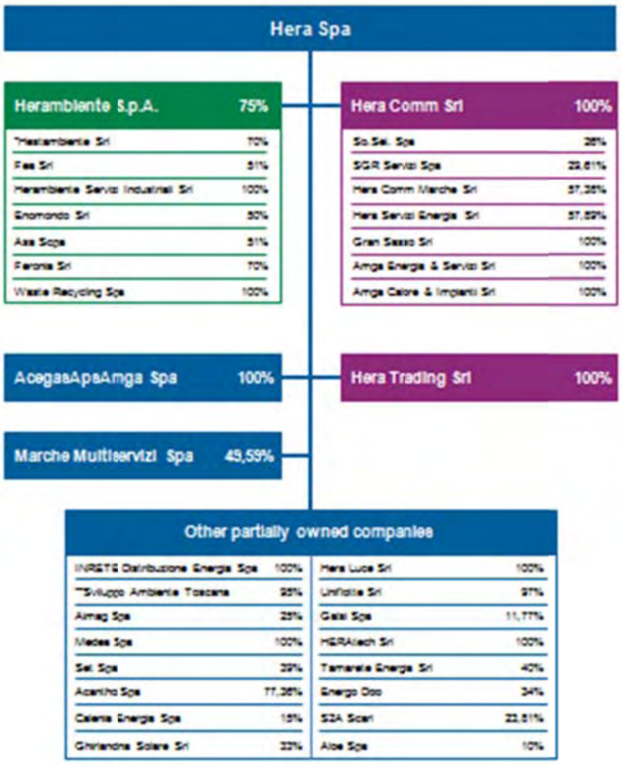
Hera Comm: 2.2 million energy customers

HeraComm Srl, 100% controlled by Hera Spa, with 2.2 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.

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 operations have been achieved by 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 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.



* In addition to the 30% held by AcegasApsAmga Spa.

** In addition to the 5% held by Herambiente. Sviluppo Ambiente Toscana Srl in turn holds 40% of Q.tHermo Srl.

The companies partially owned by AcegasApsAmga Spa are: Black Sea Company for Gas Compressed Ltd, Centro Idrico di Novoledo Srl, Adria Link Srl, Acegas Aps Service Srl, La Dolomiti Ambiente Spa, Estenergy Spa, Sinergie Spa and Aresgas AD. During 2017, shares held in SIGAS Doo by AcegasApsAmga are expected to be divested.

Effective as of 1 February 2017, the merger of Biogas 2015 Srl into Herambiente Spa was also completed.

The share held by Hera Comm Srl in Adriatica Acque Srl is furthermore expected to be transferred.

MISSION

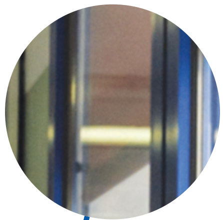
"Hera aims at being the best multi-utility in Italy for its customers, workforce and shareholders. It intends to achieve this through further development of an original corporate model capable of innovating and of forging strong links with the areas in which it operates by respecting the local environment".

*"**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 richness represent the promise of a sustainable future; and **suppliers**, key elements in the value chain and partners for growth".*

CHAPTER 1

DIRECTORS' REPORT






HIGHLIGHTS

€ 916.6
million
EBITDA

€ 220.4
million
Net profit

ROE 8.6%
Return on Equity

€ 366.4
million
Investments

ROI 8.9%
Return on investment

2.8x
Net debt/Ebitda ratio

1.01 OVERVIEW OF GROUP PERFORMANCE AND DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

Operating APMs and investments

Operating indicators and Investments (€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Revenues	**4,460.2**	4,487.0	-26.8	-0.6%
EBITDA	**916.6**	884.4	+32.2	+3.6%
EBITDA/Revenues ratio	*20.6%*	*19.7%*	*+0.9 p.p.*	
Operating profit	**457.1**	442.2	+14.9	+3.4%
Operating profit/Revenues ratio	*10.2%*	*9.9%*	*+0.3 p.p.*	
Net profit	**220.4**	194.4	+26.0	+13.4%
Net profit/revenues ratio	*4.9%*	*4.3%*	*+0.6 p.p.*	
Net investments	**366.4**	332.7	+33.7	+10.1%

Financial APMs

Operating-financial indicators (€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Net non-current assets	5,564.5	5,511.3	+53.2	+1.0%
Net working capital	99.9	157.0	-57.1	-36.4%
Provisions	(543.4)	(513.5)	-29.9	-5.8%
Net invested capital	5,121.0	5,154.8	-33.8	-0.7%
Net financial debt	**(2,558.9)**	(2,651.7)	+92.8	+3.5%

Operating-financial APMs

Operating-financial indicators	Dec 2016	Dec 2015	Abs. change
Net debt/EBITDA ratio	**2.79**	3.00	-0.2
FFO/Net debt	**22.6%**	20.5%	*+2.1 p.p.*
ROI	8.9%	8.6%	*+0.3 p.p.*
ROE	8.6%	7.8%	*+0.8 p.p.*
Cash Flow	109.0	64.8	+44.2

Definition of Alternative Performance Measures (APM)

The Hera Group uses Alternative Performance Measures (APM) to more effectively convey information about the profitability of the businesses in which it operates as well as its financial situation. In accordance with the guidelines published 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 found in this financial statement are explained below.

Operating APMs and investments

EBITDA is a measure of operating performance and is calculated by adding together "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 at the level of 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 efficiency achieved in different periods.

EBITDA on revenues, operating profit on revenues and net income on revenues is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and measures the Group's operating performance by representing a proportion, in terms of percentage, of EBITDA, operating profit and net profit 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 the 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 at the level of each business unit), also allowing for a comparison with previous periods, making 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 a useful measure for 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 efficiency 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, including comparisons with previous periods. In this way it is possible to analyze trends and compare the efficiency 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 cope with possible future liabilities, also allowing for a comparison with previous periods. In this way it is possible to analyze trends and compare the efficiency achieved in different periods.

Net invested capital is determined 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 a useful measure in evaluating all of the Group’s current and non-current operating assets and liabilities, as specified above.

Net financial 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 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 efficiency 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

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 debt.

Funds from operations is calculated as EBITDA minus doubtful accounts, interest expenses, income taxes and use of reserves and severance pay. This measure 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 activities’ ability to generate cash flow.

ROI, or return on net invested capital, is defined as the ratio between net operating earnings and net invested capital, and is 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 measure 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, and is 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 measure 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 EBITDA plus changes in net working capital, net of increases in doubtful accounts, the use of reserves and severance pay, operating and financial investments, financial income and expenses and income taxes. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to measure a company's capacity to generate cash flow and therefore its ability to finance itself.

1.01.01 OPERATING AND FINANCIAL RESULTS

Constant growth in all indicators

All of the Hera Group's economic indicators for 2016 showed growth over the previous year. EBITDA rose by 3.6%, operating profits by 3.4% and net profits by 13.4%. From a financial point of view as well, positive results were seen: net debt dropped by 3.5% and the net debt/EBITDA indicator settled at 2.79, with a clear improvement compared to 2015.

The economic-financial results achieved in 2016 point once again towards the Group's consolidated multi-business strategy and its ability to successfully balance regulated and free-market activities, while at the same time maintaining a sustainable risk profile. These results are furthermore the outcome of a well-adjusted combination of internal and external growth.

2016 was particularly positive if one considers the increasingly challenging context defined by regulatory and market factors, within which Hera proved its agility and demonstrated a great capacity to react when faced with changes in external circumstances. Among the main events that marked the year, one must recall the reduction in regulated revenue, following the revision of return on regulated invested capital (Wacc, weighted average cost of capital) introduced by the Authority for electricity, gas and the integrated water cycle (hereinafter the "Authority") and the reduction in incentives for environmental certificates.

The main corporate operations having an effect on 2016 are described as follows, in chronological order. Concerning above all the waste and sales businesses, they allowed the Group to maintain its sector leadership and to consolidate its presence in the market.

- As of 1 November 2015, Biogas 2015 became part of the Group's corporate structure. This company's activities involve energy recovery and energy production from waste recycling, and it is also responsible for constructing, installing and managing the plants involved.

- As of 1 December 2015, Herambiente acquired control of a few branches of Geo Nova Srl. In particular, the dangerous and non-dangerous waste storage plant in San Vito al Tagliamento (near Pordenone) and the active landfills for non-dangerous waste in Loria (near Treviso) e Sommacampagna (near Verona) were taken over. Additionally, as of 28 December 2016, a further branch was acquired, involved in non-dangerous waste disposal at the landfill in the municipality of Cordenons.

- On 23 December 2015 Herambiente acquired 100% of shareholding in Waste Recycling Spa, whose activities concern the treatment and recovery of special waste in the province of Pisa, and that in turn holds shares in Rew Trasporti Srl and Neweco Srl. During the second half of 2016 the two aforementioned controlled companies were fused into Waste Recycling Spa.

- On 29 December 2015 Hera Spa sold 90% of Hera Energie Rinnovabili, later renamed Aloe Spa, to third parties. It therefore no longer falls within the Group's consolidated scope.

- On 30 December 2015 the interest held in Trieste Onoranze e Trasporti Funebri by AcegasApsAmga Spa was sold.

- On 8 April 2016 Hera Comm Srl definitively won the call for tenders announced by the Municipality of Giulianova to acquire 100% of the share capital of Julia Servizi Più Srl, a gas and electricity sales company which operates in the municipality of, and the area surrounding, Teramo.

- As of 1 November 2016 the company Gran Sasso Srl, which is involved in free market electricity and gas sales in the L'Aquila, Pescara and Chieti areas, became part of the Group's consolidated scope.

In order to respect sector regulations concerning unbundling, with effective date 1 July 2016 Hera Spa conferred its corporate branch dealing with electricity and gas distribution on Inrete Distribuzione Energia Spa.

This consolidated income statement reflects the application of accounting principle IFRIC12 "Service concession arrangements". The effect of applying this principle, which leaves the results unchanged, is that investments made in goods granted under concession, only including network services, are acknowledged in the income statement.

The following table shows the economic results for the years ended 31 December 2016 and 2015:

Constant and increasing growth

Income statement (€/mln)	Dec 2016	% Inc.	Dec 2015	% Inc.	Abs. change	%Change
Revenues	4,460.2		4,487.0		-26.8	-0.6%
Other operating revenues	403.4	9.0%	330.8	7.4%	+72.6	+21.9%
Raw materials	(2,176.8)	-48.8%	(2,256.6)	-50.3%	-79.8	-3.5%
Service costs	(1,198.8)	-26.9%	(1,132.1)	-25.2%	+66.7	+5.9%
Other operating costs	(75.0)	-1.7%	(62.3)	-1.4%	+12.7	+20.4%
Personnel costs	(524.1)	-11.7%	(510.8)	-11.4%	+13.3	+2.6%
Capitalised costs	27.8	0.6%	28.5	0.6%	-0.7	-2.5%
EBITDA	**916.6**	**20.6%**	**884.4**	**19.7%**	**+32.2**	**+3.6%**
Amort. & Prov.	(459.6)	-10.3%	(442.2)	-9.9%	+17.4	+3.9%
Operating profit	**457.1**	**10.2%**	**442.2**	**9.9%**	**+14.9**	**+3.4%**
Financial operations	(117.4)	-2.6%	(134.3)	-3.0%	-16.9	-12.6%
Pre-tax profit	**339.6**	**7.6%**	**307.9**	**6.9%**	**+31.7**	**+10.3%**
Taxes	(119.3)	-2.7%	(113.5)	-2.5%	+5.8	+5.1%
Net profit of the year	**220.4**	**4.9%**	**194.4**	**4.3%**	**+26.0**	**+13.4%**
Attributable to:						
Shareholders of the Parent Company	**207.3**	**4.6%**	**180.5**	**4.0%**	**+26.8**	**+14.8%**
Non-controlling interests	13.1	0.3%	13.9	0.3%	-0.8	-5.8%

euro 4.5 billion in revenues

Consolidated revenues amounted to euro 4,460.2 million in 2016, dropping by euro 26.8 million (0.6%) compared to the euro 4,487.0 million recorded in 2016. Various factors are responsible for this contraction: revenues from electricity and gas sales and trading fell by roughly euro 198 million following a decrease in the price of raw materials; regulated gas, electricity and water cycle services saw a drop of roughly euro 31.1 million due to a change in the rate of return on invested capital, partially offset by other positive tariffary effects coming to roughly euro 19 million; and the euro 16 million decrease caused by a reduction in incentives for environmental certificates. This reduction was almost entirely offset by the revenues derived from higher volumes of gas sold, the greater amount of waste disposed of, higher revenues for production activities on the dispatch market and, lastly, changes in the scope of operations.

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

Other operating revenues grew over December 2015 by euro 72.6 million (21.9%). This increase is mainly due to the contribution coming from energy efficiency certificates following the greater obligations assigned to distributors coming to roughly euro 50 million, higher revenues from Ifric12 concessions amounting to roughly euro 9 million, greater contributions for recovery of materials, capital gains from the sale of goods involving the transfer to Unica Reti Spa of the gas networks in the Municipalities of Meldola and Forlimpopoli, including works and plants.

The cost of raw and other materials fell by euro 79.8 million compared to 2015, down 3.5%; as with revenues, this drop was due to lesser trading activities, an overall decrease in the price of raw materials and the different method used in recording energy incentives, as further explained in paragraph 1.02.04.

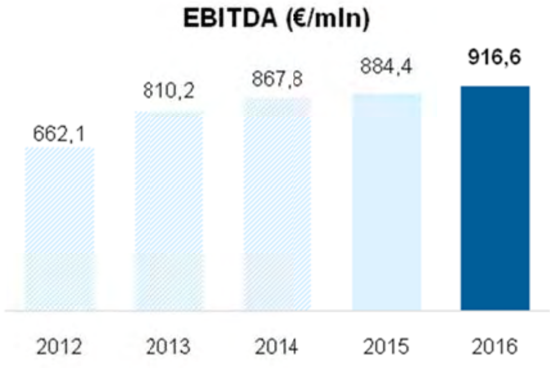
Other operating costs increased by euro 79.4 million overall (euro 66.7 in higher costs for services and euro 12.7 million in higher operating expenses), mainly caused by changes in the scope of operations (euro 29.0 million), higher disposal costs for the increase in volumes treated, and higher Ifric12 costs (euro 11 million). Furthermore, note the higher costs for the implementation of transactional systems in some Group companies, higher costs for sales personnel in commercial companies, aimed at widening the customer base, and higher costs for plant maintenance in network services.

Personnel costs rose by euro 13.3 million (2.6%), going from euro 510.8 million at 31 December 2015 to euro 524.1 million in 2016. This increase is mainly related to the salary raises provided for by the National labour agreement. The entrance of new resources belonging to acquired companies in the waste area was partially offset by a reduction in the average presence of resources.

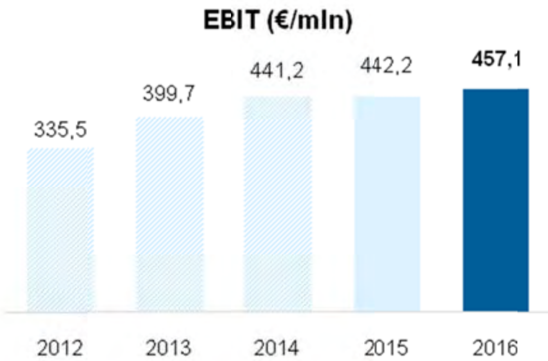
Capitalised costs at 31 December 2016 fell compared to the previous year by euro 0.7 million (2.5%).

EBITDA at euro 916.6 million (+3.6%)

EBITDA settled at euro 916.6 million, recording a growth of euro 32.2 million (3.6%) compared to 2015. This increase in EBITDA is essentially due to the performance of the energy areas, thanks to the greater profit margins derived from power plants and the good performance of the sales and trading business. A positive result also came from the networks area, considering that 2016 felt the effects of lower revenues in gas, electricity and water distribution coming to euro 31.1 million (respectively: 9.8 in gas, 2.9 in electricity and 18.4 in water) following the reduction in return on regulated invested capital and inflation. The waste area was stable, in spite of lower energy incentives coming to roughly euro 16 million.



Amortisation and provisions rose overall by euro 17.4 million (3.9%), going from euro 442.2 million in 2015 to euro 459.6 million in 2016. Amortisation increased mainly due to the change in the scope of operations of Group company Herambiente and of the sales companies Julia Servizi Più Srl and Gran Sasso Srl, while the decrease in amortisation for landfills and WTE plants and the decrease in provisions for third party assents in the gas area due to the duration of the concession in the Forlì-Cesena area more than offset the higher amortisation for new investments. Provisions for bad debts rose, mainly in the AcegasApsAmga Group and in the sales companies.



EBIT at euro 457.1 million (+3.4%)

EBIT at 31 December 2016 reached euro 457.1 million, up euro 14.9 million (3.4%) compared to the euro 442.2 million seen in 2015.

The results of financial management at the end of 2016 came to euro 117.4 million, improving by euro 16.9 million (12.6%) compared to 2015. The good performances are due to lower average debt, efficiency in rates obtained among other things thanks to the effects of the liability management operations set in place during the year, and higher earnings involving recovery of default indemnities from safeguarded customers. 2016 includes roughly euro 13.1 million in devaluation of shares mainly held in the company Galsi Spa, compared to the euro 8.1 million seen in 2015.

In light of the above, pre-tax profits grew by euro 31.7 million, going from euro 307.9 million in 2015 to euro 339.6 million in 2016.

Income taxes went from the euro 113.5 million seen in 2015 to euro 119.3 million in 2016. The tax rate also improved notably, going from 36.9% to 35.1%. The reasons for this improvement include the benefits introduced by the recent Stability Laws: the patent box and tax credits for maxi amortisations and for research and development, in addition to Help for Economic Growth benefits ("beneficio ACE") and the positive effects created by the payment of a substitute tax for exemption from goodwill and by higher values created following non-recurring operations finalised during the year. Note furthermore that the 2015 tax rate suffered from a non-recurring effect caused by adjusting deferred taxes to the new IRES rate of del 24%, effective as of 2017.

Net profits therefore rose by 13.4%, equivalent to euro 26.0 million, going from euro 194.4 million in 2015 to euro 220.4 million in 2016.

Earnings post minorities at euro 207.3 million (+14.8%)

Group net profits reached euro 207.3 million, rising by euro 26.8 million over the amount seen in 2015.

1.01.02 ANALYSIS OF THE GROUP'S FINANCIAL STRUCTURE AND INVESTMENTS

Group's magnitude increases

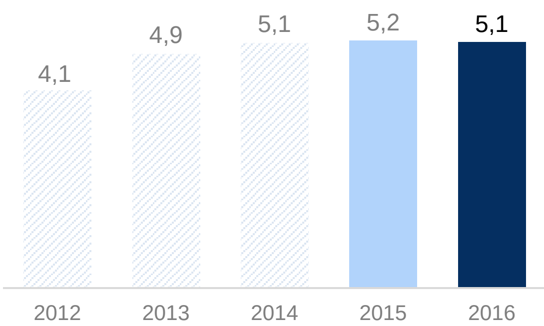
The table below shows changes in the Group's net invested capital and sources of financing for the year ended 30 December 2016.

Invested capital and sources of financing (€/mln)	31 Dec 16	Inc. %	31 Dec 15	% Inc.	Abs. change	% Change
Net non-current assets	5,564.5	108.7%	5,511.3	106.9%	+53.2	+1.0%
Net working capital	99.9	2.0%	157.0	3.0%	(57.1)	(36.4%)
(Provisions)	(543.4)	-10.6%	(513.5)	-10.0%	(29.9)	(5.8%)
Net invested capital	**5,121.0**	100.0%	5,154.8	100.0%	(33.8)	(0.7%)
Equity	(2,562.1)	50.0%	(2,503.1)	48.6%	(59.0)	(2.4%)
Long-term borrowings	(2,757.5)	53.8%	(2,743.6)	53.2%	(13.9)	(0.5%)
Net cash/short term borrowings	198.6	-3.9%	91.9	-1.8%	+106.7	+116.1%
Net financial debt	(2,558.9)	50.0%	(2,651.7)	51.4%	+92.8	+3.5%
Total sources of financing	**(5,121.0)**	-100.0%	(5,154.8)	100.0%	+33.8	+0.7%

Net invested capital settles at euro 5.1 billion

In 2016, net invested capital amounted to euro 5,121.0 million, showing a decrease of 0.7% compared to the euro 5,154.8 million seen in 2015. This drop is due to net working capital reaching euro 99.9 million (-36.4%), which benefitted cash flow by euro 57.1 million.

Net invested capital (euro/bln)

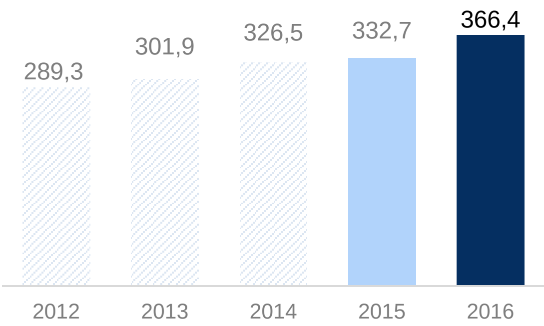


Net investments rise to euro 366.4 million, growing by euro 33.7 million

Group investments came to euro 366.4 million in 2016, with a further euro 20.3 million in capital grants, of which euro 7.3 million for the New investments fund (FoNi), as provided for by the tariff method for the integrated water service.

Including capital grants, the Group's overall investments came to euro 386.7 million. Net investments rose by euro 33.7 million, going from euro 332.7 million in 2015 to euro 366.4 million in 2016.

Total net investments (euro/mln)



The following table shows a subdivision by sector, with separate mention of capital grants:

Strong commitment continues in operating investments in plants and infrastructures

Total investments (€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Gas area	94.8	90.5	+4.3	+4.8%
Electricity area	25.2	24.4	+0.8	+3.3%
Water cycle area	131.8	127.2	+4.6	+3.6%
Waste management area	50.7	35.2	+15.5	+44.0%
Other services area	15.9	15.3	+0.6	+3.9%
Headquarters	67.6	53.3	+14.3	+26.8%
Total operating investments	**386.1**	345.9	+40.2	+11.6%
Total financial investments	0.6	0.5	+0.1	+20.0%
Total gross investments	**386.7**	346.4	+40.3	+11.6%
Capital grants	20.3	13.7	+6.6	+48.2%
of which FoNI (New Investment Fund)	*7.3*	*2.3*	*+5.0*	+217.4%
Total net investments	**366.4**	332.7	+33.7	+10.1%

Operating investments came to euro 386.1 million, growing by 11.6% over the previous year, and mainly concerned interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale substitution of metres, and the depuration and sewerage areas.

At Group headquarters, investments in corporate buildings, IT systems and the vehicle fleet

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 increased by euro 14.3 million compared to the previous year.

Net working capital drops to euro 99.9 million

2016 came to a close with euro 99.9 million in working capital, down 34.6% from the euro 157.0 million at the end of 2015.

This positive result is due to the performance obtained by debt deferments mainly involving raw materials and the good performances of core service credits, which offset the increase in credits from safeguarded electricity customers. The change in the latter refers to credits from customers that cannot be disconnected, which, if payments are not collected, will be reimbursed by the Fund for energy and environment services (Csea), as provided for by resolution 370/12, issued by the Authority. On this matter, note that the total amount of credits towards customers includes euro 146.3 million (against euro 104.9 million at the end of 2015 – see note 29) in credits towards safeguarded customers for whom payment from the Csea has already been received, because the payment has been recorded among other current liabilities.

Provisions come to euro 543.4 million

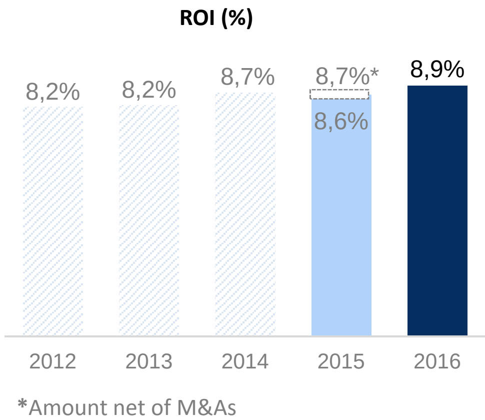
In 2016, provisions amounted to euro 543.4 million, with an increase over the sum recorded at the end of the previous year. This result is mainly due to period provisions, which offset usage expenses and the effects of the adjustment of the TFR fund, calculated according to actuarial criteria. For details on the movements of the provisions, see the explanatory note.

Equity rises to euro 2.6 billion

Equity increased from the euro 2,503.1 million seen in 2015 to euro 2,562.1 million at the end of 2016, benefiting the Group's financial structure. This amount of equity reinforces the Group's solidity, thanks to the good net result of management in 2016, coming to euro 220.4 million, which net of the euro 144.0 million in dividends paid over the course of the year guarantees self-financing amounting to euro 76.4 million.

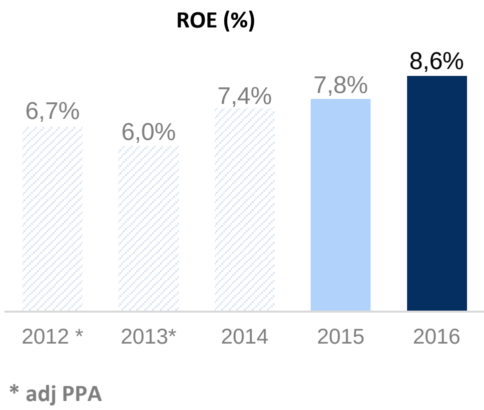
ROI at 8.9%

Return on net invested capital (ROI) settled at 8.9% in 2016. This result, an increase over the 8.6% seen in 2015, is due to the better operating result recorded in 2016 compared to net invested capital, which on the contrary recorded a slight drop as a consequence of an improvement in net working capital.



ROE at 8.6%

Return on equity (ROE) went from 7.8% in 2015 to 8.6% in 2016. This positive result is due to the good outcome of management in 2016.



RECONCILIATION BETWEEN SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation between separate and consolidated financial statements

	Net profit	Equity
Balances as per Parent's Company's separate financial statements	144.7	2,260.9
Excess of equity over the carrying amounts of Investments in consolidated companies	62.6	54.3
Consolidation adjustments :		
- Measurement with the equity method of investments reported at cost in the separate financial statements	4.2	45.8
- Difference between purchase price and book value of corresponding portion of equity	(4.5)	80.6
- Elimination of intercompany transactions	0.3	(23.7)
Total	**207.3**	**2,417.9**
Non-controlling interests	13.1	144.2
Balances as per consolidated financial statements	**220.4**	**2,562.1**

1.01.03 ANALYSIS OF NET CASH (NET DEBT)

A solid financial position

An analysis of net borrowings is provided in the following table:

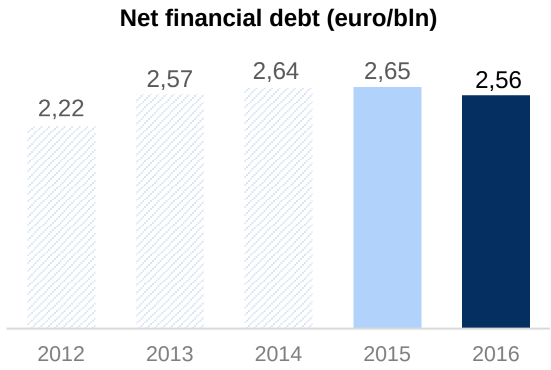
€/mln		31 Dec 16	31 Dec 15
a	**Cash and cash equivalents**	**351.5**	**541.6**
b	**Other current financial receivables**	**29.4**	**34.6**
	Current bank debt	(72.1)	(129.2)
	Current bank debt	(71.7)	(284.9)
	Other current financial liabilities	(36.2)	(68.2)
	Finance lease payments maturing within 12 months	(2.3)	(2.0)
c	**Current financial debt**	**(182.3)**	**(484.3)**
d=a+b+c	**Net current financial debt**	**198.6**	**91.9**
	Non-current bank debt and bonds issued	(2,847.8)	(2,845.4)
	Other non-current financial liabilities	(5.0)	(5.8)
	Finance lease payments maturing after 12 months	(14.9)	(17.6)
e	**Non-current financial debt**	**(2,867.7)**	**(2,868.8)**
f=d+e	**Net debt - Consob communication n° 15519/2006**	**(2,669.1)**	**(2,776.9)**
g	**Non-current financial receivables**	**110.2**	**125.2**
h=f+g	**Net financial debt**	**(2,558.9)**	**(2,651.7)**

The overall amount of net financial debt, euro 2,558.9 million, improved by roughly euro 92,8 million compared to the previous year. The Group's financial structure at 31 December 2016 shows current borrowings totalling euro 182.3 million, of which roughly euro 71.7 million in bank loans reaching maturity in 2017 and roughly euro 72.1 million in current bank debt. The latter consists in use of current credit lines for euro 20.9 and accrued interest on loans for euro 51.2 million. The amount of current financial debt decreased compared to 31 December 2015, above all due to the reimbursement of a euro 195.4 million bond in February 2016 and a lesser use of current credit lines. The amount concerning non-current bank debt and bonds issued is essentially the same as the previous year, in spite of the new issuance, in October 2016, of a bond with a notional value of euro 400 million, used to partially refinance bonds maturing in 2019 and 2021. At 31 December 2016, medium-long term debt is largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (79% of the total), with repayment at maturity.

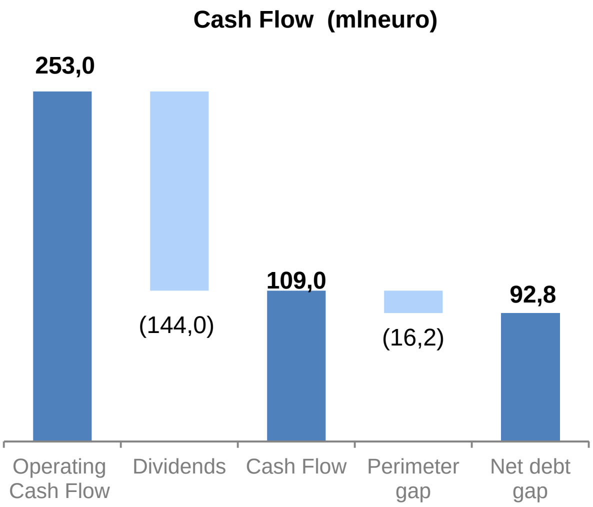
As a whole, borrowings show an average term to maturity of over eight years, with 73% maturing after more than 5 years.

Net financial debt settles at euro 2.56 billion

Net financial debt went from euro 2,651.7 million in 2015 to euro 2,558.9 in 2016. This result is mainly due to the positive operating cash flow that more than financed dividend payments.

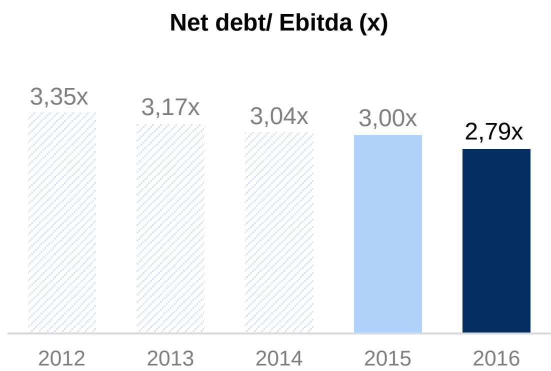


The Group's management generated an operating cash flow higher than the previous year, thanks to both a better result for the period and a good performance of net working capital, which made a greater amount of self-financing available to the Group.
Cash flow thus allowed dividend payments, amounting to euro 144.0 million, to be entirely covered.
Cash flow after dividend payment was positive by euro 109.0 million, and by euro 92.8 million after a few acquisitions made in 2016 (Julia Servizi Più Srl, Gran Sasso Srl).



Net debt / EBITDA: 2.8

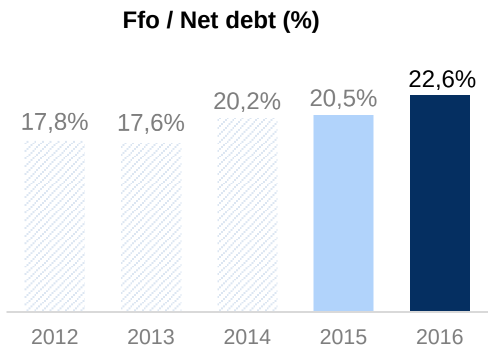
The net debt/EBITDA ratio fell to 2.8, benefitting from both operating results that grew over the previous year and a reduced net debt.



These results confirm the financial solidity of the Group, which holds a BAA1 rating with negative outlook from Moody's and a BBB rating with stable outlook from Standard & Poor's.

Funds from operations (FFO)/Net debt: 22.6%

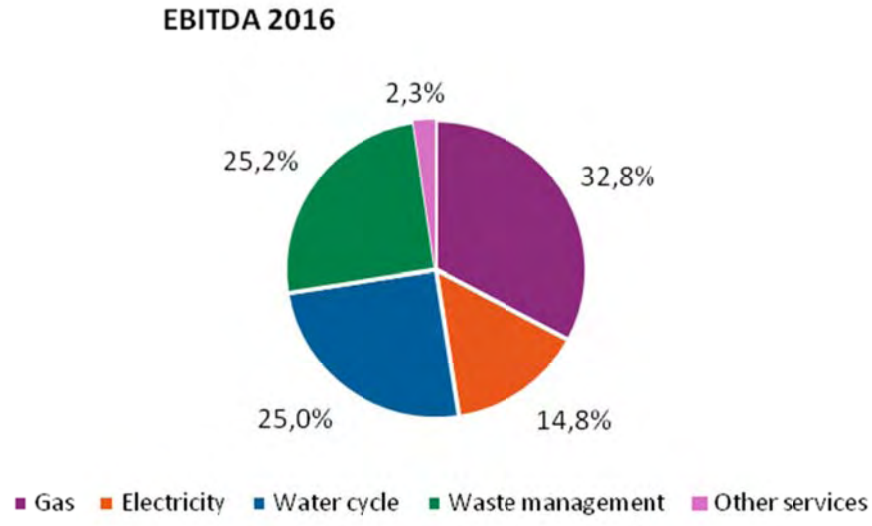
The Funds from operations (FFO)/Net debt ratio grew over the results seen in 2015. This measure as well, like the previously discussed Net debt/EBITDA ratio, benefited from an improved net debt and an increase in operating cash flow, confirming the Group's rising financial stability thanks to a positive generation of operating cash flow, which guarantees its ability to meet its financial obligations.



1.02 ANALYSIS BY BUSINESS AREA

An analysis of the results achieved by management in the various business areas in which the Group operates 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 production, 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, recovery and disposal; the other services area, which covers services in public lighting and telecommunications, as well as other minor services. The Hera Group has recently revised the arrangement of its multi-business portfolio in order to improve and simplify financial reporting on its industrial structures: the industrial cogeneration business has been transferred from the electricity area to the gas area, bringing it together with heat management, which furthermore respects the Group's organizational outlook. The respective 2015 data has been reclassified so as to reflect these changes.

Contribution coming from the Group's various areas towards overall EBITDA shows a balanced mix, in line with its multi-business strategy



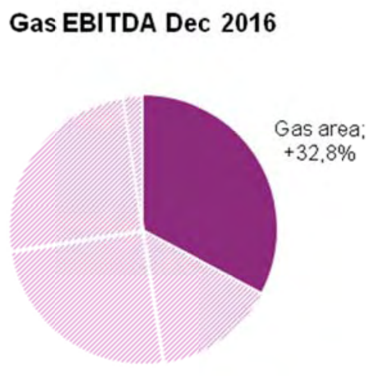
The Group's income statements include corporate headquarter costs and reflect intercompany transactions accounted for at arm's length.

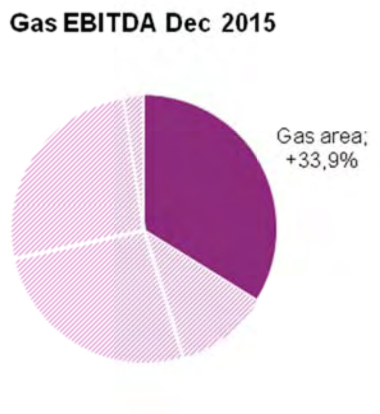
The following analyses of the single business areas take into account all increased revenues and costs, having no impact on EBITDA, related to the application of IFRIC 12, as shown in the Group's consolidated income statement. The business areas affected by IFRIC 12 are: natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

1.02.01 GAS

Gas: slight growth in margins

At 31 December 2016 the gas area showed growth over 2015 as regards both EBITDA and volumes sold. These results must be considered within a regulatory context that defined 2016 as the third year of the fourth regulatory period (2014-2019) of the tariff system for gas distribution and metering, regulated by resolutions 367/2014/R/Gas and 775/2016/R/Gas. Furthermore, 2016 was the first year in which resolution 583/2015/R/com of 2 December 2015 took effect, modifying the methods used in calculating the rate of return on invested capital for infrastructure services in the gas sector, with the aim of introducing greater stability into the regulatory framework. As of the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.





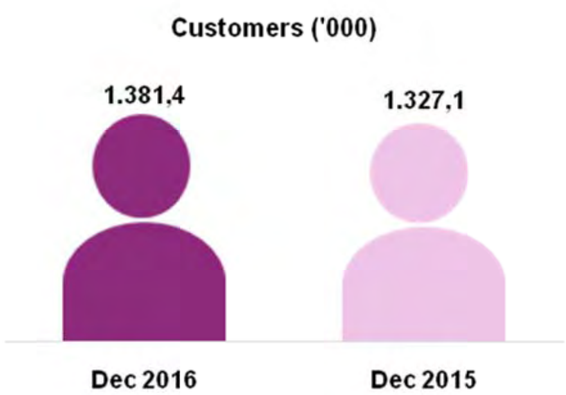
The following table shows the changes occurred in terms of EBITDA:

Gas area EBITDA grows slightly, by 0.4%

(€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Area EBITDA	**300.6**	**299.5**	**+1.1**	**+0.4%**
Group EBITDA	**916.6**	884.4	+32.2	+3.6%
Percentage weight	32.8%	33.9%	-1.1 p.p.	

1.4 million gas customers

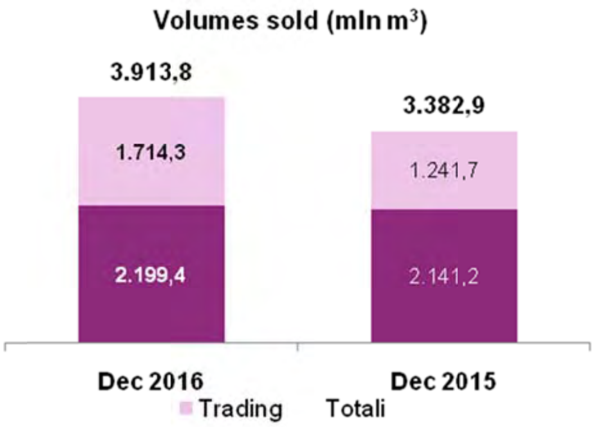
Total gas customers rose by 4.1.% over 2015, owing to both the commercial and customer loyalty initiatives set in place in order to contrast competition, and a wider customer base, in central Italy in particular with the acquisition of Julia Servizi Più (later merged into Hera Comm Marche Srl), which occurred in June 2016 and



contributed with roughly 13 thousand customers, and of Gran Sasso Srl, which contributed with roughly 16 thousand customers.

15.7% increase in volumes sold

Volumes of gas sold rose by 530.9 million m^3, or 15.7%, going from 3,382.9 million m^3 in 2015 to 3,913.8 in 2016. This change is mainly due to an increase in trading volumes, coming to 472.6 million m^3 (12.1% of total volumes). Volumes sold to final customers showed a 1.7% growth compared to 2015, thanks to the increase in the customer base and the contribution coming from Gran Sasso Srl, with 10.7 million m^3, and from Julia Servizi Più Srl, with roughly 15.1 million m^3. Also note that being awarded a higher portion of the tender for default gas services led to an increase in volumes served over the last months of the year.



The following table summarises operating results for the gas area:

Gas: overall EBITDA rises

Income statement (€/mln) (mln/€)	Dec 2016	% Inc.	Dec 2015	% Inc.	Abs.Change	% Change
Revenues	1.655,3		1.633,5		+21,8	+1,3%
Operating costs	(1.241,9)	-75,0%	(1.216,0)	-74,4%	+25,9	+2,1%
Personnel costs	(122,2)	-7,4%	(129,2)	-7,9%	-7,0	-5,4%
Capitalised costs	9,3	0,6%	11,1	0,7%	-1,8	-16,2%
EBITDA	300,6	18,2%	299,5	18,3%	+1,1	+0,4%

Note that pro forma data has been prepared for 2015 in order to account for the reclassification of the industrial cogeneration business from the electricity area to the gas area, as further described in section 1.02. The effect on the 2015 data of this reclassification amounts to euro 3.7 million in EBITDA, consisting of euro 14.8 million in revenues, euro 10.5 million in operating costs and euro 0.7 million in personnel costs.

Gas revenues at euro 1,655.3 million

Revenues went from euro 1,633.5 million in 2015 to euro 1,655.3 million at 31 December 2016, growing by euro 21.8 million (1.3%). The main reasons for this include: an increase in volumes of natural gas sold coming to roughly euro 65.1 million, higher revenues for energy savings certificates ensuing from both an increase in price and the greater obligations assigned to distributors and coming to roughly euro 46.5 million, higher revenues tied to the application of accounting principle Ifric12 amounting to roughly euro 4.4 million, higher

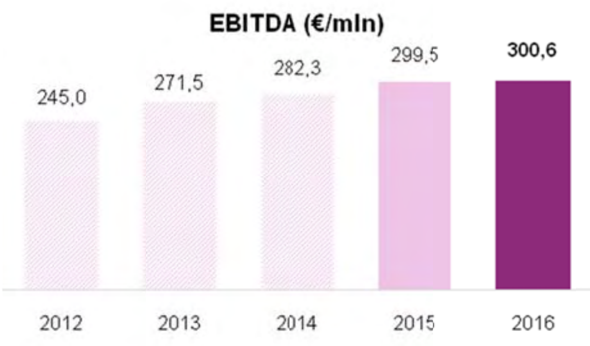
The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

revenues in district heating and heat management services for a total of euro 4 million, an expanded scope of operations following the acquisition of Gran Sasso Srl which contributed with roughly euro 8.1 million and, lastly, euro 4.1 million for capital gains for the sales of goods involving the transfer to Unica Reti Spa of gas networks in the Municipalities of Meldola and Forlimpopoli, covering both works and plants. These positive effects were partially offset by a fall in the price of raw materials, which had a euro 108.0 impact on sales and trading, and lower regulated revenues due to the reduction in the rate of return, amounting to euro 9.8 million.

The increase in revenues had a proportional effect on operating costs, which grew from euro 1,216.0 million in 2015 to euro 1,241.9 million in 2016, thus showing an overall increase of euro 25.9 million over 2015.

Gas EBITDA: euro 300.6 million

EBITDA rose by euro 1.1 million (0.4%), going from euro 299.5 million in 2015 to euro 300.6 million at the end of 2016, thanks to both higher volumes of gas sold and the contribution coming from district heating, which offset lower margins in trading and lower revenues in regulated services, on which the reduced rate of return had a euro 9.8 million impact.



The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

Net investments in the gas area grow to euro 94.8 million

In 2016, investments in the gas area came to euro 94.8 million, recording a euro 5.2 million increase over 2015. In gas distribution, a euro 3.1 million increase was seen, mainly derived from activities in regulatory upgrading as per resolution 554/15 (ex-resolution 631/13) for a large-scale meter substitution, which also involved lower-class devices (G4-G6). Non-routine maintenance on networks and plants also rose, as did interventions for cathodic protection of gas lines in the areas surrounding Padua and Trieste, while requests for new connections recorded a slight drop compared to the previous year. Investments also increased in district heating, mainly for the revamping of the Barca cogeneration plant in Bologna. New connections for district heating were essentially in line with the amount seen in the previous year.

The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

Investments grow

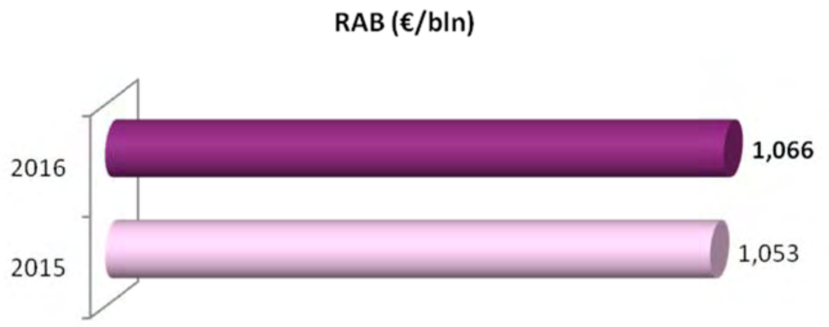
Details of operating investments in the Gas area are as follows:

Gas (€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Networks and plants	71.0	67.9	+3.1	+4.6%
DH/Heat management	23.8	22.6	+1.2	+5.3%
Total Gas Gross	**94.8**	90.5	+4.3	+4.8%
Capital grants	0.0	0.9	-0.9	-100.0%
Total Gas Net	**94.8**	89.6	+5.2	+5.8%

The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

2016 RAB: euro 1.066 billion

The Regulatory Asset Base (RAB), which defines the value of assets recognised by the Authority for return on invested capital, increased over 2015.



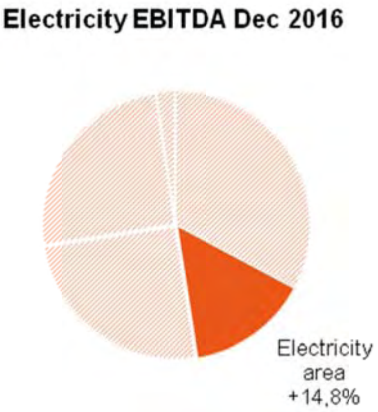
For further details on this point, see paragraph 1.06.01, Regulatory framework and regulated revenues.

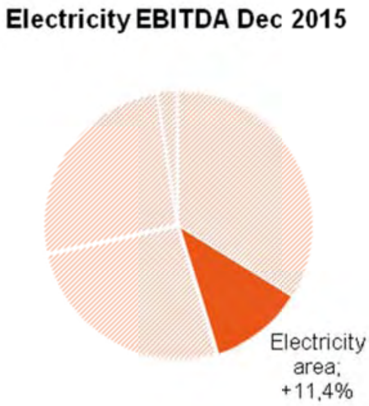
1.02.02 ELECTRICITY

Electricity: an increase in EBITDA

In 2016, EBITDA pertaining to the electricity area grew substantially both in absolute terms and as a contribution to overall Group EBITDA.
Sales and trading activities widened the customer base and grasped the opportunities created in Italy's system as an effect of the crisis in French nuclear plants, and production activities recorded positive performances on the dispatching market.
Furthermore, 2016 was also the first year of the fifth regulatory period (resolution 654/2015/R/eel) for distribution, transmission and metering activities, and the first year in which resolution 583/2015/R/com of 2 December 2015 was implemented, which modified the method used in calculating the rate of return on invested capital for infrastructure services in the electricity business.
As of the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.

Contribution to EBITDA: +3.4%





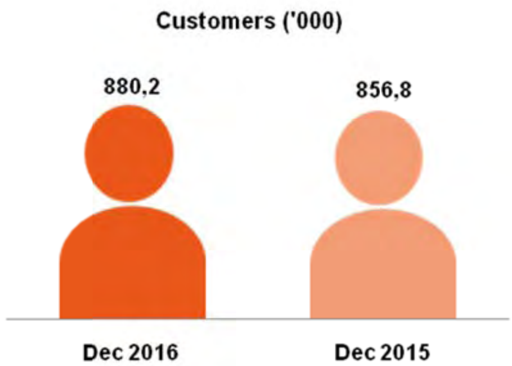
The following table shows the changes occurred in terms of EBITDA:

Electricity area EBITDA rises by 34.0%

(€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Area EBITDA	**135.3**	**101.0**	**+34.3**	**+34.0%**
Group EBITDA	**916.6**	884.4	+32.2	+3.6%
Percentage weight	14.8%	11.4%	+3.4 p.p.	

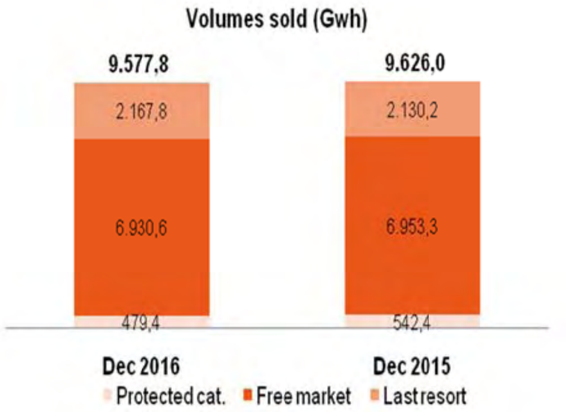
880,200 electricity customers

The number of electricity customers saw a 2.7% increase (23.4 thousand), mainly due to growth in the free market, which came to 10.7%, confirming the trend of growth seen in recent years owing to a reinforcement of commercial activities implemented, and to the wider customer base established in 2016 with the acquisition of Gran Sasso Srl, which contributed with roughly 3.7 thousand customers.



Volumes sold fell slightly, by 0.5%

Volumes of electricity sold went from 9,626.0 GWh in December 2015 to 9,577.8 GWh in 2016, showing a slight decrease. The Hera Group limited this drop to 0.5% thanks to the good performance of commercial policies implemented in 2016.



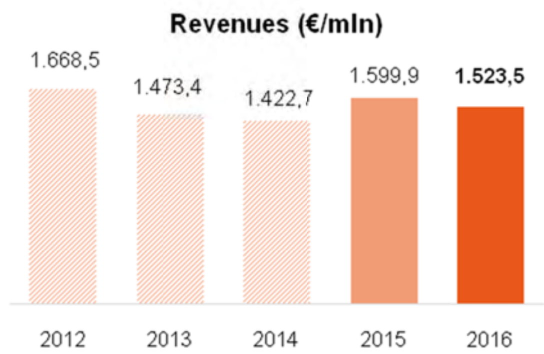
Electricity: EBITDA rises by 34.0%

The following table summarises operating results for the area:

Income statement (€/mln)	Dec 2016	% Inc.	Dec 2015	% Inc.	Abs. change	% Change
Revenues	**1,523.5**		1,599.9		-76.4	-4.8%
Operating costs	**(1,349.1)**	-88.6%	(1,461.0)	-91.3%	-111.9	-7.7%
Personnel costs	**(46.0)**	-3.0%	(46.0)	-2.9%	+0.0	+0.0%
Capitalised costs	**6.9**	0.5%	8.0	0.5%	-1.1	-13.7%
EBITDA	**135.3**	8.9%	101.0	6.3%	+34.3	+34.0%

Note that pro forma data has been prepared for 2015 in order to account for the reclassification of the industrial cogeneration business from the electricity area to the gas area, as further described in section 1.02. The effect on the 2015 data of this reclassification amounts to euro 3.7 million in EBITDA, consisting of euro 14.8 million in revenues, euro 10.5 million in operating costs and euro 0.7 million in personnel costs.

euro 1,523.5 million in revenues in the electricity area



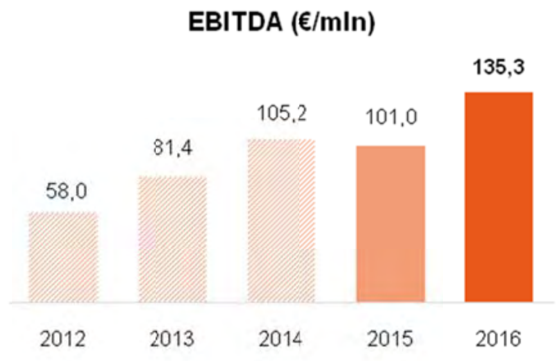
The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

Revenues fell by 4.8%, going from euro 1,599.9 million in December 2015 to euro 1,525.3 million in 2016, thus showing a drop in absolute terms of euro 76.4 million. The main reason for this decrease lies in the fall of the price of energy (Pun, Nationwide price), which dropped on average by 18.2% compared to the previous year, leading to lower sales revenues coming to euro 32 million and lower trading revenues coming to euro 63 million. This effect was partially contained by higher revenues for energy efficiency certificates attained mainly due to the price increase, coming to roughly euro 5.0 million, higher revenues from electricity production in thermoelectric plants, coming to roughly euro 12 million, a greater level of production nationwide to make up for lower imports from France, and higher regulated revenues for the distribution service, coming to euro 3.3 million, in spite of the reduction in the rate of return whose influence came to roughly euro 2.9 million.

Operating costs fell by euro 111.9 million (7.7%); this figure is proportionally higher than the decrease in revenues for the lower cost of raw materials.

Electricity area EBITDA at euro 135.3 million

At the end of 2016, EBITDA increased by euro 34.3 million (34%), going from euro 101.0 million in 2015 to euro 135.3 million in 2016, thanks to higher margins on sales activities and the higher margins in electricity production, on account of a positive trend in dispatching services and higher regulated revenues in distribution, only partially reduced by the drop in the rate of return, for a total of euro 2.9 million.

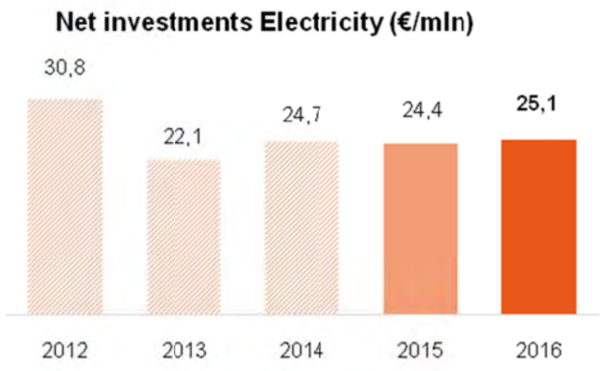


The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

Net investments in the electricity area reach euro 25.1 million

2016 investments in the electricity area amounted to euro 25.1 million, showing an increase of euro 0.7 million compared to the euro 24.4 million seen in the previous year.

The main interventions concerned non-routine maintenance of plants and grids in the areas surrounding Modena, Imola, Trieste and Gorizia.



The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

Compared to the previous year, higher investments were seen, mainly for non-routine maintenance involving the Cogen plant in Imola.

Requests for new connections in this area showed a slight increase with respect to the previous year.

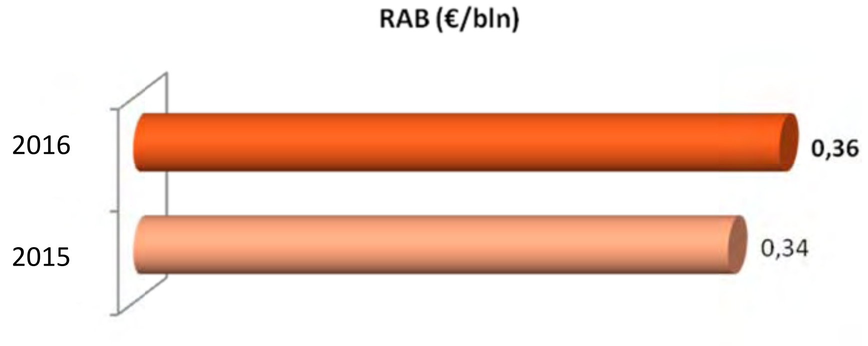
The details of operating investments in the electricity area are as follows:

Eletricity (€/mln)	**Dec 2016**	Dec 2015	Abs. change	% Change
Networks and plants	25.2	24.4	+0.8	+3.3%
Totale Energia Elettrica Lordi	**25.2**	24.4	+0.8	+3.3%
Capital grants	0.0	0.0	+0.0	+0.0%
Total Electricity Net	**25.1**	24.4	+0.7	+2.9%

The 2012 to 2015 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

2016 RAB: euro 0.36 billion

The Regulatory Asset Base (RAB), which defines the value of assets recognised by the Authority for return on invested capital, increased over 2015.



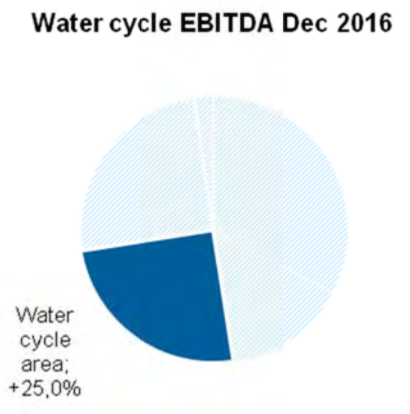
For further details on this point, see paragraph 1.06.01, Regulatory framework and regulated revenues.

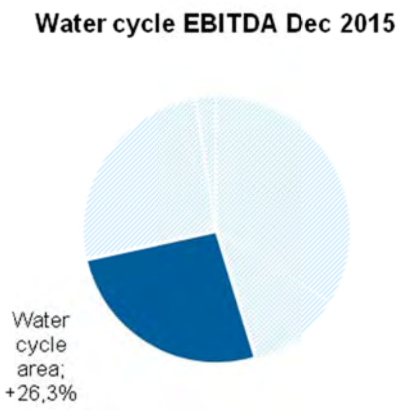
1.02.03 INTEGRATED WATER CYCLE

Integrated water cycle: slight decrease due to lower tariff revenues

In 2016, the integrated water cycle recorded a slight drop compared to 2015, both as a contribution to Group EBITDA and as the absolute value of this single business area. This result is particularly positive considering that 2016 is the first year in which the tariff method defined by the Authority for 2016-2019 (resolution 664/2015) was applied, whose effect mainly lies in a reduction in inflation and in the rate of return on invested capital, which impacted Group EBITDA by euro 18.4 million. As of the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.

Contribution to EBITDA: -1.3%





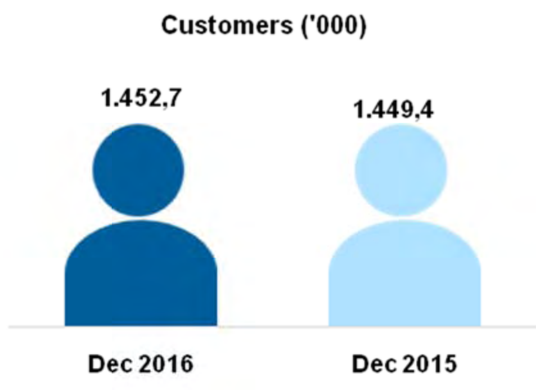
The following table shows the changes occurred in terms of EBITDA:

Water cycle EBITDA falls by 1.6%

(€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Area EBITDA	**228.8**	232.5	(3.7)	(1.6%)
Group EBITDA	**916.6**	884.4	+32.2	+3.6%
Percentage weight	25.0%	26.3%	-1.3 p.p.	

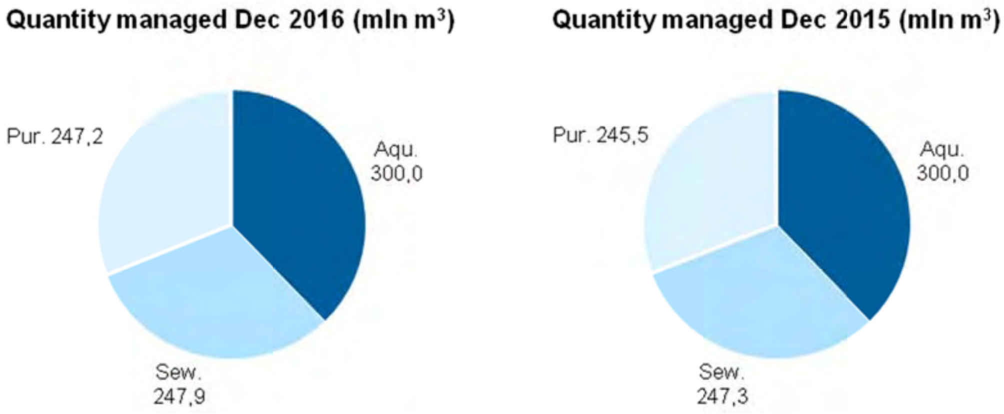
1.5 million customers in the water cycle

The number of water customers settled at 1.5 million, increasing by 3.3 thousand (0.2%) compared to 2015, confirming the trend of internal growth seen across the areas served by the Group. The Emilia Romagna region managed by Hera Spa is responsible for the majority of this growth, thanks to a recovery in the number of new connections.



The main quantitative indicators of the area are as follows:

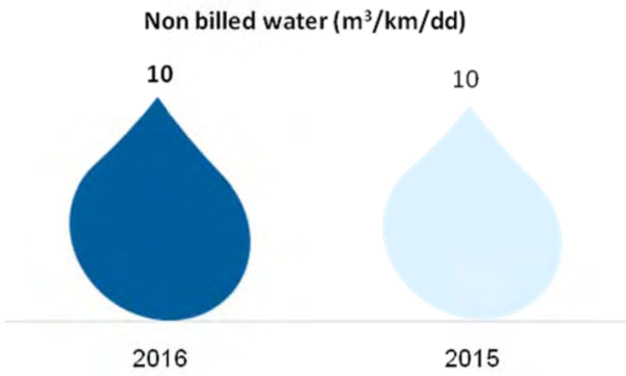
300 million m³ of water managed in the aqueduct



Volumes dispensed through the aqueduct were essentially in line with 2015: a small increase was seen in the amount managed in sewerage (coming to roughly 0.2%) and purification (roughly 0.7%) compared to the quantities of the previous year. Volumes dispensed, following AEEGSI resolution 664/2015, are an indicator of the Group's activities in the geographical areas it serves, and are subject to equalisation pursuant to regulations that call for a regulated revenue to be recognised independently of volumes distributed.

Non-revenue water stable

Non-billed water, which represents the effectiveness and efficiency of the distribution system, is in line with 2015.



The 2016 data is provisional, pending definitive meter readings

The table below synthesises the income statement for the water area:

Integrated water cycle: decrease in EBITDA

Income statement (€/mln)	Dec 2016	% Inc.	Dec 2015	% Inc.	Abs. change	% Change
Revenues	**807.7**	**-**	796.2	-	+11.5	+1.4%
Operating costs	**(420.6)**	-52.1%	(415.5)	-52.2%	+5.1	+1.2%
Personnel costs	**(161.9)**	-20.0%	(151.2)	-19.0%	+10.7	+7.1%
Capitalised costs	**3.6**	0.4%	3.0	0.4%	+0.6	+19.8%
EBITDA	**228.8**	28.3%	232.5	29.2%	(3.7)	(1.6%)

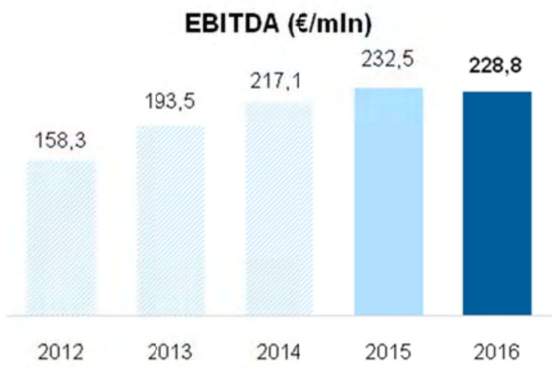
Revenues from the integrated water cycle area at euro 807.7 million

Revenues showed an increase of 1.4%, going from euro 796.2 million at 31 December 2015 to euro 807.7 million in 2016. This euro 11.5 million growth is particularly significant considering that distribution revenues dropped by euro 8.6 million, as an overall effect embracing the reduction in the rate of return for euro 18.4 million, higher revenues covering the underlying cost of amortisation mentioned above, and the redefinition of the restriction on revenues provided for by the Authority for the second regulatory period 2016-2019 (Mti-2). A positive impact came from euro 4.7 million higher revenues for subcontracted works, euro 1.1 million in higher revenues for connections and greater contributions above all in the North-East amounting to roughly euro 3.0 million. Lastly, note the increase in revenues due to the application of accounting principle Ifric12, amounting to euro 5.2 million.

Operating costs rose by euro 5.1 million (1.2%), owing to higher costs for the application of accounting principle Ifric12 coming to euro 5.2 million and a higher amount of subcontracted works. Keeping the operational cost fixed, the Group continually searches for efficiencies and skills in implementation, maintaining constantly increasing quality standards.

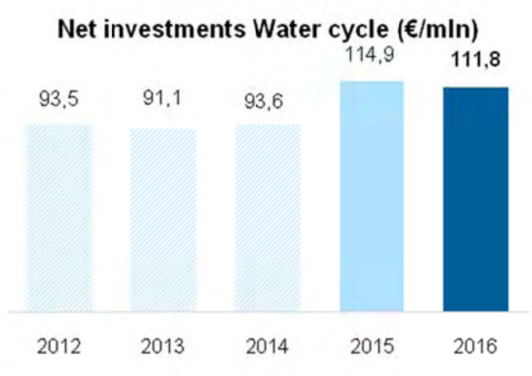
EBITDA at euro 228.8 million

EBITDA showed a slight drop, falling by euro 3.7 million (-1.6%), going from euro 232.5 million in 2015 to euro 228.8 million in 2016. This was due to lower dispensing revenues coming to euro 8.6 million, mainly due to the reduction in the rate of return. This drop was partially offset by subcontracting and higher revenues from new connections.



Net investments in the integrated water cycle area: euro 111.8 million

Net investments in the integrated water cycle area amounted to euro 111.8 million, falling compared to the previous year but only as an effect of the higher amount of capital grants received (+7.8 million). Including this contribution, investments rose by euro 4.6 million over the euro 127.2 million seen in 2015, coming to euro 131.8 million.



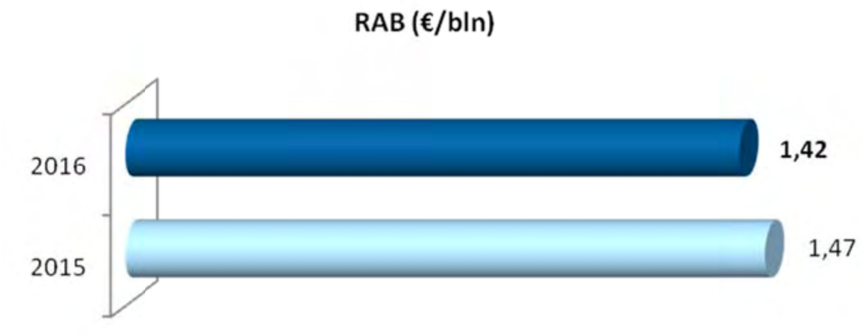
The interventions mainly concerned extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.
Investments totalled euro 61.5 in the aqueduct, euro 37.6 million in sewerage and euro 32.7 million in purification.
Among the more significant works, note in particular: in the aqueduct, upgrading lines in the historical centre of Bologna, carried out at the same time as the creation of the transportation line Crealis, and an upgrading of interconnections in the Modena water system; in sewerage, continued progress in works for the Rimini Seawater Protection Plan, including the first phase of the Ausa basin with the underground beach section and the creation of the southern ridge with the Hospital lamination basin, in addition to redevelopment of the sewerage network in other areas; in purification, the creation of the head tank of the Riccione purification plant, upgrading on the Cattolica purifier, revamping of the oxygen production facility in the Idar purification plant in Bologna and, in the areas served by AcegasApsAmga, continued works in upgrading the large purification plants in Servola, Cà Nordio and Abano Terme.
Requests for new water and sewerage connections rose over the previous year, remaining rather low nonetheless due to the situation in the construction sector.
Capital grants amounting to euro 20.0 million included euro 7.3 million pertaining to the tariff component provided for by tariff method for the New Investments Fund (FoNI).

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

Significant operating investments on aqueducts, sewerage and purification

Water Cycle Business (€/mln)	**Dec 2016**	Dec 2015	Abs. change	% Change
Aqueduct	61.5	59.1	+2.4	+4.1%
Purification	32.7	33.8	-1.1	-3.3%
Sewage	37.6	34.3	+3.3	+9.6%
Total Water Cycle Gross	**131.8**	127.2	+4.6	+3.6%
Capital grants	20.0	12.2	+7.8	+63.9%
of which FoNI (New Investment Fund)	*7.3*	*2.3*	+5.0	+217.4%
Total Water Cycle Net	**111.8**	114.9	-3.1	-2.7%

The Regulatory Asset Base (RAB), which defines the value of assets recognised by the Authority for return on invested capital, dropped slightly compared to 2015, mainly owing to the decrease in net operating capital, for the higher funds that lower the RAB and for the effects of the new 2016-2019 regulatory framework (Mti-2).



1.02.04 WASTE MANAGEMENT

At 31 December 2016 the waste management area's contribution to Group EBITDA came to 25.2%, presenting slight growth in its own EBITDA compared to 2015.

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

Waste area: slight growth in EBITDA

(€/mln)	Dec 2016	Dec 2015	Abs. change	% Change
Area EBITDA	**230.7**	**230.0**	**+0.7**	**+0.3%**
Group EBITDA	**916.6**	884.4	+32.2	+3.6%
Percentage weight	25.2%	26.0%	-0.8 p.p.	

Volumes marketed and treated by the Group in 2016 are as follows:

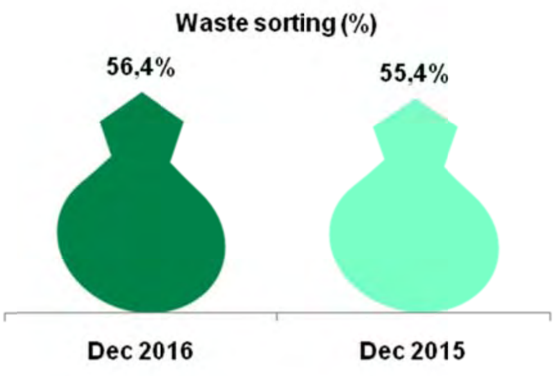
Quantitative data (thousand of tonnes)	Dec 2016	Dec 2015	Abs. change	% Change
Urban waste	2,047.7	2,040.7	+7.0	+0.3%
Commercial waste	2,340.6	2,002.1	+338.5	+16.9%
Waste marketed	**4,388.3**	**4,042.8**	**+345.5**	**+8.5%**
Plant by-products	2,479.3	2,182.9	+296.4	+13.6%
Waste treated by type	**6,867.6**	**6,225.7**	**+641.9**	**+10.3%**

Commercial waste: +16.9%

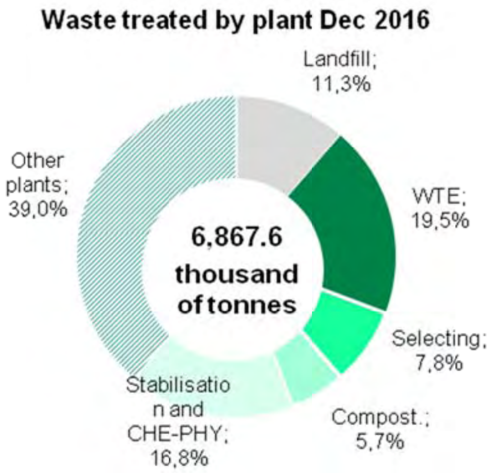
An analysis of the volumes treated shows an 8.5% increase in waste marketed, thanks to a rise in commercial waste coming to 16.9%. This growth is accounted for above all by the late-2015 acquisitions of Waste Recycling and the Geo Nova Srl plants, which gave significant impetus to industrial waste management. Urban waste increased compared to 2015, thanks to an increase in sorted waste which offset the 10.8 thousand tonne fall in strand waste and the reduction in non-sorted waste. The rise in by-products is mainly due to the corporate acquisitions mentioned above.

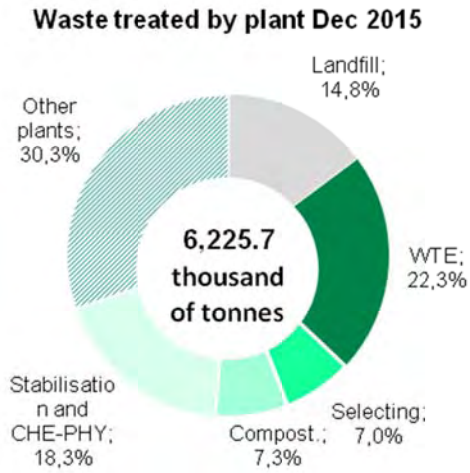
+1.0% in sorted waste

Sorted urban waste recorded further progress, passing from 55.4% to 56.4%. In 2016, sorted waste grew in the areas managed by Hera Spa by 0.8%, in those managed by Marche Multiservizi Spa by 2.3%, and in the Triveneto area growth reached 2.5%.



Sharp decrease in the use of landfills





Quantitative data (thousand of tonnes)	**Dec 2016**	Dec 2015	Abs. change	% Change
Landfill	777.7	918.5	-140.8	-15.3%
Waste-to-energy plants	1,336.3	1,390.3	-54.0	-3.9%
Selecting plant and other	535.5	432.7	+102.8	+23.8%
Composting and stabilisation plants	388.2	455.3	-67.1	-14.7%
Stabilisation and chemical-physical plants	1,154.2	1,141.6	+12.6	+1.1%
Other plants	2,675.8	1,887.2	+788.6	+41.8%
Waste treated by plant	**6,867.6**	**6,225.7**	**+641.9**	**+10.3%**

The Hera Group operates in the entire waste cycle, with 82 urban and special waste treatment and disposal plants, the most important of which are: 10 waste to energy plants, 11 composters/digesters and 9 selecting plants. Note that in late 2015 the companies Biogas 2015 Srl and Waste Recycling Spa were acquired, as was the corporate branch containing a few Geo Nova Srl plants.

Waste treatment increased by 10.3% over 2015. This trend is mainly explained by the higher volumes managed in the "other plants" section, owing to the changes in scope of operations mentioned above, and an increase in intermediation, which mitigated the fall in landfill usage that had already been seen in 2015.

The table below summarises the income statement for the waste management area:

Waste: slight increase in EBITDA

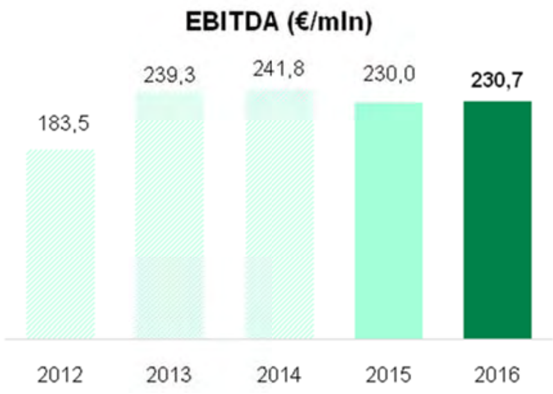
Income statement (€/mln)	Dec 2016	% Inc.	Dec 2015	% Inc.	Abs. change	% Change
Revenues	**967.3**		894.3		+73.0	+8.2%
Operating costs	**(568.4)**	-58.8%	(502.8)	-56.2%	+65.6	+13.0%
Personnel costs	**(174.4)**	-18.0%	(166.0)	-18.6%	+8.4	+5.1%
Capitalised costs	**6.3**	0.7%	4.5	0.5%	+1.8	+40.3%
EBITDA	**230.7**	23.9%	230.0	25.7%	+0.7	+0.3%

Waste revenues come to euro 967.3

Revenues rose in 2016 by 8.2% or euro 73.0 million, going from euro 894.3 million at the end of 2015 to euro 967.3 million in 2016. The reasons behind this growth include an increase in volumes treated, a different method used in recording energy incentives that as of 2016 are recognised as incentives under the form of revenues instead of a reduction of the cost for green certificates, and the higher revenues from urban hygiene covering the greater services requested. These positive effects were partially offset by lower revenues from electricity production following the decrease in the Cip6/Cec unit price and the reduction in the recognition of green certificates in some plants. Lastly, the changes seen in the price of waste confirm the positive trend in the price of special waste in all commercial assortments.

Operating costs rose by euro 65.6 million in 2016, in line with the higher amount of waste treated and the effect of the different accounting method used for green certificates, as described above.

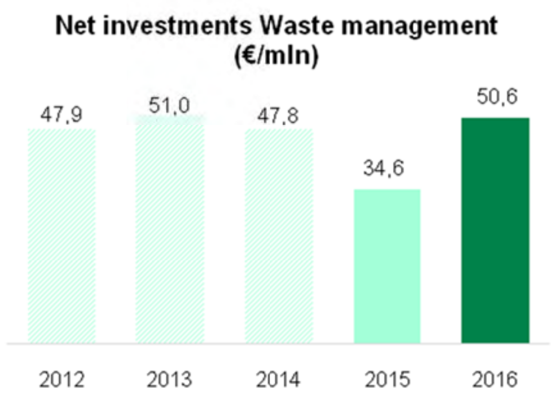
Waste EBITDA at euro 230.7 million



EBITDA went from euro 230.0 million in 2015 to euro 230.7 million in 2016, thus showing a growth in absolute terms of euro 0.7 million, or 0.3%. This growth must be considered particularly positive, recalling the strong drop in revenues in energy management, amounting to roughly euro 16 million, due to the lower prices of electricity produced and energy certificates. The good performances in the urban hygiene business and in recovered materials sales should also be underlined, along with the rise in volumes marketed, as mentioned above.

Net investments in the waste management area amounting to euro 50.6 million

Net investments in the waste management area involved plant maintenance and upgrading and amounted to euro 50.6 million, up euro 15.5 million over 2015. The figures seen in the composting / digester subsector were in line with the previous year: interventions were carried out in the Ozzano and Cesena composters, and work was done on the Sant'Agata biomethane project.



The increase in investments for landfills, coming to euro 10.8 million, can primarily be traced to the creation of the 9th sector of the Ravenna landfill, the beginning of works on the 5th sector of the Sommacampagna landfill and the 4th sector of Loria. Also note the interventions on the Tre Monti landfill, involving the installation of a new motor and a biogas intake network, as well as works on landslide repair and road access. The WTE subsector showed a slight increase over the previous year, for interventions on the Modena, Ferrara and Pozzilli plants, while in the special waste plant subsector the increases mainly concerned maintenance works on the Ravenna plants.

In ecological islands and collecting equipment, an increase of euro 2.0 million was seen due to investments for sorted waste in the areas surrounding Padua, Trieste and Abano Terme, in addition to interventions for the Collection Centre in Pesaro. Note, furthermore, the implementation in the Triveneto region of HergoAmbiente, the innovative information system that offers integrated management of all the activities of the Hera Group's waste services, managing a network of people and devices, interconnected to administer planning, operational programming and on-field implementation.

In selection and transhipment plants, the euro 1.9 million increase recorded is largely attributable to the consolidation of the company Waste Recycling, and involves the completion of works on the chemical-physical treatment plant, covering the basin of the biological purifier and the new distilling plant for solvent recovery.

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

Operating investments increase

Waste Management (€/mln)	**Dec 2016**	Dec 2015	Abs. change	% Change
Composting/Digestors	3.2	3.2	+0.0	+0.0%
Landfill	17.0	6.2	+10.8	+174.2%
WTE	9.4	9.1	+0.3	+3.3%
RS Plants	2.9	2.5	+0.4	+16.0%
Ecological areas and gathering equipment	12.3	10.3	+2.0	+19.4%
Transshipment, selection and other plants	5.8	3.9	+1.9	+48.7%
Total Waste Management Gross	**50.7**	35.2	+15.5	+44.0%
Capital grants	0.1	0.6	-0.5	-83.3%
Total Waste Management Net	**50.6**	34.6	+16.0	+46.2%

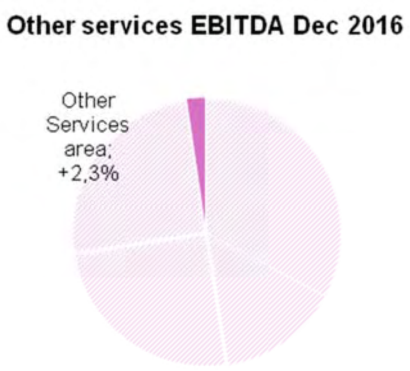
1.02.05 OTHER SERVICES

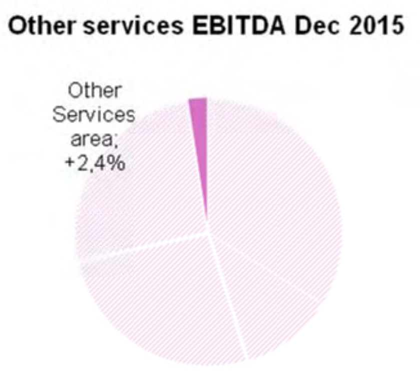
Other services: EBITDA stable

The other services area brings together all minor services managed by the Group, including public lighting, telecommunications and cemetery services.

During 2016, the results of the other services area remained fundamentally in line with the previous year, with EBITDA going from euro 21.4 million in 2015 to euro 21.3 million in 2016.

Slight drop in contribution to overall EBITDA





Slight decrease in other services area EBITDA

The changes occurred in EBITDA are as follows:

(€/mln)	Dec 2016	Dec 2015	Abs. change	Change %
Area EBITDA	**21.3**	**21.4**	**-0.1**	**-0.6%**
Group EBITDA	**916.6**	884.4	+32.2	+3.6%
Percentage weight	2.3%	2.4%	-0.1 p.p.	

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

Quantative data	Dec 2016	Dec 2015	Abs. change	% Change
Public lighting				
Lighting points (thousands)	**517.0**	523.7	(6.7)	(1.3%)
Municipalities served	**153.0**	157.0	(4.0)	(2.5%)

517.0 thousand lighting points

An analysis of the data regarding public lighting shows an decrease of 6.7 thousand lighting points and a loss of 4 municipalities served. Over the course of 2016, the Hera Group acquired roughly 21 thousand lighting points in 14 new municipalities. The most significant acquisition were in Lombardy, with roughly 5 thousand lighting points mainly concentrated in the provinces of Brescia, Bergamo and Varese, in Lazio with roughly 2 thousand lighting points and in the Triveneto area with roughly 8 thousand lighting points, mainly in the provinces of Pordenone, Treviso and Padua, to which one must add a higher number of service requests in municipalities already managed by the Group. The year's increases allowed the loss of roughly 28 thousand lighting points and 18 municipalities managed, above all in Lazio and Lombardy, to be contained.

The operating results of the area are as follows:

Other services: revenues rise

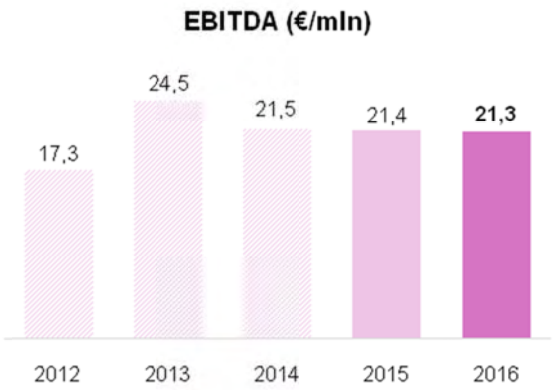
Income statement (€/mln)	Dec 2016	Inc%	Dec 2015	%Inc.	Abs. change	% Change
Revenues	**131.8**		126.2		+5.6	+4.4%
Operating costs	**(92.7)**	-70.4%	(88.3)	-70.0%	+4.4	+5.0%
Personnel costs	**(19.6)**	-14.8%	(18.4)	-14.6%	+1.2	+6.5%
Capitalised costs	**1.7**	1.3%	1.9	1.5%	-0.2	-10.6%
EBITDA	**21.3**	16.1%	21.4	16.9%	-0.1	-0.6%

Revenues for the other services area at euro 131.8 million

Revenues in the area grew over the previous year, in spite of the transfer in late 2015 of the company Trieste Onoranze e Trasporti Funebri Srl, held by AcegasApsAmga Spa, thanks to both the increase grazie in revenues in the public lighting business in the Emilia-Romagna area and telecommunications.

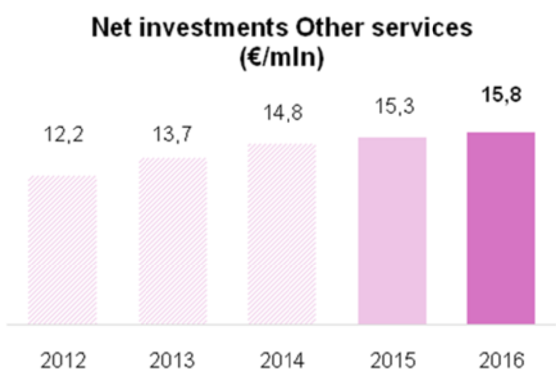
EBITDA falls by euro 0.1 million

EBITDA showed a slight drop of euro 0.1 million compared to 2015. This trend is due to lower margins in telecommunications services and cemetery services, owing to the late-2015 company transfer mentioned above, despite the higher margins in public illumination, due to the good performances of Hera Luce.



Net investments of euro 15.8 million

Investments in the other services area reached euro 15.8 million, increasing by euro 0.5 million over the previous year.
In telecommunications, investments coming to euro 8.9 million were made in networks and TLC and IDC (Internet Data Centre) services, with a slight fall compared to 2015.



Investments totalling euro 7.0 million in public lighting services mainly went to maintaining, enhancing and modernising lampposts, with an overall increase of euro 1.0 million that included both the company Hera Luce Srl and management of services in AcegasApsAmga's operating area.

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

Other Services (€/mln)	**Dec 2016**	Dec 2015	Abs. change	% Change
TLC	8.9	9.3	-0.4	-4.3%
Public Lighting and Street Lights	7.0	6.0	+1.0	+16.7%
Total Other Services Gross	**15.9**	15.3	+0.6	+3.9%
Capital grants	0.2	0.0	+0.2	+100.0%
Total Other Services Net	**15.8**	15.3	+0.5	+3.3%

1.03 SIGNIFICANT EVENTS OCCURRED DURING THE YEAR

February

Consorzio Montefeltro Energia

Effective as of 1 February 2016, upon being cancelled from the applicable company register, the procedure involved in the liquidation of Consorzio Montefeltro Energia, held by Marche Multiservizi Spa with 16.67% of the share capital, reached its conclusion.

April

Julia Servizi Più Srl

8 April 2016 saw the completion of the acquisition, by Hera Comm Srl, of 100% of the share capital of Julia Servizi Più Srl, a company operating in the sector of gas purchasing and sales with approximately 13 thousand customers in the area surrounding Giulianova (TE).

May

Estense Global Service Scarl

On 4 May 2016, Estense Global Service Scarl, a company operating in the global service sector, 23% held by Hera Comm Srl, was put into liquidation.

Sei Spa

On 25 May 2016, Sei Spa, a company operating in the energy sector, 20% held by Hera Spa, was put into liquidation.

July

Inrete Distribuzione Energia Spa

Effective as of 1 July 2016, Hera Spa transferred its company branch called Distribuzione Reti, involved in electricity and gas distribution, to INRETE Distribuzione Energia Spa, a company dedicated to electricity and natural gas distribution, in accordance with the principles of economy and profitability and the confidentiality of business information, as per current legislation concerning functional separation (unbundling regulations).

Waste Recycling Spa / Neweco Srl / Rew Trasporti Srl

Effective as of 1 July 2016, Neweco Srl and Rew Trasporti Srl, companies operating in the environmental sector, merged by incorporation into Waste Recycling Spa, a company operating in the sector of dangerous and non-dangerous special waste collection and treatment, that previously held the entire share capital of both companies.

Herambiente Spa / Herambiente Servizi Industriali Srl

Effective as of 1 July 2016, Herambiente Spa leased to Herambiente Servizi Industriali Srl the company branch dedicated to storage of solid and liquid dangerous and non-dangerous special waste, at the storage plant located in the Municipality of San Vito al Tagliamento (PN).

RilaGas Ead / Black Sea Technology Company Ad

Effective as of 7 July 2016, the merger by incorporation of Rilagas EAD into Black Sea Technology Company Ad was completed, with the latter subsequently changing its company name to AresGas Ad.

August

Hera Comm Srl / Julia Servizi Più Srl / Hera Comm Marche Srl

Effective as of 1 August 2016, Hera Comm Srl acquired from Julia Servizi Più Srl the company branch dedicated to sales of electricity to final customers in the municipalities of the province of Teramo.

With the same effective date, Hera Comm Srl transferred all shares held in Julia Servizi Più Srl to Hera Comm Marche Srl, corresponding to 100% of the share capital.

Hera Comm Srl / Fucino Gas Srl / Hera Comm Marche Srl

Effective as of 1 August 2016, Hera Comm Srl transferred to Hera Comm Marche Srl its entire stake in Fucino Gas Srl, corresponding to 100% of the share capital.

September

New ten-year euro 400 million bond issued

A new ten-year bond amounting to euro 400 million was issued, with 60 bps credit spread and a coupon of 0.875%.

Hera Comm Srl awarded a portion of service for last-resort gas

Hera Comm Srl was awarded the Friuli-Venezia Giulia and Emilia-Romagna portion of the last-resort gas service for the period 1 October 2016 – 30 September 2018, totalling roughly 4 thousand points served and 12 million m^3/year.

Hera Comm Srl awarded five portions of the default gas distribution service

Hera Comm Srl was awarded five portions of the default gas distribution service for the period 1 October 2016 – 30 September 2018, totalling roughly 19 thousand points served and 30 million m^3/year.

October

Fucino Gas Srl / Julia Servizi Più Srl / Hera Comm Marche Srl

Effective as of 1 October 2016, the merger by incorporation of Fucino Gas Srl of Julia Servizi Più Srl into Hera Comm Marche Srl, which already held the entire share capital, was completed.

Gran Sasso Srl

On 6 October 2016 the acquisition by Hera Comm Srl of 100% of the share capital of Gran Sasso Srl, a company operating in the gas and energy purchasing and sales sector, was completed.

November

Heratech Srl

On 10 November 2016 Heratech Srl (100% Hera Spa) was established, a company whose purpose is to offer services in integrated engineering planning and technical-commercial services for customers. Later, effective as of 1 January 2017, Hera transferred to this company its corporate branches Engineering Management and Technical Customer Management, dealing with the aforementioned activities.

Marche Multiservizi Falconara Srl

On 18 November 2016 Marche Multiservizi Falconara Srl (100% Marche Multiservizi Spa) was established, a company whose purpose is to offer urban and environmental hygiene, public lighting and street maintenance services. Later, effective as of 1 January 2017, Marche Multiservizi Spa transferred to his company its corporate branch dealing with the aforementioned activities.

Hera Comm Srl awarded six portions of the safeguarded service

In the national tender announced by the Single Purchaser for 2017-18 safeguarded services, Hera Comm Srl was awarded six portions for 11 regions of Italy: Emilia-Romagna, Veneto, Friuli-Venezia Giulia, Tuscany, Marche, Umbria, Sardinia, Campania, Abruzzo, Calabria and Sicily. Annual turnover derived from managing this service is estimated at roughly euro 500 million, counting 45 thousand supply points and over 2 TWh of energy per year.

December

Insigna Srl

Effective as of 1 December 2016, the merger by incorporation of Insigna Srl, a company that offers public lighting and traffic light management services, into AcegasApsAmga Spa, which already held the entire share capital, was completed.

H.E.P.T. Co Ltd

On 16 December 2016, following the capital increase of H.E.P.T. Co Ltd from 10 million Rmb to 20 million Rmb, Hera subscribed and paid up its share of the capital increase, amounting to 3 million Rmb.

Sei Spa

Effective as of 16 December 2016, following the conclusion of the liquidation process, the company Sei Spa was cancelled from the applicable company register.

Esil Scarl

On 20 December 2016 Esil Scarl, a company operating in public lighting and traffic light management services, entirely held by Hera Luce Srl, was liquidated.

Heratech Srl / AcegasApsAmga Spa

On 22 dicembre, and effective as of 1 January 2017, as part of the corporate operation that involved Heratech Srl, AcegasApsAmga Spa transferred to the latter its corporate branch Laboratori di Analisi operating in Padova (Pd) and in Trieste (Ts).

Consorzio Akhea

Effective as of 22 December 2016, following the conclusion of the liquidation process, the Consorzio Akhea was cancelled from the appropriate company register.

Geo Nova Srl

On 23 December 2016 Herambiente Spa acquired from Geo Nova Srl the corporate branch Cordenons, operating in non-dangerous waste disposal at the landfill located in the municipality of Cordenons (Pn).

Romagna Energia Srl

On 27 December 2016, the company Herambiente Spa acquired from Romagna Energia Srl the corporate branch involved in the biogas energy production plants of the Cesena (Busca) and Imola (Tre Monti) landfills.

Significant events occurred after the reporting period

Herambiente Spa / Aligroup Srl

On 11 January 2017 Herambiente Spa and Aligroup Srl, a company belonging to the Aligroup Group and a leader in the sector of regenerated polymer, flexible Pe film and rigid Pet film production, signed a framework agreement concerning the acquisition of the entire share capital of Aliplast Spa, a company involved in managing the integrated plastic cycle.

The operation, whose outcome is subject to the satisfaction of certain conditions precedent, involves the acquisition of 40% of the share capital of Aliplast Spa over 2017, a further 40% within March 2018 and the remaining 20% within June 2022.

On 6 March 2017, the Italian Antitrust authority (Autorità garante della concorrenza e del mercato, Agcm) announced its approval of the beginning of the operation.

Biogas 2015 Srl

Effective as of 1 February 2017, the merger by incorporation of Biogas 2015 Srl, a company operating in the waste treatment sector, into Herambiente Spa, which already held the entire share capital, was completed.

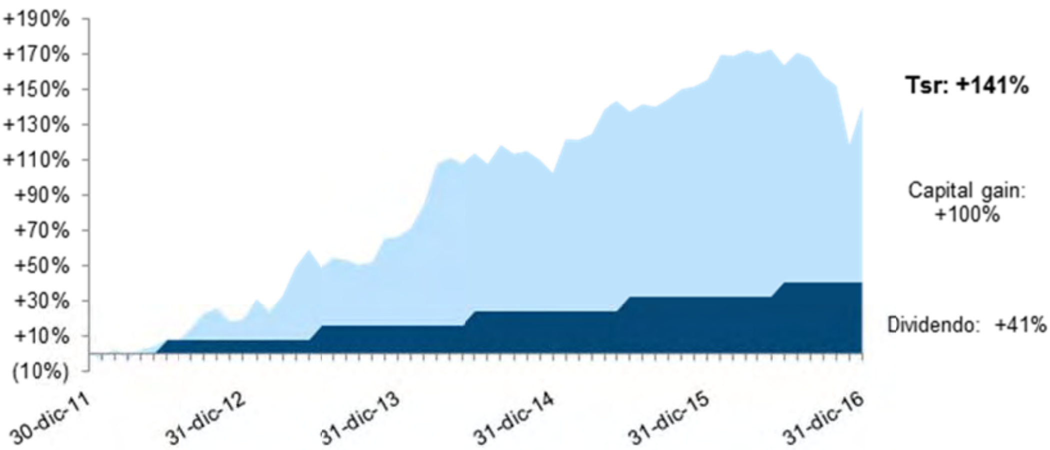
Waste Recycling Spa / Teseco Srl

On 30 January 2017, Waste Recycling Spa acquired from Teseco Srl the corporate branch Business Unit Impianti, operating in the sector of waste treatment via the Pisa multifunctional platform.

1.04 SHARE PERFORMANCE AND INVESTOR RELATIONS

Hera is committed to creating value for its shareholders. Even though the context in which it operates is still somewhat turbulent, the stability over time of both its strategic aims and its approach to risk management and sustainability have contributed to producing constant growth in operating-financial results, corresponding to a total shareholders' return of +141% over the last five years.

Total shareholders' return over the last five years



Total shareholders' return over the last five years: +141%

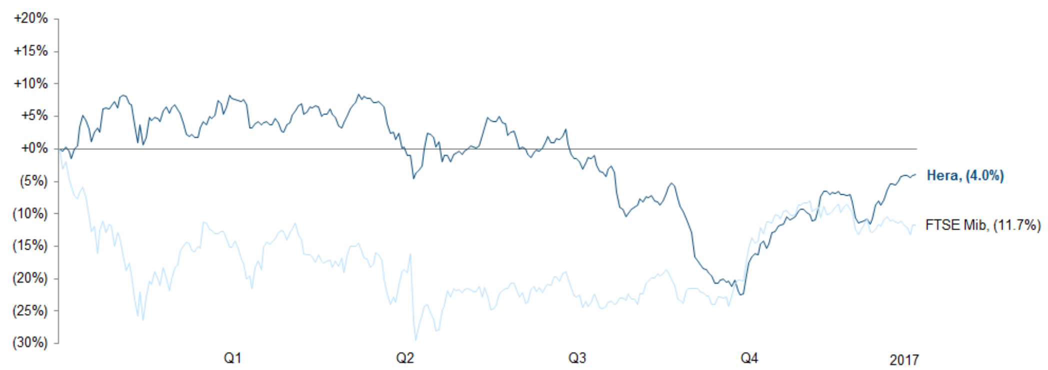
In 2016, trends in financial markets were marked by a general increase in instability, repeatedly sparked by the unforeseeable outcome of a series of events with geopolitical implications (the Brexit referendum, the elections in the USA, the Italian referendum) and by apprehensions of a change of course with respect to the expansionary monetary policies of the main central banks.

At the beginning of the year, fears of a rise in interest rates introduced by the Federal Reserve were accompanied by signs of a slowdown in the world's advanced economies. Repercussions were thus seen on stock exchange quotations and on the value of all main commodities, with the price of oil halved in only a few weeks. The Italian market showed a worse performance than most major global stock exchanges, since the factors of uncertainty caused by the macro-scenario were compounded by the effects of the turbulent situation of the nation's banking sector. Later, in the month of June, investors' attention shifted towards the negative outcome of the referendum concerning the future of the United Kingdom's membership in the European Union, which led to capital losses reaching 410 billion in a single Stock exchange day. In early September, rumours of a rise in US interest rates and the possibility of a reduction in government bond purchasing by the ECB set off a rising trend in yields requested on bond markets and, on the other hand, weighed on the performance of the European utility sector. In December, instead, it was the uncertainty surrounding the constitutional referendum in Italy that negatively influenced the performance of the nation's stock markets, with negative repercussions extending throughout the entire fourth quarter. Only the end of this uncertainty, after the referendum, subdued investors' risk aversion, who returned to buying stock whose value had been heavily penalised.

Hera stock resilient in spite of context

Within this context, Hera stock showed its usual strong resilience, particularly in the first three quarters of the year: its performance was in fact constantly superior to that of the market, thanks above all to its growing operating results. The stock's trend fell back in line with that of the stock exchange in the fourth quarter, due to the large degree to which Hera is exposed to Anglo-Saxon investors, leading to a significant divide between the stock's listed value and that of its fundamental economic indicators. This divide subsided in the weeks following the referendum, with Hera stock showing a swift recovery and closing the year at 2.188 euro, after having touched a minimum of 1.895. The upturn continued over the first few months of 2017, supported by the presentation of the new business plan to 2020. At the end of February, the listed price had returned to roughly 2.35 euro.

Comparison between Hera stock and Ftse Mib over 2016

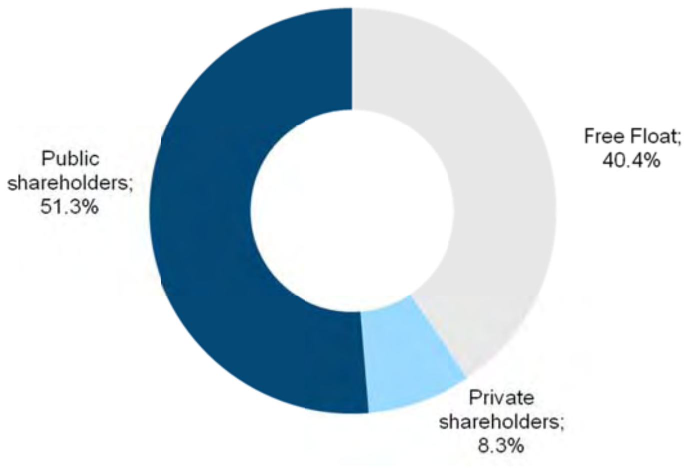


	I trim.	II trim.	III trim.	IV trim.
Hera	+7.5%	(0.1%)	(2.7%)	(10.5%)
FTSE Mib	(15.4%)	(24.4%)	(23.4%)	(10.2%)

Target price: 2.77 euro

No changes were seen in the number of financial analysts covering the company: Banca Akros, Banca Imi, Equita, Fidentiis, Goldman Sachs, Icbpi, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca. At the end of 2016, positive judgements continued to prevail, will almost all recommendations defined as buy/outperform, and no analyst expressed a negative recommendation. Hera's consensus target price is set at 2.77 euro per share.

Breakdown of Group Shareholders at 31 December 2016



51.3% of share capital held by public shareholders

At 31 December 2016, the corporate structure shows its usual balance, with 51.3% of shares belonging to 118 public shareholders located across the geographical areas served and regulated by a Stockholders' Agreement signed on 26 June 2015 and in force for three years.

On 8 July, in keeping with the Agreement, 12 Municipality shareholders sold, in a coordinated and transparent way, through an accelerated book building operation, roughly 16 million shares, corresponding to 1.1% of total share capital, to over 30 Italian and foreign institutional investors. Thanks to a demand that reached over four times the amount put on sale, the placing occurred at a price of euro 2.35 per share, with the lowest discount seen on the market since the beginning of the year for similar operations, set at 4.3% of the price at closing time on the previous day. The placing led to a rise in floating stock, with clear benefits for trade liquidity.

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders' Meeting of 28 April 2016 for 18 further months, for an overall maximum amount of euro 180 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 the year, Hera held 20.8 million treasury shares.
In the period under review, Hera's senior management engaged in an intense dialogue with investors, above all with its business plan road show in the first quarter and its participation in sector conferences in the second and third quarters.

Awards received for Hera's financial communication

Hera's commitment towards transferring to all stakeholders the value generated by its activity also takes concrete shape in a continuous improvement of the tools and channels used in financial communication. In 2016 this commitment was rewarded with two important recognitions:

- Hera's year-end financial statements were a finalist in Ferpi's balance sheet Oscars for their excellent structure and immediate readability;
- Hera's website came in second in the Webranking proposed by the company Lundquist, rising by no less than two positions compared to the previous year.

The intense dialogue cultivated by Hera with investors and all stakeholders has helped reinforce its market reputation, and now represents an intangible asset that favours a correct evaluation of Hera's stock.

1.05 REFERENCE SCENARIO AND GROUP STRATEGY

Italy's primary public utility service sector is highly fragmented, consisting still today of a large number of local public enterprises. For this reason, the Government and the Authority have conceived specific actions aimed at rationalising the sector.

The reference scenario in regulated services

In early 2017, in fact, the process of issuing tenders for the renewal of service grants in gas distribution in Milan got under way, representing the most significant operation nationwide in terms of size in this sector. With the geographically scope of tenders becoming wider than was previously the case (province-wide, rather than on a municipal scale), over the next four years those operators and structures that demonstrate the highest levels of rationality and efficiency will benefit from a significant competitive advantage.

In 2016, the Parliament and the Council of Ministers approved a decree implementing the Madia law concerning local public services, currently expected to move to the executive phase, following a number of procedural revisions. This decree foresees transferring regulation of the waste business to the Authority and defines tender mechanisms for assigning grants in the areas of street sweeping and urban waste collection. Thanks to these changes, similar to those introduced for gas distribution grants, the Government aims at reaching, over the medium term, a rationalisation able to contrast the excessive fragmentation created by the over 400 enterprises operating in this area today, and promoting a higher level of efficiency.

Hera's aggregative model

In this context, marked in all sectors by various factors that encourage a consolidation of smaller operators, Hera operates with a development model that is geared towards making the most of scale economies and bringing together and developing the high levels of proficiency found in aggregated local enterprises. The "Hera model" was in fact conceived as a widely diversified ownership framework, regulated by a simple governance, whose industrial and managerial rationale led to an efficient integration of consolidated local enterprises and allowed higher levels of excellence and service quality to be reached. In line with its own mission, since its establishment, the Group has operated with a view to economic, social and environmental sustainability, by sharing the economies and synergies derived from a close relation with the localities in question and an active collaboration between all stakeholders involved.

A replicable and sustainable model

This business model has proven its efficiency in producing both internal and external growth, constantly attracting other municipalised multi-utility enterprises from bordering geographical areas. In less than 14 years, following the original model, 22 enterprises from 4 regions in Central North-Eastern Italy have in fact been integrated, allowing the Group to reach outstanding market positions nationally, quadrupling its EBITDA and, more generally, improving all key performance indicators in sustainability.

The reference scenario in free market services

Across the country, liberalised sectors as well are witnessing a process of aggregation that has shown clear signs of acceleration, with 12 consolidation operations (acquisitions of controlling packages) concluded in only 13 months, i.e. between the end of 2015 and January 2017, carried out by the largest Italian multi-utility companies. In this process, Hera has played an active role. These aggregations have come about with smaller companies, for which it was becoming complex to operate profitably in their own sector, especially on account of an increase in competitive pressure (above all in energy sales) and, in the waste treatment sector, owing to an operative slowdown that was inevitable considering situational trends and an increasingly restrictive regulatory framework.

2016 results in external growth

In the energy sales business, Hera concluded acquisitions of two local operators (Julia Servizi Più Srl and Gran Sasso Srl) in the Abruzzo region. This allowed the Group to expand its market share in an area in which it is now the foremost operator. These new companies contributed with over 31 thousand customers to the increase in the Group's energy customer base.

In the waste treatment sector, four new companies were acquired (Geo Nova Srl and Waste Recycling Spa in late December 2015; Aliplast Spa and Teseco Spa in early 2017). This boosted the Group's plant capacity, expanded its market shares in strategically interesting geographical areas and widened its presence in the value chain. Thanks to these newly acquired companies, indeed, Hera is now able to create finished products, ready to be put on the market once again, beginning with recycled materials treated in its own plants. Geo Nova Srl increased Hera's landfill portfolio in the Veneto region, supporting its potential for development in a market that stands out for its high number of business clients. Waste Recycling Spa was acquired to boost the plant capacity dedicated to industrial waste recycling and to allow the Group to expand into one of the most important industrial districts of the Tuscany region. Both companies contributed, throughout 2016, to growth in financial results. The acquisition of Aliplast (for which the Italian Antitrust authority gave permission to proceed in early 2017) allowed a new link to be added to the value chain in this sector: thanks to it, the Group is now in fact able to create finished products starting with recovered raw materials. This operation furthermore allows the Group to reduce its exposure to the cyclically variable price of recycled materials, to pursue cross-selling of waste treatment services on the vast customer base of the newly acquired company (present across Italy) and to evolve its activities towards the kind of circular economy that the most important international institutions now support. The acquisition of Teseco (in Tuscany) was aimed, lastly, at a significant boost in the Waste Recycling plant base and a further expansion in this geographical area.

The results of internal growth in markets

In 2016, strategy was also geared towards internal growth, pursued organically on free markets, where an enlargement of the customer base was obtained through commercial actions and participation in all tenders for renewal of grants in certain regulated activities. Over the year, the Group furthermore measured itself with the market's main actors in various tenders held nationwide.

In electricity sales, a number of concessions were won for managing safeguarded customers, which allowed the Group to gain space in many regions across Italy and attain co-leadership in un segment protected by grants until the end of 2018. In gas sales, Hera expanded in all regions of Northern Italy, increasing its market share in this sector as well. Through other tenders for public lighting management, the Group expanded in new areas of Lombardy, and in heat management grants for the city of Modena were reacquired through a public tender.

A balanced development of the activity portfolio

The Group's growth strategy, effectively and continuously pursued in 2016 as well, maintained a perfect balance between regulated and liberalised activities in its core businesses. This balanced portfolio mix heralds the sustained presence of a high risk diversification.

A risk adverse strategy

Exposure to market risks and competition was contained through an attentive management of the risk profile and return on activities. This was responsible for the choice to expand the activities of waste treatment needed to sustain the services offered and to aim towards commercial development in the sector of energy service sales. The Group's risk adverse strategy was also confirmed by gas stocking with short-term contracts instead of turning to long-term supplying which, even while providing guarantees, is more exposed to the risk of fluctuation in demand and prices.

Future prospective for the sector

The evolution of the sector at present cannot avoid issues such as circular economy, industry 4.0 and customer experience. These trends, while requiring the company's model to be deeply rethought, accelerate the time involved in change and revolutionise our way of conceiving production processes, products and customer relations.

The new business plan to 2020

The business plan to 2020, presented in early January 2017, confirms the Group's current strategic outlook and aspires to continue pursuing sustainable growth in EBITDA, rising above one billion euro at the end of the period, with a target of roughly 200 million euro of growth over five years. The amount of growth foreseen will be sustained by the habitual development model, based on the propulsive force of two historical motors: internal and external growth. The investment plan, amounting to roughly 2.5 billion euro, will be fully financed with the generation of cash flow, bringing additional improvement to the Group's financial solidity, even making room for an 11% increase in dividends per share, to be implemented progressively until 2020.

Confirming the content of the previous business plan, this strategy will be supported by the usual four growth levers: growth, efficiency, innovation and excellence. This orientation, which has already proven its validity over recent years, is at the root of all main strategic projects envisaged for the next four years. A new elements has furthermore been introduced into the most recent plan: agility, which answers the need to adapt to industrial factors following the high pace set by the evolution of the external scenario.

The operating levers and the main factors driving the Group's growth have been fully confirmed by the results of the previous financial statements and are in line with the targets set. The novelty of the strategy to 2020 consists, rather, in the way in which objectives will be pursued.

Strategic answers to new and evolving trends

The strategy calls for an implementation of digitization in all business areas; this is a preparatory measure for a future transformation of processes, plants and infrastructures into smart networks, an internet of things, and the use of innovative technologies to improve energy and operational efficiency. Thanks to the use of advanced telecommunications tools (satellites, internet), the Group intends to move towards the utility 4.0 within the period of time considered in the plan.

The strategy through to 2020 also proves to be in line with the philosophy of a circular economy, that drives sustainable management beyond the limits of reuse and recycling of materials coming from sorted waste.
The Group, which in this area has reached the targets set by international organizations (EU and UN) well in advance, over the next five years will take a decisive step towards directly producing goods that can be re-located on the market, through the use of recycled materials.
Lastly, the plan to 2020 includes a strong focus on customer experience and related activities that enable customer relationship management tools to evolve.
The target is an increasing capacity and speed in analysing big data in order to put together strategies which improve the quality of the services offered, as well as to identify commercial offers that better respond to customer demands.

The current strategic framework, consisting of the lines of development pursued in the past, finds in the new plan a full confirmation and an impulse towards physiological evolution, confirming the past and moving towards new imperatives of development.

1.06 MACROECONOMIC CONTEXT AND FOCUS ON THE OIL, GAS AND ELECTRICITY SECTOR

The macroeconomic context

In 2016, the global economy confirmed the trend of development seen in 2015, in spite of a few significant factors of uncertainty that were only overcome at the end of the year, such as the doubts surrounding the United Kingdom's exit from the European Union and the outcome of the American presidential elections.

The latest estimates of the International Monetary Fund in fact project a 3.1% increase in global gross domestic product (GDP) over the previous year, unevenly distributed among the various areas of the world. Asia confirmed its role as a driving force in world growth (+6.3% compared to 2015), in spite the gradual slowdown it has shown in recent years. The area orbiting around Russia interrupted its own phase of recession thanks to a recovery in the prices of oil products; furthermore, the Middle East also recorded a significant increase, driven by Iran which resumed exports of raw materials after the economic and financial sanctions imposed by the United Nations were gradually eased. Along the Atlantic axis, the United Kingdom and the United States instead saw a reduction in development, even while maintaining growth rates close to 2%.

As regards Europe, the economy of the euro area showed a moderate improvement: 2016 GDP recorded a growth of more than 1.5% over 2015. This result was achieved thanks to both a continuation of the ECB's expansionary monetary policies, in order to support the still near-zero inflation (+0.2%), and a recovery in investments and household consumption.

Nationally, however, Italian GDP grew by 0.9% (1% when adjusted for calendar effects), less than the forecasts made one year ago, partially due to political uncertainty and the ensuing turmoil on the markets. Nevertheless, this growth rate seems to confirm the signs of recovery seen as of late 2014, and the more comforting domestic framework has stimulated internal demand and brought consumer and enterprise confidence indicators to a high level.

As regards employment, the number of employed rose by roughly 1%, and a fall was seen in the number of inactive people (-3.4%). Household spending increased, supported among other things by stable consumer prices (2016 inflation should settle at -0.1%).

For businesses, a few encouraging signs came from industrial production – up 1.2% on an annual basis (+1.6% when adjusted for calendar effects) – and from a recovery in investment spending, fuelled by easier access to credit and favourable market conditions. It should be noted, however, that Italian companies continue to invest less than European companies.

As for foreign trade, exports increased by 1.1% and a rebalancing occurred between the EU and countries outside the EU, in favour of the former. The main target areas of Italian products include France, Germany and the United States, which together account for 30% of exports in 2016.

In conclusion, it is important to point out that the economic situation of the main geographical areas served by the Group is better than the national average. In particular, the rate of growth in the Emilia-Romagna region's GDP should settle at +1.4% and the level of unemployment should decrease to 6.9% (compared to the national average of 12%). Similarly, in the Triveneto region unemployment should reach no more than 6.7% and the area's GDP is expected to grow by 1.1% over the previous year.

The context in terms of competition

The Hera Group operates in a range of businesses, some of which are economically regulated and others, on the contrary, exposed to the free functioning of the market. This context is currently evolving, in both cases, towards greater competitiveness.

In the electricity and gas market, an excess of offer still prevails, even though this has recently been attenuated compared to previous years by lesser exports coming from the French electricity market. Competitiveness in the upstream segment also accentuates competition in the downstream segments, with the entrance of new operators, or a higher level of attention shown by previously existing ones towards increasing their own customer base as a strategic asset.

In a similar way, the market context for activities in special (urban or industrial) waste disposal and recovery is becoming increasingly international and competitive, with the final customer giving ever more attention towards quality and diversification in the services received.

Regulated activities, in their own right, are increasingly exposed to both the strict efficiency enhancement targets introduced by regulators, and the new business dynamics that will result from the upcoming tenders for the assignment of grants for gas distribution services.

1.06.01 REGULATORY FRAMEWORK AND REGULATED REVENUES

Relevant legislation

Among the legislative measures introduced in 2016 with the greatest consequences for the Hera Group, particular attention must certainly be given to the progress made towards implementing the new Public Procurement Code (Codice degli Appalti) and the ruling of the Constitutional Court concerning the reform of Public Administration.

New Public Procurement Code: approval and procedure towards implementation

Law 11/2016 gave the Government a mandate to implement Directives 2014/23/EU, 2014/24/EU and 2014/25/EU on awarding grants, public procurement and procurement procedures for organisations operating in the water, energy, transport and postal service sectors as well as the reorganization of current regulations on public contracts for works, services and supplies. In order to implement the aforementioned mandate, the Government passed Legislative Decree no. 50 of 2016, containing the new public contracts code. The new factors include the adoption of the criterion of the most economically advantageous as the preferred criterion to be used in selecting contractors, and the introduction of a reward system linked to increases in the contracting authorities' level of qualification. The Government's ability, one year after the entry into force of the aforementioned decree, to introduce corrections and integrations into the code, has also been recognised. On the basis of what was decreed, in February 2017 the Government began consultation for an outline of a corrective decree aimed at completing the regulatory system, without fundamentally altering it, with the aim of improving its homogeneity, clarity and adequacy.

Madia Law: continuation of implementation procedure and Constitutional Court ruling

Law 124/2015, on "Government mandates in matters of public administration reorganization", better known as the Madia Law on public administration reform, contains important legislative mandates in the field of public management, central and local state administration reorganization, digitization of public administration, simplification of administrative procedures, streamlining and control of subsidiary companies, anti-corruption and transparency.

In November 2016, with ruling 251 the Constitutional Court declared the partial illegitimacy of the reform by referring in particular to its implementation through legislative decrees and ruling out the possibility that it can be put into effect following the simple opinion of the State-Regions Conference or the Joint Conference. According to the Council, which ruled after an appeal made by the Veneto Region, a full agreement is on the contrary necessary. The ruling of legitimacy concerns regulations relating to administration, subsidiaries, local public services and the public sector. In January 2017, the State Council expressed an opinion regarding the way in which the sentence is to be implemented. On 17 February, the Council of Ministers approved a decree outline, which repairs the procedural defect noted by the Council, introducing important changes: that self-production of goods and services may be instrumental to public holding bodies or in carrying out their functions; that holdings are permitted in companies whose business purpose includes the production of energy from renewable sources, and that universities can establish companies to manage agricultural enterprises with educational purposes. As to the outline of the Legislative Decree, the agreement of the Joint Conference and the opinions of the relevant parliamentary committees are still to be obtained.

Gas, Electricity and Integrated Water Service Regulations

Among the new features appearing in regulations approved by the Authority in 2016, those with the greatest consequences for the Group include: new tariff regulations for costs of introducing electronic second-generation smart metering systems, updating tariff regulations for gas distribution between reporting periods, the procedure for defining the method used in recognizing tariffs for new investments in gas distribution, and the approval of new marketing fees for those providing electricity and gas to protected customers.

Tariff recognition for second-generation smart metering systems

Resolution 646/2016/R/eel, which came following a complicated consultation process, approves tariff regulations for recognizing costs for metering low-voltage electricity and capital costs for introducing second-generation smart metering systems of (2G), which will apply to distribution companies that serve more than 100 thousand delivery points.

With regard to recognising capital costs tied to the installation of 2G metres, in view of a gradual introduction of the Totex method, for 2017-2019 the Authority has adopted the IQI matrix (Information Quality Incentive). This matrix combines incentives towards efficiency, oriented to reward (or vice versa to penalize) enterprises in the case of lower (or higher) actual expenditure than had been expected (sharing), and a mechanism aimed at encouraging companies to provide a forecast of truthful expense (additional income). Coverage of capital costs is guaranteed by a fixed-instalment amortisation plan, considering a timeline in keeping with the regulatory useful life of the meters, i.e. 15 years. The recognition of operating costs, instead, continues to be regulated by resolution 654/2015/R/eel.

Interim period updates for tariff regulation in gas distribution and metering services

With resolution 775/2016/R/gas, the Authority approved the interim period updates foreseen by the text of tariff regulations for gas distribution metering services for the regulatory period (RTDG) 2017-2019. The update focused in particular on: the rate of annual reduction in operating costs per unit recognized for distribution, metering and marketing services; the tariff component covering the costs of metrological checks; the means of recognising costs for remote reading and management systems and concentrators, as well as the definition of standard costs for electronic measuring groups and penalties for non-installation of smart meters with respect to service obligations.

New criteria for recognising tariffs for gas distribution investments

With resolution 704/2016/R/gas the Authority confirmed the final guidelines ensuing from the consultation (DCO 456/2016/R/gas), suggesting that investments related to natural gas distribution be recognized by way of a standard cost system. This methodology proposes that investments be evaluated by a reference price list, nationally defined and differentiated locally through appropriate price modulation coefficients, according to the geographical area in question and its population density. The price list to be applied and the method used in recognising investments will be defined as a result of a technical working group whose members will include distribution companies, sector associations and Authorities, to be followed by a public consultation. The new model should be approved by the end of October 2017 and applied to 2018 investments, in relation to management defined both by field and on a municipal or supra-municipal basis.

Fees approved for operators in enhanced protected electricity and protected gas services

With Resolution 816/2016/R/eel the Authority approved the fees remunerating the commercialization of electricity sales (Rcv) for operators providing protected electricity services, in force as of 1 January 2017. The approved fees, differentiated according to various criteria (type of operator, type of final customer, geographical area), underwent a considerable increase to compensate for the failure to initiate equalization on fixed costs,

which should have compensated for the lack of coverage of fixed costs suffered by operators in enhanced protection services owing to a progressive loss of end customers.
At the same time, with resolution 817/2016/R/gas, the Authority approved the fees remunerating marketing in the natural gas retail service (QVD) for operators in protected gas services, in force as of 1 January 2017. The Authority approved nationwide QVD levels, differentiating only between domestic customers and condominiums. The regulator adjusted the values recognized to sellers on the basis of various criteria: level of arrears; operating costs recorded by separate annual accounts; information pertaining to current and future clients and volumes declared by operators in the field of data collection, prepared for this purpose. According to the data published, the recognized QVD values have grown as an effect of a deterioration in the amount of customers in arrears.

Gas distribution: tariffary framework

2016 was the third year of the fourth regulatory period (2014-2019) of the gas distribution and metering tariff system, governed by resolutions 367/2014/R/gas e 775/2016/R/gas.
The tariff system is consistent with the previous year and entitles each distributor to permitted revenues, as defined by the Authority on the basis of recognised costs, expressed by reference tariffs and the average number of delivery points served during the year, making revenues independent from 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). In particular:

- invested capital acknowledged in tariffs in year t (2016) covers investments implemented until year t-1 (2015), which are remunerated by applying a rate of return on invested capital for distribution and metering services; the amount of tariff amortisation is calculated on the basis of the regulatory useful lives of each typology;
- recognised operating costs (differentiated according to the size of the enterprise and customer density) are updated by the FOI inflationary indicator published by ISTAT, whose effect in updating the 2015 rates came to -0.11%; furthermore, a production improvement factor (x-factor) is applied to distribution service costs, which differs according to the size of the enterprise and was set, for Group companies, at 1.7% for Hera spa and AcegasApsAmga spa and 2.5% for Marche Multiservizi spa.

The rate of return on invested capital for the three-year period 2016-2018 comes to 6.1% for distribution and 6.6% for metering, falling compared to the 6.9% and 7.2% seen in the previous year, in line with the new regulation introduced by the integrated text Tiwacc (resolution 583/2015/R/com).
Based on these principles, with resolution 147/2015 the Authority approved for 2016 the provisional reference rates (based on an estimate of investments made in 2015), while approval of the final reference tariffs is due to be completed shortly, and will take into account all investments recorded in 2015. Within the consolidated scope of the Hera Group, at 31 December 2016 the companies Inrete Distribuzione Energia Spa, Marche Multiservizi Spa and AcegasApsAmga Spa operated in gas distribution and metering.
As of the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.

As a result of that which has been described above, in 2016 revenues for distribution and metering equalled, for the Hera Group, € 230.6 million, for 2.935 million m^3 of volumes distributed, with a corresponding revenue per unit of 7.86 € cent/m^3. This revenue already includes an anticipation of the definitive reference tariffs and, therefore, a reasonable estimate of the effects of tariff equalisation. Compared to 2015, and corresponding to a 1% rise in volumes distributed, a € 7 million decrease in revenues was seen. This is mainly due to the negative effect, amounting to € 9.8 million, of the reduction in the rate of return on invested capital, partially mitigated by the new accounting method used for the amount of tariff amortisation, in addition to other effects, including the recovery of amounts previously due.

Gas distribution and metering - Regulated revenue	31 Dec 16	31 Dec 15	% Change
Hera Group consolidated			
- revenue (€/mln)	230.6	237.6	-2.9%
- volumes (mln m3)	2,935	2,906	1.0%
- average revenue per unit (€cent/m3)	7.86	8.17	-3.9%

Revenues here refer to a RAB at 31 dicembre 2016 of roughly € 1,066 million, pertaining to assets owned by the Group.

Electricity distribution: tariffary framework

2016 is the first year of the fifth regulatory period for electricity transmission, distribution and metering, introduced by resolution 654/2015/R/eel, with which the Authority approved the comprehensive texts for the period. The provision extended the duration of the period to eight years, subdividing the latter into two clearly distinguished four-year periods (NPR1 2016-2019 and NPR2 2020-2023). The criteria used for tariffs in NPR1 are largely consistent in their method with regulations in force until 2015. As regards initial figures for 2016 operating costs, the habitual setting was confirmed, which redefines acknowledged costs according to the national average, as defined by 2014 carrying values, with a balanced division between customers and servers (50%/50%) of the productivity gain seen in the previous regulatory period (profit sharing). Updates in operating costs for years following 2016 will make use of the price-cap method, which calls for a monetary re-evaluation and an efficiency enhancement on the basis of an x-factor defined at 1.9% for distribution and 1% for metering, set by the Authority in order to gradually compensate for the greater gains in productivity seen in previous regulatory periods.

In acknowledging capital costs, NPR1 contains the following important innovations:

- a different way of compensating for the regulatory lag, through the inclusion in RAB, and in the corresponding remuneration, of investments made until the previous year;
- lengthened useful lives for tariffary recovery of investments in electricity lines and connections;
- the introduction of a reference tariff tailored to each operator with timely recognition of the investments sustained for low-tension;
- the timely recognition for operators of investments in commercialisation.

The rate of return on invested capital for the three-year period 2016-18 for activities in electricity distribution and metering has been set at 5.6%, down from the 6.4% seen in 2015, and in line with the new regulation introduced by the integrated text Tiwacc (resolution 583/2015/R/com).

The Authority, with resolution 233/2016/R/eel of 12 May 2016, approved the provisional reference tariffs for distribution in 2016 (including preliminarily recorded 2015 investments) for the companies in the Hera Group in question, Hera Spa and AcegasApsAmga Spa.

In September 2016, operators with more than 100,000 supply points forwarded to the Authority their own chronological series of investments in measuring until 2014, as well as any adjustments and/or supplements to their series of investments in distribution. Subsequently, resolution 606/2016/eel of 27 October 2016 approved the provisional reference rates for measurement for larger operators, including Inrete Distribution Energia Spa and AcegasApsAmga Spa, in relation to the historical data concerning investments as communicated and the data on preliminarily recorded 2015 investments.

The approval of the definitive 2016 reference tariffs for both distribution and metering is pending within 28 February 2017, finalised compared to the provisional ones so as to include investments recorded for 2015. In the Hera Group's scope of consolidation, at 31 December 2016 Inrete Distribuzione Energia Spa and Spa AcegasApsAmga operate in distribution and measurement services.

Concerning gas distribution, as of the present financial statement the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.
In the context described hereto, 2016 Group revenues for electricity transmission, distribution and metering came to € 90.6 million, rising by € 3.3 million compared to 2015 even though the volumes distributed fell. The effect of the decreased rate of return, amounting to roughly € -2.9 million, was therefore more than offset by the benefits produced by the new factors in the fifth regulatory period (estimated at € +3.6 million), such as, mainly, recognition of timely investments in metering and service commercialising and the reduction of the regulatory lag through the inclusion of remuneration for 2015 investments. Other positive effects are furthermore present (coming to € +2.6 million overall), such as a modification of the method of accounting for the amount of amortisation, the recovery of previous amounts due and higher revenues

from the transmission component, the latter being balanced out by an equal increase in costs.

Electricity distribution and metering - Regulated revenue	31 Dec 16	31 Dec 15	% Change
Hera Group consolidated			
- revenue (€/mln)	90.6	87.3	3.7%
- volumes (mln kWh)	2,993	3,055	-2.0%
- average revenue per unit (€cent/kWh)	3.03	2.86	5.9%

Revenues here refer to a RAB for electricity distribution and metering estimated at roughly € 361 million, almost all of which linked to Group-owned assets.

Water cycle: tariffary framework

2016 is the first 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 (Vrg) defined on the basis of the operating and capital costs recognised by the aforementioned tariff method, making revenues independent from any changes in volumes distributed.

This is ensured by a tariff balancing mechanism that permits operators to recover (in the Vrg of the two following years) the differences between recognised revenues (Vrg) and the actual turnover resulting from volumes sold.

Recognised operating costs are subdivided into: a) endogenous costs (for which an efficiency enhancement criterion has also been foreseen), b) exogenous and updatable costs, mainly concerning the cost of purchasing raw materials, electricity, and fees. The former are referred 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 inserted within the Vrg and that which was actually sustained and declared.

Capital costs refer to investments made until two years earlier, and cover the costs of amortisation and the costs of financial and tax charges.

As of the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.

In 2014, furthermore, owing to the provisions of the Authority's tariffary resolution 643/2013/R/idr, the local agency for Emilia-Romagna (Atersir) has defined the tariff adjustment items relating to periods prior to 2012 and not already considered in the calculation of previous tariffs; those items are foreseen to be recovered as of 2015 and will end in 2018.

Revenues from tariffs decreased by 1.4% compared to 2015, mainly as an effect of the reduction in Wacc established by the new tariff method (Mti-2).

Water cycle - Revenue from tariff	31 Dec 16	31 Dec 15	% Change
Revenue from tariff (€/mln)	603.9	612.5	-1.4%
volumes (mln/m3)	300	299	0.4%
average revenue per unit (€cent/m3)	201.3	205.0	-1.8%

Urban waste: tariffary framework

The service of urban waste management is offered on the basis of conventions established with provincially defined Agencies, which are now part of the Atersir and which regulate, in addition to the forms and organisation of the service, the economic aspects of the 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.

Acting through the Tari, single Municipalities purchase resources covering costs sustained by operators in carrying out services in sweeping, collection and disposal; as of the year in which the Tares were established (2013), controls and collecting payments were assigned to Municipalities who, in a few 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 held to continue offering services in areas in which the deadline for assignment has already passed, until new assignments are made; for expired concessions, Atersir has already initiated the procedures for new assignments.

At December 2016, urban waste management services were offered in 188 municipalities, 34% of which chose to entrust Tari controls and payment collecting to the Hera Group.

A comparison between the uniform and consolidated data of the Hera Group allows the following figures to emerge:

Urban waste - Revenue from tariff	31 Dec 16	31 Dec 15	% Change
Revenue from tariff (€/mln)	525.1	521.3	0.7%
Users reached	3,310	3,321	-0.3%
Average revenue per unit (€/user)	158.7	157.0	1.1%

Regulated Sgrua revenues rose by 0.7%, mainly owing to the 2016 tariffary updating, including new projects for sorted waste development.

1.06.02 TRADING AND PROCUREMENT POLICY

Upturn in gas consumption:+5.2%

The recovery in natural gas consumption continued in 2016, reaching 70.4 billion m^3, up 5.2% compared to the 66.9 billion m^3 seen in the previous year, thus confirming the turnaround that began in 2015. More specifically, this growth in gas consumption is due to a rise in demand in thermoelectric plants, which settled at 23.3 billion m^3, an increase of 12.4% over the previous year. This rise can mainly be explained by the lower electricity imports coming from France and a fall in hydroelectric production. The recovery was also significant in industrial consumption, which grew by 4.8% over 2015 and reached 13.4 billion m^3. Household consumption instead, which represents over 40% of overall demand, remained virtually in line with 2015 (-0.3%), at 31.4 billion m^3.

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 2016/2017 thermal year.

Going into further detail, short-term adjustments, oriented by an efficient prediction of upcoming demand, were implemented through purchase or sales agreements at the Virtual exchange point (VEP-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 0.35 billion m^3, and providing gas destined to the free market for the Group's sales companies for the 2016/17 thermal year, with roughly 0.5 billion m^3, sourcing it directly from the spot market.

Negotiation of modulated gas for roughly 1.6 billion m^3

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 1.6 billion m^3 for the 2016/17 thermal year, as per the supply conditions resolved by the Authority beginning in October 2013. This negotiation allowed particularly favourable terms to be obtained in terms of both prices and payment conditions.

Electricity consumption begins to decline once again:-2.1%

After the turnaround seen in 2015, electricity consumption in 2016 began to fall again. According to the preliminary data elaborated by the national network transmission company (Terna), the total amount of electricity requested in Italy in 2016 reached 310.2 billion kWh, dropping by 2.1% compared to 2015.

This decrease did not change significantly among the country's various regions, with the exception of the islands, where the fall in demand came to -4%.

Despite the drop in consumption, national electricity production recorded an increase of 1.2%, which can be attributed to the sharp decline in the net balance towards foreign countries, coming to 37.0 TWh compared to the 46.4 TWh seen in 2015 (-20.2%). These lower net imports were offset by both a recovery in thermoelectric production, which increased by 2.5%, going from 182.9 TWh in 2015 to 187.5 TWh in 2016, and the significant rise in wind power generation, from 14.7 TWh in the previous year to 17.5 TWh in 2016 (+18.7%). Both photovoltaic and geothermal power generation were instead stable, at 22.5 TWh and 5.9 TWh respectively. An opposite trend was seen in hydroelectric production, which owing to lower precipitation dropped by 8.9%, settling at 42.3 TWh compared to the 46.5 TWh seen in 2015.

Increase in earnings from power plants

Earnings coming from thermoelectric plants, in Teverola e Sparanise in particular, showed a significant increase compared to the figures seen in 2015. Contributions to this result came from both Terna's greater usage of the Dispatching services market (Msd) and the noteworthy increase in the National single price (Pun) in the fourth quarter of 2016, as a direct consequence of the increase in prices seen on the French electricity market.

The first half of 2016 saw the end of interventions on the Sparanise plant intended to increase the level of flexibility, with a view towards the moment when the capacity market will be introduced. Problems remain in the performance of the Ortona plant, located in an area with scarce demand on the Msd, even though the results improved compared to the previous year.

Electricity market reform

The progressive increase in dispatching expenses incurred by Terna towards the middle of 2016 led the Authority to adopt, with resolution 444/2016/R/eel "Priority measures in evaluating actual imbalances in electricity dispatching", a temporary regulation intended to discourage over/under-planning strategies, while waiting for fully operational regulations to be defined. In particular, the resolution calls for, regarding consumption units and non-enabled production units which are not Non-programmable renewable source production units (Frnp), a mixed, single-dual pricing system to be used in evaluating actual imbalances, with a tolerance band of ±15%.

Higher earnings from electricity trading and imports

In 2016, the strong instability in prices witnessed in the last quarter, ensuing from the tension seen in the availability of French nuclear power plants, allowed for a greater valorisation of portfolio optimization activities, and in particular a significant valorisation of the capacity to import electricity.
Furthermore, the management/optimisation of Hera Comm Srl's purchasing portfolio, by operating on the Stock exchange and on Over the counter platforms (Otc), was particularly effective.

Commodity and exchange risk management 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.

Remit obligations respected

During 2016, obligations concerning data reporting to the Agency for the cooperation of energy regulators (Acer), called for by the Regulation on wholesale energy market integrity and transparency (Remit), came into effect. Group companies falling under scope of this regulation, in particular Hera Trading Srl, took steps to adapt, in terms of their tools and procedures, in order to comply with these obligations.

1.06.03 FINANCIAL POLICIES AND RATING

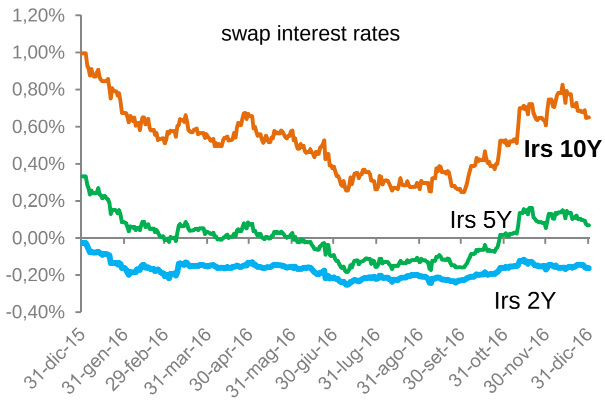
A difficult recovery, not without risks, unbalance

Eight years after the beginning of the global financial crisis, the world's economy is still struggling to regain momentum. The first half of 2016 confirmed the signs of recovery that had been seen in 2015; and yet, the last few months of the year also brought to light the presence of increasing risks of stagnation which could further undermine the already fragile recovery. The economic growth recorded over the last two years is too slow, and the performance of most of the world's economies have remained below their potential for too long.

In the euro area, even though growth continues, the risks associated with trends in foreign demand and geopolitical uncertainties have become accentuated. The unemployment rate stood at 11.9% at year-end, its highest level since June 2015. In general, the performance of the major European economies proved to be unsatisfactory, especially considering the highly favourable conditions that characterize the current situation, which should lead to much more pronounced growth. Raw materials, especially energy, have in fact seen their prices fall continuously over the past two years, and since all major European economies are net importers of raw materials, this factor should promote competitiveness. Similarly, the weaker euro created by the highly expansionary monetary policy implemented by the ECB, along with less restrictive fiscal policies, should have favoured recovery and led to an increase in consumption and investment. However, despite the simultaneous presence of all these incentives, Europe's economies have grown very slowly and the possibility that some of these factors may disappear increases uncertainty.

ECB: no change in interest rates and continued expansionary monetary policies

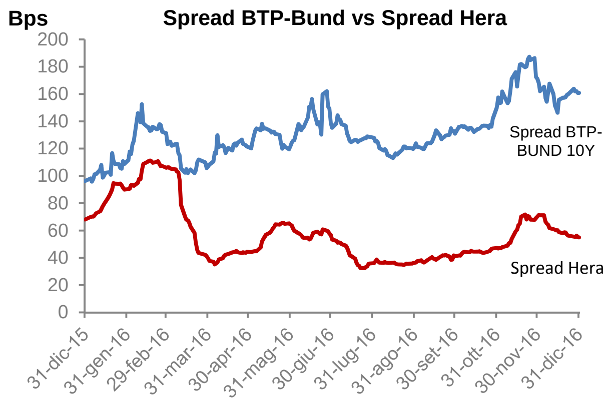
In its latest monetary policy meeting, the ECB decided to leave interest rates unchanged, with the main rate coming to zero, the rate on bank deposits to minus 40 bps and the rate on marginal lending to 25 bps, while medium-long term swap rates increased in the final months of the year, driven by the sharp rise in Treasuries in the Trump era. Quantitative easing (QE) will continue until March 2017 to the tune of 80 billion euro per month and then fall to 60 billion euro until December 2017, or in any case until it achieves its inflation target. Furthermore, it will also be possible to purchase eurozone government bonds at levels of return below the marginal lending rate expected for the repurchase program.



The measures taken by the ECB's Governing Council could support economic activity in various ways: by encouraging an influx of credit to the economy and reducing its cost; providing certainties as to the availability and cost of bank deposits; lowering the cost of capital for companies; reinforcing the value of the financial and real wealth of families; stimulating the housing market. Support for economic activity and employment is a prerequisite for the return of inflation to levels consistent with price stability.

10-year Btp-Bund Spread vs. Hera Spread

The spread between European government securities, despite being significantly reduced by QE, continues to indicate the difference in sovereign risk among eurozone member countries. In the final months of the year, the spread between the Italian BTP and the German Bund widened due to uncertainties as to the future of the Italian Government, eventually paying a yield of 1.9%, with a differential with respect to the Bund that, after reaching a minimum of 95 bps in early 2016, climbed, reaching peaks of 187 bps in November, only to re-stabilise, after the referendum, around 160 bps.



In spite of this, Hera's ten-year spread was not affected, thanks to the strong confidence shown by investors and its stable credit rating.

Liability management to optimise the average cost of debt

The Group gives constant attention to a financial management capable of maximising its yield profile while maintaining a cautious risk strategy. The average cost of debt has been optimised through forms of liability and financial risk management aimed at seizing favourable market opportunities. In particular, in October, a bond was issued for 400 million euro with a time to maturity of ten years, to partially refinance two bonds maturing in 2019 and 2021, allowing the Group to extend its average length of debt and fix for the next ten years a particularly low rate, under 1%.

To support liquidity risk indicators and optimise the costs/convenience of funding, the Group has obtained committed credit lines amounting to € 395 million, with an average age of over two years.

Financial risk management strategy

A list is provided hereunder of the policies and principles aimed at 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 lines of credit, 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, both 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	31.12.2016			31.12.2015		
(mln/€)	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	76	76	242	84	84
Debts and other financial liabilities	76	77	57	134	97	75
Trade payables	1,271	0	0	1,121	0	0
Total	**1,386**	**153**	**133**	**1,497**	**181**	**160**

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 2016 the Group had € 351.5 million in liquidity, € 474 million in unused lines of credit of which € 395 million in committed lines of credit, and a substantial amount that can be drawn down under uncommitted lines of credit (€ 1,000 million).
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 balanced in terms of composition and time to maturity, bringing liquidity risk to a minimum even in the event of particularly critical scenarios.

Average term to maturity of debt: over eight years

The amount of debt that matures within the year has fallen to 4.4% compared to the month of December (11.8%) as an effect of the reimbursement of the eurobond that matured in February 2016 (€ 195.4 million) and a lesser usage of short-term lines, repayable on demand.
The amount of long-term debt comes to roughly 95.6% of total financial debt, of which approximately 80% consists in bonds with repayment at maturity. The average term to maturity is over 8 years, of which 69% maturing beyond 5 years.

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

Debt nominal outflow (mln/€)	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021	Over 5 years	Total
Bonds	0	0	395	0	290	1,935	**2,620**
Bank debt/due to others	144	53	53	49	47	320	**666**
Total	**144**	**53**	**448**	**49**	**337**	**2,256**	**3,285**

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 2016, 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 prevent 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 in excess of €150 million in debt 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 that entails a downgrading to non-investment grade, or lower, i.e. the termination of the publication of the rating.

Interest rate risk

Active and prudential management of interest rate risk

The Group uses external funding sources in the form of medium- to long-term financial debt and various types of short-term credit facilities, 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 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 from operating activities.

Interest rate risk management entails, from time to time, and depending on market conditions, transactions involving 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 16% of total borrowings, while the remaining 84% of debt is at fixed rates.

The Group applies a financial management approach 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.

84% of debt at fixed rates

Gross borrowings (*)	31.12.2016			31.12.2015		
(mln/€)	without derivates	with derivates	% with derivates	without derivates	with derivates	% with derivates
fixed rate	2,693.2	2,711.8	84%	2,799	2,826	83%
floating rate	520.0	501.4	16%	593	567	17%
Total	**3,213**	**3,213**	**100%**	**3,392**	**3,392**	**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

Hera Spa has been given a long-term ‘BAA1 outlook negative’ rating by Moody’s and a ‘BBB outlook stabile’ rating by Standard & Poor’s (S&P).

On 1 June 2016 Moody’s issued a credit opinion confirming the “BAA1” rating with a stable outlook. This positive appraisal of the Group’s risk profile is due to its solid and balanced business portfolio, in addition to its good operating performance and consolidated strategy. On 12 December, following a deterioration in the nation’s risk profile, the outlook was modified from stable to negative, since 50% of the Group’s EBITDA is derived from regulated businesses. Nevertheless, the Groups remains one notch above the sovereign rating thanks to the solidity of the remaining 50% of its non-regulated businesses, its good liquidity profile and its resilient indicators in credit worthiness.

In August, the rating previously issued by Standard & Poor’s was also confirmed, because the Group had met its targets in credit worthiness. S&P believes that the Group’s solvency is not completely dependent on the conditions of sovereign risk, and that the premises for it being affected by the latter do not subsist.

Given the current macroeconomic context and the prolonged uncertainty of Italy’s economic prospects, the Group’s actions and strategies are always calibrated so as to maintain and/or upgrade its ratings.

1.07 SUSTAINABILITY POLICIES

Over the course of 2016 the Group enjoyed significant improvement in terms of social and environmental sustainability, as attested by results and the number of initiatives and projects it launched.

Sustainability has played a key role in Hera's strategy since its establishment and the Group's approach provides for the integration of sustainability in planning and control systems. This has been implemented through:

- a balanced scorecard system linked to incentives and involving the entire management (on average, sustainability goals accounted for 22% of the variable manager remuneration in 2016);
- a progressive improvement of the Group's accountability profile, as attested by the sustainability report (covering the maximum application level of the GRI-G4 guidelines) approved as part of the financial statement beginning in 2007 (and thus 10 years before the introduction of recent regulations that made it mandatory) as well as by the specific sustainability reports supplemented in 2016 by a new report dedicated to customers and local communities, titled "the thousand faces of our service".

In 2016 a process was initiated aimed at identifying Hera's approach to creating shared value (CSV) inspired by the suggestions Porter and Kramer have been offering since 2011 and taking into account the new EU communications concerning CSR from the same year. This process made it possible to develop a specific definition of CSV that will guide the evolution of the Group’s approach to CSR and further enrich sustainability reporting with new visions and perspectives, some of which have already been anticipated in the 2016 Sustainability Report.
Furthermore, Hera's approach to CSV will inspire a new direction for the future strategy of the individual businesses managed by the Group, a strategy that already fully integrates elements of sustainability, in line with the objectives for sustainable development as defined in the 2030 UN Agenda. This long-established approach already enables the Group to present projects and activities in the direction of CSV. Many of these are described in the 2016 Sustainability Report which also includes, for the first time, the EBITDA generated from activities that comply with CSV.
The significant focus on value systems was reflected in 2016 with the third update of the ethical code carried out through a participatory process and completed with the approval of the fourth edition of the code by the Board of Directors on 15 February 2017. Additionally, the awareness-raising seminars on the code of ethics and corporate social responsibility targeting executives, managers and new employees have continued and the AlfabEtico training process extended to Triveneto involved, at the end of 2016, 85% of the employees of AcegasApsAmg.

The sustainability goals achieved and the main events carried out in 2016 have covered the following areas:

Safety at work, welfare and professional development

Thanks to the awareness programs and the OHSAS 18001 certification, covering 91% of the Group's employees, the 2016 accident frequency rate dropped, equaling 17.8 (vs 20,6 in 2015). This reduction was recorded in all of the Group's main companies as well as in the labor force population, for which the frequency rate decreased by 11% compared to 2015. In 2016, the Hextra welfare system was launched with the allocation of 1.9 million Euros and which 97% of workers subscribed to. Finally, the training maintained high levels in 2016, with average 29 training hours per capita (as compared to 31 hours in 2015 and 28 in 2014).

Waste management: state-of-the-art in Italy, consistent with EU objectives concerning circular economy

The year 2016 saw a further drop in landfill use for urban waste disposal: 7.6% against 8.6% in the previous year (Italian 2015 average: 30%). Concerning this aspect, Hera was nearly 15 years ahead of the EU target on circular economy and is ranked among the best performing European countries. Sorted collection increased from 54.4% to 56.6% (2015 Italian average: 47.5%).

The environmental performance results of the Group's 10 waste-to-energy plantsare encouraging; atmosphere emissions were very limited in 2016 and, on average, 86% lower than the maximum level. Finally, in November last year Hera issued the 7° edition of the `Tracing waste' report. Certified by an independent body, DNV-GL, this report provides citizens with factual evidence that sorted collection is still on the rise and totals 94.4%. For the first time, the report includes the positioning of the area served by Hera with respect to the recycling targets set by the EU as part of the circular economy package: the overall recycling rate (at 48%, Hera is already close to the objective for 2020) and recycling rate for packaging (Hera is already close to the objective for 2025).

Service quality and customer support

Hera Comm's customer contact quality standards rose again in 2016: the average waiting time at the call center equaled 34 seconds for residential customers and 36 seconds for business customers. The average waiting time was 10.4 minutes in 2016. In Triveneto, contact channel performance greatly improved, partly overcoming the issues originating from the transfer of the IT invoicing systems to the Group's systems. A strong improvement is expected for 2017.

The constantly increasing web-run accounts also affected customer support sustainability: customers registering for online services rose to 17.5% in 2016, whereas applications for electronic billing rose to 16.1% (+14% and +21% respectively).

The 2016 survey on the Group's service quality (about 5,900 interviews) recorded a high customer satisfaction rate(70/100), increasing compared to the previous year. Survey data will be used to define further progress, in addition to the measures being planned as part of the "Customer experience" project aiming to improve customers' experience with Hera that was launched in 2015 and continued over 2016.

Energy efficiency among our priorities

The implemented ISO 50001 measures (incorporated into the energy improvement plan) have already enabled us to reduce energy consumption by about 6,100 tep, equaling 2.6% of 2013 consumption. The improvement plan provides further energy efficiency steps (totaling 2,500 tep) to be implemented by 2017, providing a 3.7% total savings compared to energy consumption in 2013. To grant weight to the Group's commitment in this regard, the Valore all'Energia report, dedicated entirely to energy efficiency and published for the first time in 2015, was extended to AcegasApsAmga and Marche Multiservizi in 2016 and was once again publicly presented at Ecomondo. In addition, many energy efficiency measures are being carried out with customer/partner companies, with the Group offering its know-how, including through Hera Servizi Energia. These include commercial offers such as Nuova Idea Hera, Hera Thermo and Hera Caldo Smart that enable customers to reduce their consumption.

Significant commitment to sewage treatment sustainability

In 2016, the main measures were aimed at redesigning the Rimini sewage and purification system (5 out of 11 interventions under the Optimized Bathing Safeguard Plan concluded), refurbishing the Servola purifier in Trieste (with the launch of its new purification system scheduled for 2017), and upgrading the purifying efficiency and/or reducing energy consumption for the Padua (Cà Nordio), Abano Terme (Pd),Cesenatico (Fc) and Cattolica (Rn) purifiers, work which is to be completed. The multi-annual adaptation of urban centers continued: 7 more were adapted in 2016, for 459 thousand residents.

Our focus on sustainability extends to the supply chain

In 2016 as well, in selecting its suppliers the Group prioritized the most profitable bid method used in public procurement procedures, used in 97% of public calls for tenders (in terms of value) for an overall 63% of the total value of allotments. The average score for social and environmental aspects was 26/100. The employment of disadvantaged people (743 in 2016) resulted in a further growth in the value of supplies from social cooperatives, which reached 57.2 million Euros last year (+ 23% compared to 2015). Supplies from local providers grew by 69%, while the estimated employment spin-off equals about 6,037 people, thus confirming the Group's leading role in local development. Supplier monitoring under SA8000 regulation continued in 2016, as did accident research monitoring for the leading suppliers (those involved in such monitoring account for 71% of the value of goods and services).

Focus on territory and communities

Environmental education in schools was again carried out in 2016; in all of the areas, 'La Grande Macchina' and 'Un Pozzo di Scienza' events were consolidated, with over 96,000 participants. Our focus on the local area was expressed through the continuation of the 'Regala un Albero alla tua Città' campaign in 2016,with a new target of 50,000 electronic bill subscribers, associated with an additional 1,000 trees. Thanks to the two editions of the campaign, 150,000 new customers started using electronic billing, which made it possible to plant 3,000 trees and create 111 green areas in 59 municipalities. Thanks to this outcome, it is possible to avoid using 3.6 million paper sheets and producing 67 tons of CO2 emissions each year.

Other evidence of our innovative focus on community and local sustainable development are:

- the spread of the 'Il Rifiutologo' (The Wastologist) app, downloaded by over 118,000 people, which informs users about proper sorted collection while enabling them to report malpractice through their smartphones (activated in all of the 135 municipalities served by Hera Spa, as well as Padua and Trieste and scheduled to be extended to Marche in 2017);
- the extension of several waste reduction programs (eg 'Cambia il Finale', 'Farmaco Amico', 'Cibo Amico'), resulted in encouraging social outcomes and preventing about 10,600 tons of waste in 2016, corresponding to the yearly production of about 17,000 people;
- the extension of the pilot scheme for the multi-stakeholder local committee 'Hera LAB' established in 2013 in the Emilia-Romagna area, to interface with local communities and develop better sustainability in Hera-managed services. As many as 69 representatives from different stakeholder categories, appointed by the Board of Directors, are involved in the 6 active, local Hera LABs. There were 14 schemes proposed by the LABs at the end of 2016, and 17 to be launched shortly.

For a more extensive analysis of the results in these areas, please refer to the Sustainability Report.

1.07.01 DEVELOPMENT AND TECHNOLOGICAL INNOVATION

DEVELOPMENT AND TECHNOLOGICAL INNOVATION

Over the course of the year a number of initiatives were developed in the areas of circular economy, energy efficiency and new services for the city. The main projects are described here below.

Biomethane

This project involves revamping the composting plant in Sant'Agata Bolognese (Bo) aimed at producing bio-methane from the organic component of sorted waste collection. The project provides for the insertion of an anaerobic digestion section and a system for purifying the biogas produced (upgrading). This plant will be able to treat 100 thousand t/y of organic waste from sorted waste collection, and produce about 7 million cubic meters/y of bio-methane as well as about 20 thousand t/y of compost.

Over the course of 2016, the activities for the authorization process went forward and authorization is expected to be obtained in the first quarter of 2017; the insertion of bio-methane into the Snam transport network has been defined with the relevant authorities. The call for tenders to assign civil works was concluded; this, together with the provider of the anaerobic digestion and upgrading systems, completes the set of the main actors needed for the construction of the new plant.

The introduction of bio-methane into the Snam network is scheduled to begin in the second half of 2018, thus achieving a perfect example of circular economy: food waste can be used to produce reusable methane gas for domestic use to cook other foods (or even to fuel natural gas vehicles).

Biomethane 2.0 and bioethanol

The types of waste managed by the Group include vegetable waste from the maintenance of parks and gardens. With a view to circular economy a study was launched analyzing the technology aimed at producing sustainable bio-energy fuels from the waste treatment.

These waste materials are currently used in composting processes or sent to energy recovery through combustion, but they could be exploited in a more effective way in the production of bio-ethanol or bio-methane. These fuels fall within the definition of advanced fuels because they are produced from waste material rather than from dedicated energy crops that subtract land and resources that could be used for human or animal food production. In the European and Italian scenario types of fuel defined as advanced will play an increasingly important role in reducing environmental impacts

To obtain bio-ethanol or bio-methane from wood-cellulose waste, it is necessary to use special thermal pretreatments with steam under pressure, which makes the material more suitable to the action of bacteria or yeasts, in anaerobic digestion processes or with alcoholic fermentation.

Initial evaluations were conducted during the year 2016 to determine the potential production of bio-ethanol or bio-methane; in 2017 more specific surveys will be initiated to characterize the wood-cellulose waste that vary seasonally and depending on the area.

Smart waste

In collaboration with the Consorzio Futuro in Ricerca of Ferrara and the Department of Architecture of the University of Ferrara, a prototype for the indoor collection of municipal waste was developed as an alternative and complementary solution of the collection systems already present in the local areas. In the new model the collection of waste is managed through user identification and the weight and volume of the waste conferred is determined through image recognition systems, adopting technical and plant devices to facilitate the transfer of assets. The innovative aspect of this prototype regards the aggregation into one advanced device (smart totem) of other services for the city such as environmental monitoring, video surveillance, other services of Information and Communication Technology (ICT) and electrical charging for bikes and cars. All data and information can be transmitted to a central system, the operation center, which is able to perform data processing and trigger actions such as emptying full bins, calling for the intervention of the police, etc.

Energy recovery of biogas from sewage sludge

These are two efficiency projects of the sludge line in the urban waste water treatment plants of Modena and Rimini that aim to produce renewable energy and reduce the amount of sludge to be disposed of.

It involves the installation of a dynamic sludge thickener prior to the anaerobic digestion section and a co-generator, which will aim to produce renewable electrical and heat energy; these energy resources will be directly used in the plant.

In Modena the final project was completed and the authorization procedure will be activated by the first quarter of 2017.

A S. Giustina (Rn) the feasibility study was concluded and the authorization phase is expected to start by the end of 2017.

Smart city

New services for the city were tested through demonstration installations and mainly involved video analysis, environmental monitoring, coordination worksites and the integration of services through a single technology platform.

Video-analysis

The video analysis systems used as part of the Advanced water security project were installed in the plants of the water systems of Bologna Borgo Panigale and Bologna San Vitale. These applications are intended to assess their suitability and reliability.

In each of the two plants a thermal camera and an optical were installed, in the first case a fixed shot camera and in another with movement to analyze a more extensive area, which can acquire images in synchronization and activate the registration in case of detected intrusion of the thermal camera.

The detected intrusion trigger alarms that are managed by the Milestone software and sent to the relevant organs.

Environmental monitoring

For environmental monitoring a new generation controller has been identified, its reasonable price allows a widespread use compared to more expensive equipment currently in use. The main parameters measured are the atmospheric particulate matter (PM 2.5 and PM 10), ozone, nitrogen oxides, carbon monoxide, carbon dioxide, volatile organic compounds, temperature, humidity and environmental noise. The units feature a CPU, a card for acquiring and transmitting data, and a system powered by solar panel or electric line. Over the course of 2017, the functioning of the control units and the correct correlation with the trends of the parameters measured by the ARPA monitoring stations will be tested.

Ufm (Underground facility management)

The coordination system for the worksites was developed with thetechnology of the Consorzio Futuro in Ricerca Ferrara and represents a true intra-group coordination platform to optimize the activities carried out in the local area, by reducing the number of excavations, and will manage in an integrated way the authorization documents and worksite data. This system may possibly also be extended to local administrations for managing all the excavation operations.

Operations center

The above services are included in a single IT platform called operation center, which makes it possible to display data in real time, process them, put them in correlation and create value-added synoptic views. The operation center is designed to be integrated with other services such as energy maps or the smart totem. It can be used to manage both the Group's assets and the services offered by public administrations as a dashboard for managing and analyzing the local area and information to citizens.

The challenge for the smart city is, in addition to the acquisition of data through the sensors in the local area, in the implementation of integrated systems for data processing; only in this way it will be possible to incorporate new knowledge and subsequent lines of urban and business development.

Other initiatives

To keep pace with developments taking place in the environment surrounding the Group other initiatives have been undertaken such as:

- the search for new technologies and solutions on the market;
- the monitoring of European (Horizon 2020 and Life) and national / regional calls (POR / ERDF).
- the creation of the open innovation platform HEuRekA open to all employees to collect, comment and evaluate innovative ideas and proposals;
- the creation or dissemination of tools to facilitate work (videopresence tools, apps for accessing the main services available for employees, Wi-Fi coverage for the Group's main business locations, etc.).

1.07.02 QUALITY, SAFETY AND ENVIRONMENT

In 2016 the Quality, Safety and Environment Unit was successful in maintaining all the certifications of the management systems (ISO 9001, ISO 14001, OHSAS 18000, ISO 50001, ISO 11352 and SA 8000) even taking into account the corporate changes that occurred.

The Unit consolidated its role of providing central government for cross-cutting issues within the Group such as: managing the disposal of products containing asbestos, management of emergencies in civil sites, and ensuring privacy even in cases not covered by the Quality Safety Environment Unit.

The analysis and reorganizational definition of the Unit was initiated in the pursuit of efficiency and organizational agility, creating a pool of flexible resources, to facilitate the management for projects concerning the needs of internal customers.

The review process of the management system was launched as a result of the new ISO 9001: 2015 and ISO 14000: 2015 norms through a gap analysis in preparation for maintaining the certifications scheduled for 2017.

Similar to 2015, the rates of accident frequency and seriousness have remained the same.

1.07.03 INDUSTRIAL RELATIONS, DEVELOPMENT AND STAFF TRAINING

Industrial relations

At the Group level, the New protocol agreement regarding procurement was signed, drafted in keeping with the new arrangements and regulatory requirements on procurement and outsourcing of services and work as well as the agreement on the integrated welfare system which provides, for the 2016-2018 three-year period, a flexible annual welfare package that each employee will allocate to various welfare initiatives. Still at the Group level, the framework agreement on funded training.

In the Emilia-Romagna area, the joint review process required by law has been completed relating to the transfer, by Hera Spa to In rete Distributione Energia Spa, of the energy distribution networks business unit and by Hera Spa to Heratech Srl, the business unit comprising the technical department of clients and engineering department. It was also decided to carry out in some areas actions of fine tuning compared to current availability models. In the networks, aqueduct and sewer systems sector, in some areas a new hourly breakdown for the summer period has been agreed, resulting in a reduction of on-call overtime. Consequently, the obligations arising from the Authority resolution no. 655/2015 defined a new articulation of the working hours for clerical staff of Hera Comm Srl, operating in the field of family market Department, in the areas of Cesena, Ferrara, Ravenna and Rimini. It was also established that for Hera Group's staff covered by the collective labor agreement for the Chemical industry, beginning in the year 2017, the attendance bonus will be abolished and included as a specific objective in the Group's performance bonus. An agreement was also signed on a new organization of the availability for Herambiente Spa's selection and recovery plants. In compliance with the procedure provided for in the renewal of the collective labor agreement for Utilitalia Environmental Services of July 10, 2016, the comparison for determining the application methods of the new working hours ended, with the agreement of 38 hours per week beginning on 1 January 2017, (procedure carried out in all Group areas).

In the Friuli Venezia Giulia and Veneto area, the shares of the Company Trieste Trasporti Onoranze Funebri Srl, held in its entirety by AcegasApsAmga Spa, were all sold to another shareholder. The agreement on welfare of the Hera Group was implemented, in addition initiating a number of negotiations relating the harmonization of the company Crals located in the various areas. An agreement concerning the possibility of extending the possibility to transfer activities in the field of environmental services to social cooperation was also signed. With regard to the Company AcegasApsAmga Spa, a joint examination procedure was also carried out in order to complete the sale of the business unit comprising the laboratories in Padua and Trieste of AcegasApsAmga Spa to Heratech Srl.

In the Marche area, the agreement to set aside four days of closure to facilitate the use of vacation days was signed. Agreements on funded training were also signed. A memorandum of understanding for the transfer to Marche Multiservizi Falconara Srl of 74 employees of the Marche Multiservizi Spa Company in Pesaro was also signed, as a result of the transfer of the business unit.

Development

Our commitment to training and to spreading the Group's leadership model continued: a series of initiatives aimed at managers and executives have been implemented since 2010. The "focus on service" training sessions - mainly designed for the Group's executives, managers and directors - took place in the first term of 2016 and the AcegasApsAmga and Marche Multiservizi employees were fully integrated in the scheme.
In 2015 the sixth climate survey started involving the participation of the Group's entire workforce; in the first semester of 2016, a number of centrally directed and budget-unit directed improvement processes were launched, in keeping with what shown by the results. During the first half of the year, the results of the climate survey were made available to the entire workforce of the company, as part of the meetings with workers.
In the first half of 2016, approximately 5000 people were assessed and given feedback. The assessment, concerning performance and managerial skills, was carried out by the manager in charge and calibrated within the larger organizational structure; the manager in charge also provides feedback to person assessed.
In 2016, the Group undertook a path of renovation and construction of the new leadership model that will be made available to the entire workforce over the course of 2017: this path involved top executives and managers, and gathered the contributions of a corporate base of approximately 700 people.

Training

A total of 245,583 training hours were delivered in 2016: 29.3 hours per capita, roughly 22% higher than the 2016 overall target. Also at the Group level, about 98% of the employees were involved in at least one training activity. The related economic investment, net of trainee and in-house trainer costs, amounted toEuro1,129,000 of which Euro 623,000 from training funds. These figures confirm the Hera Group's significant commitment, both economically speaking and with respect to other resources, to continually developing and maximizing the potential of its human capital, also through the continuation of HerAcademy's activities, the Group's corporate university
As to the HerAcademy programs, particularly noteworthy is the workshop Mercati & Tecnologia: a new cycle of exchange between customer experience and growth, the fifth edition of the initiative providing guidance for university , as well as the third edition of the initiative providing guidance for the labor market, and the positive conclusion of the first year managing students alternating between work and school, based on a logic of integrating commercial and scholastic skills, launched following the agreement protocol with the regional Educational Office of Emilia Romagna, signed on 25th September 2015, which provides for 180 training schemes alternating school and work, and for summer internships over the next three years.

Welfare and Diversity

The Hera Group has always been distinguished by its special attention to its employees as a key factor in the achievement of corporate goals.
The new corporate welfare plan, Hextra, launched on July 4, 2016 moves in this direction. Through Hextra, Hera has made available to its own resources a range of initiatives and services that are consistent with the evidence emerged during the listening phase (held in 2015), the corporate culture and values can increase the individual and family well-being of employees in terms of economic and social factors. A single integrated system for all the companies of the Group, but which can be tailored to each individual choice. The

proposed initiatives and services are classified according to the following broad categories:

- Health and healthcare services
- Insurance and welfare
- Allowance for education/ child support
- Personal services
- Wellbeing and income support
- Hera Solidale.

Each long-term employee was given a flexible welfare share, that is to say an equal budget for all the employees with the objective of providing everyone with the opportunity to combine according to their own preferences the individual activities from the six macro categories identified. For example, a reimbursement of certain medical expenses can be obtained or a supplement for a contractual pension fund; it will be possible to purchase goods and services such as free tickets to the movies, the gym membership or extra professional training packages, and obtain reimbursement for educational expenses of children. For 2016, the flexible welfare quota allocated to each employee for an indefinite period was 200 EUR.

In addition to the flexible welfare share, Hera grants support to employees with school-aged children by giving them an additional educational allowance to be used exclusively for educational expenses, starting from kindergarten all the way to university, such as: registration and attendance at kindergarten, schools, pre- and post-school activities, summer / winter camps and language courses. Additionally, the purchase of school books, trips, and cafeteria fall under this category. For the 2016/2017 school year, 3,821 requests were received for a total amount of approximately 380,000.

All services have been made available through a dedicated web portal. A technology platform for the exclusive use of Hera employees comprising the basket of available services and allows employees to subtract the quotas for the services they select and use from their individual budgets.

In 2016 Hextra recorded the enrollment of 7,987 members, representing 97% of the potential population, with 1,902,456 Euros allocated to employees.

Furthermore, the positive summer camp experience continued in 2016 for the employees' children: the service was made available for use under particularly favorable conditions during the summer weeks, with a 50% contribution to the registration fee for the first week, along with CRAL and through agreements with local partners in the areas covered by the Hera Group.

1.07.04 COMMERCIAL POLICIES AND CUSTOMER CARE

Growth of the Group's client base

The Group's customer base grew further in 2016, with varying performance in the individual services.
The number of gas customers rose by 4.1%, thanks to our ongoing commitment to innovative initiatives, the strengthening of the Group's presence in Abruzzo through the acquisition of Julia Servizi Più from Giulianova (Te) and Gran Sasso from Pratola Peligna (Aq) and the consolidation of its gas provider role in end user services (Default and Fui).
The electricity client base grew by 2.7% as a result of a significant increase in the number of residential clients, both in the Group's already established territory and in newly developed areas.
The water service customers grew by 0.3%, in line with the same change detected in the previous financial year.

Contracts	31 Dec 16	31 Dec 15	Abs. pdf gap n°	% pdf gap
Gas	1381.4	1327.6	53.8	4.1%
Electricity	880.1	856.8	23.3	2.7%
Water	1453.9	1449.4	4.5	0.3%
District heating	11.9	11.8	0.1	1.1%

Data expressed in thousands

Rise in the number of customers contacting Hera Comm

Call center as customers' preferred channel

In 2016, contacts handled by the Hera Group's channels of communication increased by 11.6%. This change was due in part to meter readings provided from customers (+ 7%), the start of the Rai fee billing, and requests for information about contracts and bills. The call center is still the most widely used contact channel, followed by IVR, customer assistance front desks, the www, text messages and regular mail.
In 2016, the Groups continued to invest in technology to improve the efficiency of communications channels, and specifically customer assistance desks. The most important and innovative projects of 2016 at the help desks involve the development and systemic implementation of the management system, the use of debit and credit cards and rendering the premises safe through a virtual security monitoring system.
At the end of 2016, the Group's network had 130 front desks. During the year, work continued to homogenize and develop physical customer service points in the various local area while also consolidating management processes.
Special attention continues to be paid to staff training and problem solving in order to perfect the one-call solution and increase customer satisfaction.
Proactivity towards the customer is also ongoing, aimed at increasing the direct debiting and electronic delivery of bills.
Below are the main front desk and call center indicators (Hera).

Average waiting time - contact center (sec.)	2016	2015	2014
Residential customers	33.8	30.2	40
Business customers	35.9	26.1	31

Average waiting time - customer (min.)	2016	2015	2014
Average	10.2	8.5	11.1

1.08 INFORMATION SYSTEMS

The Information Systems department is responsible for ensuring the development and efficiency of the Group's information systems to support its business. It also ensures that the systems are continuous adapted to comply with the sector's regulatory requirements and business needs, reducing risks in terms of technology and security in full accordance with the Group's strategic guidelines and sustainability objectives.

Corporate evolution

In relation to this point, it should be noted that the new company Inrete Distribuzione Energia Spa has begun production as part of the Group's information systems.

Standardisation of systems in other companies

The process of harmonizing information systems has involved bringing the companies Julia Servizi Più Srl and Fucino Gas Srl into the Group's platforms as well as the continuation of the multi-year plan for AcegasApsAmga Spa (Integrated water service, environmental services, environmental maintenance systems) and Marche Multiservizi Spa (financial management and control, purchasing cycle and supplier portal, TARI environment management and maintenance of environmental facilities).

Regulatory

The operations associated with the last phase of regulatory unbundling were carried out in relation to updating the CRM system, managing the RAI fee and dealing with payments in arrears. Adjustments were also carried out in association with the implementation of the integrated water service (Resolution 628/15 and 102/16), the minimum regulation reform of the PDR (Resolution 117/16) and the method for setting the water tariff for the second regulatory period (Resolution 664/15). The register of persons with access to inside information (CONSOB regulations) has also been set up.

Support to business

This framework includes the introduction of new systems/options such as the system for developing and administering the mobile app, talent management, geocoding of work orders, the management of quote documentation and the management of internal auditing.

Reduction of technological risk

As part of the process of continuous technological innovation and improving the performance of the Group's information systems, activities were carried out to upgrade the Active Directory system and implement Active Directory federated services process (ADFS).

Information system safety

The IT and enterprise data safety systems, in compliance with data protection regulations, are among the key objectives of the Information Systems Division. Our commitment to preventing and monitoring potential cyber attacks is ongoing, conducted through a periodic risk analysis on the production systems(vulnerability assessment), updates of existing systems and the adoption of new specialized solutions (the evolution of the identity management system and implementation of an enterprise user security tool).

During the six-month period, checks were carried out for the renewal of ISO 9001 certification.

1.09 PERSONNEL STRUCTURE

Human resources

Hera Group's employees with open-ended contracts as of 31 December 2016 numbered 8,374 (consolidated scope) and are distributed by role as: executive managers (151), middle managers (524), office clerks (4,514), and workers (3,185). This structure ensues from 226 entries and 284 exits as well as changes in the company scope of Julia Servizi Srrl, which introduced 6 new units. Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

Industrial and operational integration: the Hera model

Organization

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.

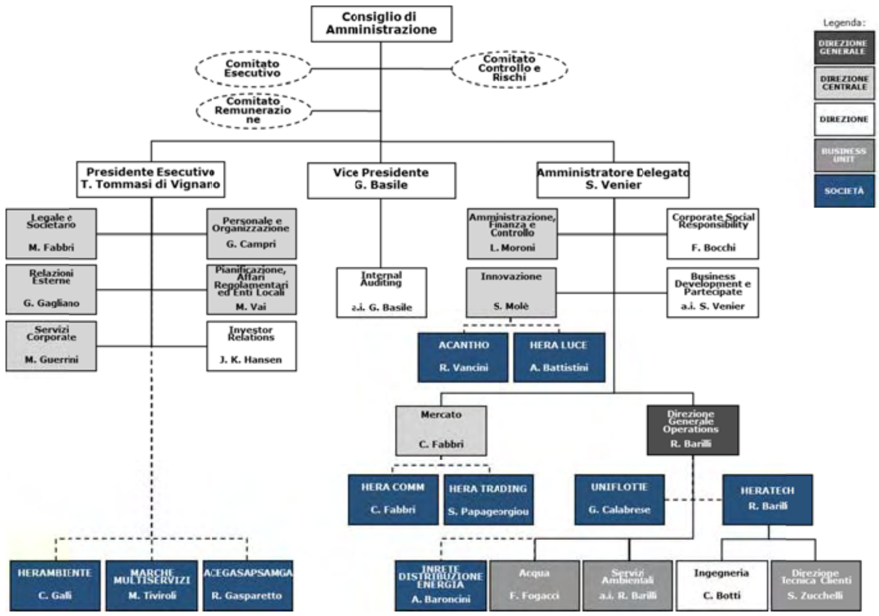
The management of business units is entrusted to the individual departments and companies that are under the control of Hera's top management and, as far as energy, integrated water services and environmental services are concerned, are coordinated by the General Operations department.

The utility sector is increasingly characterized by rapid changes, with competitive dynamics and a specialty-oriented regulatory setting, as well as other key elements such as water and environmental services legislation, 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 industrial processes, taking advantage of synergies associated with economies of scale and ensuring the maximum efficiency of services.

Innovation and streamlining of operating processes

In 2016 the Group consolidated its organizational model and completed the activities required to complete the spin-off of natural gas and electricity distribution, continuing efforts to simplify funtioning mechanisms and further increasing its commitment to innovating technology and procseses, with the aim of identifying the tools needed to achieve the Group's aims.

Below is the Group's organizational macrostructure as at 1 January 2017:



In line with regulatory developments on functional unbundling, since 1 January 2016 the organizational changes associated with the process of spin-off in gas and electricity distribution have been implemented.
In particular, beginning 1 July 2016, the Energy Networks unit became part of the Hera Group company Inrete Distribuzione Energia Spa, which is responsible for overseeing the management of activities involved in gas and electricity distribution services in the designated area in the perimeter of Emilia Romagna, wholly in compliance with the functional unbundling requirements for companies operating in the electricity and gas sectors as required by Authority resolution no. 296/201.

As part of the same process of reorganization, during the second half of 2016 functional activities were completed for the establishment, on 1 January 2017, of the Hera Group company Heratech Srl, which will be aimed at achieving further objectives of effectiveness and efficiency as part of the management of processes for designing and constructing plants and networks, the management of technical activities for the final customer, the measurement and control of consumption and the management of the activities carried out by the Laboratories and the Group's remote fluid monitoring system.
Further integration of the Group's laboratory system is also planned, including for current areas of AcegasApsAmga, thus generating operational excellence for laboratory analyses in the Northeast region.

Through its organization, processes, resources and systems, the Group aims to balance its business prospects and territorial roots while pursuing maximum effectiveness and efficiency in service delivery.

Making AcegasApsAmga's organisational model uniform

AcegasApsAmga's structural harmonization process was still ongoing in 2016.
To this end, the Group established the technical customer management department that coordinates the technical activities associated with customer management for all the business units, in keeping with the Group's organizational model.
A company-wide project aimed at improving performance and the levels of service provided in AcegaApsAmga contact structures was launched, promoting an integrated view of the diverse customer management issues. As part of this process the customer operations framework has been merged into Administration, Finance and Customer Operations and for the sake of completeness it has also taken on the coordination of billing activities.
Finally, activities related to the management of public lighting and cemetery services have been focalized in the public lighting and services department, and activities of relating with local stakeholders have been made part of the Planning, Control and Relations with Local Authorities department.

Main developments in Herambiente

During 2016, the organizational model of the Market Department was modified by splitting commercial structures into two areas, Global Service, and SMEs and Micro-collection, each one tailored to a specific customer segment. The rationale behind this development was to maximize customer satisfaction through a directed, efficient service and the optimization of processes through the introduction of a lean organizational approach.
At the same time, in logistics, the Group's market orientation was further reinforced with the establishment of the new operational client management structure, which is aimed at providing a proactive response to customer needs.
An Authorizations and Environmental Monitoring department was also set up directly under the supervision of Herambiente Spa's CEO, aimed at centralizing responsibilities and activities related to the configuration and technical and administrative management of environmental permits.
As of 1 July 2016 operations were completed to lease the business unit comprising the hazardous and non-hazardous waste storage facility located in San Vito al Tagliamento (Pn) from Herambiente to Herambiente Servizi Industriali Srl.

Hera Spa: Main developments in the Central Market Department

As regards the Central Market Department, during 2016 the following changes of note occurred:

- effective as of 1 January 2016, the new Energy Services Department was established to reinforce the Group's focus on the Energy Service business as well as to attain transversal cooperation between the group companies operating in this area and the District Heating Department.
- effective as of 1 January 2016, the Direct Selling structure in the Top Business market was reallocated within the Marketing and Indirect Sales Management (renamed Marketing and Sales) in order to underpin the overall coverage of the Top Business customer segment, and to encourage interaction with strategic marketing configuration activities;
- effective 1 July 2016, the reorganization of Amga Calore & Impianti, aimed in particular on focusing technical management on core operating activities (and the associated enucleation of customer management activities) and strengthening technical-economic optimization of plant operations;
- effective 1 November 2016 there was a reorganization of the District Heating Department aimed in particular at pursuing further synergies and areas of

operational alignment with the other structures making up the Central Market Management, specifically activities of optimization/planning of production and development as well as commercial management.

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

Hera Spa: Main developments in Central Bodies

- with reference to the organizational changes ensuing from the above spin-offs, the reallocation - effective as of 1 January 2016 - of the Insurance structure, which was previously under the Customer Technical Department and reported directly to Risk Management and Insurance at the Central Legal and Corporate Affairs Department.
- effective 1 January 2016, the reallocation of Uniflotte Srl's supplier and general accounting activities within the Department of Administration, Finance and Control, in line with the Group's operating model;
- effective March 2016, the Director of Administration, Finance and Control was put in charge of the organizational unit responsible for monitoring EMIR legislation on derivatives contracts;
- effective May 2016, the area managers of the various territories, previously allocated to the Relations with Local Authorities department, were repositioned directly under the Strategic Planning and Regulatory Affairs department, which was simultaneously renamed Central Planning, Regulatory Affairs and Local Authorities;
- over the course of the year, a project was implemented aimed at optimizing auditing processes fat the Group level, with particular reference to possible operational synergies between the activities carried out by the Quality, Safety and Environment Department, the Internal Auditing Department and the Central Administration, Finance and Control department.
- As regards the Central Innovation Department, during 2016 the following changes of note occurred:
  - effective April 2016, Hera Luce Srl underwent a reorganization aimed in particular at further strengthening the management of participation in service provision calls for tenders and the rationalization of staff activities in line with the integration processes underway in the relevant central structures;
  - effective May 2016, the Technical Department of Acantho Spa underwent reorganization aimed in particular at developing an integrated vision of processes in the network field and in keeping with an end to end logic with regard to customer management, network infrastructure management and assurance activities;
  - effective July 2016, a customer operations structure was established in Acantho Spa's field of Sales Management, in which customer care activities were located, and which comprises the accounts receivable and debt collection activities previously allocated to Management, Quality and Purchases Control.

New committees: Management Review 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

Risk Corporate Governance

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 internal risk management auditing enables organizational strategies to be handled uniformly and consistently. 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 Audit and Risk 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 of the Board.

The two main corporate bodies responsible for supervising the issue of risk in accordance with their responsibilities are described in more detail below.

The Audit and Risk Committee

Under Principle 7 of the Self-Governance Code, the Audit and Risk Committee oversees the internal auditing system, the efficiency of corporate operations, the reliability of financial reporting and compliance with laws and regulations, as well as the protection of company assets. This committee is also responsible for supporting the Board of Directors, following adequate instruction, in assessing and making decisions relating to the risk management system. Meetings are attended by the Chairman of the Board of Statutory Auditors or by another Auditor appointed by the Board Chairman; upon invitation, the Committee Chairman, CEO and Chairman of the Board of Directors may also attend.

The Risk Committee

The Risk Committee was appointed by the Board of Directors on 28th April 2014 and consists of: Hera Spa'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 CEO 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 risk management process guidelines; mapping and monitoring business risk;
- ensuring that risk policies and measurement parameters are defined and submitted for approval to the Hera SpA Board of Directors;
- reporting to the Board on a half-yearly basis;
- 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.

Enterprise 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, and Continuous Risk Management, which requires a persistent sector-specific risk management approach, entrusted to dedicated risk Specialists / risk Owners, in line with ad-hoc processes and methods which are developed and enacted within the relevant risk policies.

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.

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 measures to curb their severity are noteworthy.

Risks associated with environmental impact regulations

The Group manages to tackle environmental hazards by constantly monitoring the potential pollution factors (also ensuring transparency in the surveys), as well as through substantial investments in sewage and reclamation plants that ensure water quality under law provisions.

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 were carried out to ensure that the information managed by the Group is available, intact and confidential. Substantial investments were allocated to monitoring and control systems at the Group's plant sites and headquarters access points, to ensure they enjoy adequate physical safety standards and to curb any risks arising from break-ins, such as damage and tampering.

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 was completed in the ICT sector, to provide technology infrastructure hosting at a secondary site.

Finally, 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 recently developed a well-planned strategic risk analysis model, designed to gauge the soundness of a business plan against a variety of adverse risk scenarios, which supports an integrated risk projection from an enterprise-wide viewpoint.

External Risks

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

Competitive-regulatory risks

These involve rate and market structure adjustments set forth by industry authorities and lawmakers, government incentives on renewable energy 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, more performing and less impacting technology.

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, risk is limited by a refund mechanism in favor of the outgoing operator, out of the residual industrial value of the concession. Finally, risk associated with authorization processes is mitigated through regular monitoring activities of the above processes and by proactive partaking in working boards 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, i.e. 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 2016 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 centralized 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.

1.11 CORPORATE GOVERNANCE REPORT

1. Issuer profile

The Hera Group was born in 2002 out of the integration of 11 Emilia-Romagna public service companies, and in the subsequent years continued its territorial growth in order to expand its core business.

Hera is one of the leading Italian multi-utilities in the waste management, water, gas and electricity businesses, with more than 8,500 employees.

The Company, the majority of whose share capital is owned by the State, has been listed on the Mercato Telematico of Borsa Italiana S.p.A. since 26 June 2003 and operates mainly in the territories of Bologna, Ravenna, Rimini, Forlì, Cesena, Ferrara, Modena, Imola and Pesaro-Urbino, and since 1 January 2013, following the integration of AcegasAps, in the territories of Padua, Trieste and Gorizia as well. Following the aggregation with Amga Azienda Multiservizi., which was completed as of 1 July 2014, Hera extended its activities to include the Municipality of Udine and the Province of Udine as well.

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 as part of its strategy, as an effective tool for increasing competitivity and as a key element 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 21 March 2017.

a) Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the TUF)

The share capital is euro.1,489,538,745, fully subscribed and paid-up, and consists of 1,489,538,745 ordinary shares with a par value of euro1 each.

Share Capital Structure

Type of shares	n° of shares	% of share capital	Listed	Rights and obligations
Ordinary shares		100%	Mta Borsa Italiana	Ordinary shares give holders dividend and voting rights

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 no. 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 no. 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)

Declarer	Direct shareholder	% of the share capital
Municipality of Bologna	Municipality of Bologna	9,731%
Municipality of Imola	Con.Ami	7,278%
Municipality of Modena	Municipality of Modena	6,519%
Municipality of Ravenna	Ravenna Holding Spa	5,319%
Municipality of Trieste	Municipality of Trieste	4,603%
Municipality of Padua	Municipality of Padua	3,663%

d) Shares that confer special rights (pursuant to Article 123-bis, paragraph 1, letter d) 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.

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 122 of the TUF, there is a Voting Trust and Share Transfer Rules Agreement in existence between 118 public shareholders concerning procedures for the exercise of voting rights and the transfer of Hera shares held by the signatories. This agreement was signed on 23 June 2015 for a period of three years and is effective from 1 July 2015 to 30 June 2018.

There is also a Voting Trust Agreement in existence between 22 public shareholders from the Modena area concerning the definition of the procedures for the exercise of voting rights, the transfer of Hera shares held by the signatories and appointment of the members of the Board of Directors. This agreement was signed on 25 June 2015 and is effective from 1 July 2015.

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

The shareholder's meeting of 28 April 2016 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 euro1 each, 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 Spa, 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 is also stated that the number of treasury shares in the portfolio at the close of the 2016 financial year was 20,751,684.

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 organizational 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,

http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2015.pdf
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4. * Board of Directors;

Hera is equipped with an ordinary/traditional system of governance The following sections outline 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)

The shareholder's meeting held 23 April 2014 appointed a Board of Directors for three terms, with a mandate lasting from now until the approval of the financial statement for the 2016 financial year and composed of 14 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 2 must be of the less-represented gender;
- 3 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 must be 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 31 May 1994, converted from Law no. 474 of July 30 1994.

The Shareholders' Meeting convened for 27 April 2017 will be asked to vote on the renewal of the administrative body which, according to the changes introduced under the articles of association with the transitional provision approved by the shareholders on April 28, 2015, will consist of 15 members, with the number of members of the Board of Directors drawn from the lists presented by minority shareholders consequently increasing from three to four. Five members of the Board of Directors must be of the less-represented gender, with four of these drawn from the list that received the most votes, following the order in which they were listed, and one drawn from the lists other than those that received the most votes; Additionally, Article 17 of the Articles of Association stipulates that the lists, which must include at least two candidates satisfying the independence requirements established for the statutory auditors by Article 148, paragraph 3 of Legislative Decree no. 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A., may be submitted by shareholders who represent at least 1% of shares with voting rights and must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting, 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, as well as the satisfaction of the requirements of integrity, and any applicable declaration of satisfaction of the independence requirements established for the statutory auditors by Article 148, paragraph 3 of the TUF and by the Code.

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.

In accordance with Article 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.
There is a Voting Trust and Share Transfer Rules Agreement in existence between the local authority shareholders which governs the procedures for drawing up the majority list.

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 first Meeting will act to supplement the Board of Directors.

b) 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:

I. appointment and/or removal of the Chairman and Vice Chairman;
II. appointment and/or removal of the CEO and/or the General Manager;
III. formation and composition of the Executive Committee, appointment and/or removal of the members of the Executive Committee;
IV. 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;
V. approval and modification of any long-term plans or business plans;

VI. approval and modification of Group regulations, if adopted;

VII. recruitment and/or appointment, on the proposal of the Group CEO, of the managers responsible for each departmental area;

VIII. proposal to place on the agenda of the extraordinary 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;

IX. the acquisition and disposal of equity investments with a value exceeding euro 500,000 (five hundred thousand);

X. purchase and/or sale of properties with a value exceeding euro 500,000;

XI. provision of sureties, liens and/or other real guarantees with a value exceeding euro 500,000;

XII. purchase and/or sale of companies and/or business units;

XIII. appointment of directors of subsidiaries and affiliates;

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

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. Each 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 11 occasions in 2016. All the directors took part in nine of these meetings, while almost all of them took part in the other two; all the statutory auditors took part in nine of the meetings, while almost all of them took part in two. The average length of the meetings of the Board of Directors was approximately two hours and thirty minutes.

The General director of Operations, invited to participate in the meetings of the Board of Directors, attended ten 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 participated in the meetings of the Board of Directors, to refer on matters falling under their competence that are part of the agenda.

Regarding the current financial year, as of 21 March 2017, a total of three Board of Directors meetings have been held. All the directors and standing statutory auditors took part in one of these meetings, while the other two meetings were attended by almost all of the current directors and all the standing statutory auditors. As of that date, four meetings of the Board of Directors had already been planned for the remainder of the year.

Transactions with Related Parties

At its meeting of 10 October 2006, the Board of Directors of Hera S.p.A. approved, in compliance with the Corporate Governance Code then in force, the 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 by virtue of Resolution no. 17221 of 12 March 2010 and subsequent amendments and integrations thereto (Consob Regulation).

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 parties and transactions with related parties, 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;
    - 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, or 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 euro1 million;
    - 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 Operations with Related Parties (hereinafter referred to as "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 favorable opinion from the Committee regarding the interest, appropriateness and substantive correctness of the transaction, that is, following a vote in favor 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 favorable 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 Internal Control and Risks Committee.

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 31 March 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.

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

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

This evaluation was carried out with the support of the external consultancy Spencer Stuart, governance experts and administrative body consultancy services, and is based on the following criteria:

– interviews with the members and chairman of the Board of Statutory Auditors
– analyses of international best practices;
– analysis of the culture of the Board of Directors
– examination of the company documents.

The interviews with the directors showed a very high overall level of appreciation for the way the Board operates: the responses, in keeping with the topics presented in the interview schedule, amounted to 96%.

The company Spencer Stuart, which supported the Board of Directors in this assessment, reported a very high level of appreciation overall, in comparison with other boards in Italy and abroad.

On 15 February 2017, the Board of Directors expressed a positive judgment with regards to the size, composition and functioning of the Board itself as well as its associated committees.

Here below is outlined the current composition of the Board of Directors. The personal and professional details of each director are available on the website www.gruppohera.it [HYPERLINK: http://www.gruppohera.it/].

Name and surname	Office held	Office
Tomaso Tommasi di Vignano	Executive Chairman	Executive director
Stefano Venier	Chief Executive Officer	Executive director
Giovanni Basile	Vice President	Independent non-executive director
Mara Bernardini	Director	Independent non-executive director
Forte Clò	Director	Independent non-executive director
Giorgia Gagliardi	Director	Independent non-executive director
Massimo Giusti	Director	Independent non-executive director
Riccardo Illy	Director	Independent non-executive director
Stefano Manara	Director	Independent non-executive director
Luca Mandrioli	Director	Independent non-executive director
Danilo Manfredi	Director	Independent non-executive director
Cesare Pillon	Director	Non-executive director (indep. according to Tuf since 20 April 16)
Tiziana Primori	Director	Independent non-executive director
Bruno Tani	Director	Independent non-executive director

Accumulation of positions in other companies.

In a resolution dated 10 October 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 regulatory reference frame.

d) Delegated bodies

In Hera Board of Directors includes two executive directors, the chairman and the CEO, to whom various business sectors report and to whom have been granted the following powers, as further explained 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;
2. to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the CEO;
3. to oversee the deliberations of the Company's administrative bodies, without neglecting the reports presented periodically by the Internal Auditing Department;
4. to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;

5. 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;
6. 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;
7. to represent the company in relations with the shareholding Public Authorities;
8. 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;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. 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;
11. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
12. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
13. 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;
14. 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;
15. 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;
16. 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;
17. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
18. 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) a. to sign notices, including notices to the General Register of Shares and to Consob, and to fulfill the corporate obligations provided by law and regulations;
    b) to submit reports, motions and appeals, to apply for licenses and authorizations;
19. 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 judgments and seizures of property and oppose the same, enter civil proceedings, file motions and appeals;

b) 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;

20. 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 euro 500 thousand for each transaction;
21. 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 euro 300 thousand for each operation;
22. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
23. 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 euro 2 million for each transaction;
24. 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 euro 20 million 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 euro10 million 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 license with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
    d) commercial information;
25. 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;
26. 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, including those connected to state grants or calls for tenders, for awarding work projects or facility provision, including for turnkey contracts and/or study and/or research and/or services in general, from any national, EU or international body; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding euro 25 million 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;

27. 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 euro 500 thousand for each operation (this limit will not apply to transactions connected with participation in tenders);
28. to draw up, sign and implement deeds of sale, purchase, and expropriation of properties and to grant, modify or cancel the 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 installments, the payment, and to pay out possible damages and waive statutory mortgages, up to a total of euro 500 thousand for each operation;
29. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate 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 installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of euro 500 thousand for each operation;
30. to rent or let out properties under leases or subleases and stipulate, amend and terminate the relative contracts;
31. to deliberate 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;
32. 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;
33. to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of euro 5 million for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
34. to define the functional structures of the Company and its subsidiaries, within the framework of the general organization 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;
35. to represent the Company in all lawsuits pertaining to labour law, including the power to:

a) settle individual labour disputes concerning the categories of officers, clerical workers, assistants and auxiliaries;
b) 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;

36. 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;
37. 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;
38. as far as his authority permits, to decide 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 euro 300 thousand for each operation;
39. the Chairman is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of 30 June 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;
40. 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 account of the characteristics of 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 organizational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's business and strategies.

Chief Executive Officer

The Board of Directors passed a resolution to vest the Group 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;
2. 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;
3. 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;
4. 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;
5. to draw up the annual budget to be submitted to the Board of Directors;
6. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
7. to make monthly reports to the Board of Directors, as far as his authority permits, as regards the specified subsidiary companies;
8. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
9. to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to euro 1 million for each individual transaction;
10. 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;
11. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
12. 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;
13. to grant credit and accept credit transfers from suppliers (reverse factoring and/or indirect factoring contracts) on behalf of the Company, with and/or without recourse, up to a maximum amount of euro 250 million for each individual transaction, and to work with factoring companies and institutions, signing all related deeds;
14. 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) to sign tax and VAT returns and to fulfill any other tax-related obligations;
    b) to submit reports, motions and appeals, to apply for licenses and authorizations;
    c) to issue receipts, in particular for payment orders in relation to credits subject to factoring operations;
    d) to perform 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;

15. to issue guarantees and grant loans, and sign bank surety agreements up to the value of euro 500 thousand for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
16. 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;
17. 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, including those connected to state grants or calls for tenders, for awarding work projects or facility provision, including for turnkey contracts and/or study and/or research and/or services in general, from any national, EU or international body; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding euro 25 million 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;
18. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
19. 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 euro 2 million for each transaction;
20. 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 euro 300 thousand for each operation;
21. to conclude transactions up to an amount of euro 5 million for each individual operation, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
22. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate 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 installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of euro 500 thousand for each operation;

23. 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;
24. as far as his authority permits, to decide 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 euro 300 thousand for each operation;
25. the CEO is assigned the role of employer pursuant to and for the purposes of Article 2 of Legislative Decree 81 of 9 April 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) Mr. Marcello Guerrini, as Corporate Systems Central Director.
    b) Mr. Roberto Barilli, as Operations General Director and in particular for the regulated services planning and coordination department and for the Environmental Services department.
    c) Mr. Salvatore Molè, as Innovation Central Director.
    d) Mr. Franco Fogacci,as Director of Water;
    e) Mr. 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).
26. the CEO is responsible for managing activities relating to the Register of Freight Carriers, with the power of delegation;
27. 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 account of the characteristics of 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.

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 23 April 2014, in office until the natural expiration of the administrative body's term, and therefore until the approval of the financial statements as of 31 December 2016, as provided for by Article 23.3 of the Articles of Association, at its meeting of 28 April 2014, appointed the Executive Committee consisting of the following members:

- Mr. Tomaso Tommasi di Vignano Chairman of the Executive Committee
- Mr. Giovanni Basile Vice Chairman of the Executive Committee
- Mr. Stefano Venier member of the Executive Committee
- Mr .Riccardo Illy 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 euro 2 million 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 euro 300 thousand and up to euro 1 million 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 euro 300 thousand and up to euro 1 million for each operation;
4. to settle disputes and/or waive credits of an amount exceeding euro 5 million;
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 euro 1 million and up to euro 5 million 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 euro 20 million 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 euro10 million for each operation.

7. To examine Audit Reports on a three-monthly basis
8. to supervise, in conformity with the system of delegations defined within the Company, the implementation of the action plans arising from the audit reports.
9. examine the reports for the mapping and monitoring of financial risks on a three-monthly basis;

The Board of Directors met on six occasions in 2016, 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 fifteen minutes

f) Independent directors

There are currently 12 directors qualifying as non-executive independent members of the Board, including:

1) 11, Giovanni Basile, Mara Bernardini, Forte Clò, Giorgia Gagliardi, Massimo Giusti, Riccardo Illy, Stefano Manara, Luca Mandrioli, Danilo Manfredi, Tiziana Primori e Bruno Tani, satisfy the requirements of independence established by the Code of Self-Discipline and article 148, paragraph 3 of the TUF.
2) one, Cesare Pillon, has the requirements of independence set forth under Article . 148, paragraph 3 of the TUF. beginning April 6, 2016

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.

As for the Hera directors that have been in office for more than nine years (Mara Bernardini and Bruno Tani), the Board of Directors has decided that they also possess requirements of independence, as the mere duration of the term does not in itself invalidate the independence of directors, as this does not affect either their independent judgment or their autonomous processes of evaluation. The over nine-year duration of the mandate strengthens the director role, in consideration of the skills acquired by the same.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 3 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.

Lead independent director

The appointment of the Lead independent director has not accured, in the absence of the requirements established by the Corporate Self-Discipline Code, and in the absence of a specific request to that effect by independent directors.

Induction

As occurred in the past for new appointments to the Board, it was decided to arrange for some occasions of further reflection, both specific and as part of Board meetings. With the renewal of the Board of Directors in 2014, the Group has intensified this activity in

order to ensure that the directors acquire adequate knowledge of the main issues related to the company as quickly as possible.
As in previous years, after the specific induction sessions carried out in 2014 to provide newly appointed board members with an appropriate understanding of the main sectors of activity (networks, energy and environment), during the following fiscal years several training events were organized, as part of the Board of Directors' meetings, regarding business issues, investments, organization, market scenario, regulatory developments, next calls for tenders and risk management.
Further studies were carried out during the strategy day, which gave the opportunity to develop a number of key topics in relation to the future of society.

5. Handling of corporate information

For the purposes of governing the communication to the sector Authorities and to the public of notices, data and privileged 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, the Board of Directors updated the specific Group procedure, coming into effect beginning July 3, 2016, adopting the new legislation introduced by the European regulation on Market Abuse Regulation (Mar) (EU regulation 596/2014, directive 2014/57/EU, EU Execution regulation 2016/347 and 2016/1055).
This procedure aims at:

i) identifying privileged and confidential information;
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.

Consequently, in application of the new procedure with regard to internal dealing updated by Hera S.p.A. on July 3, 2016 of the Mar (EU regulation 596/2014, directive 2014/57/EU, EU Execution regulation 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 and the Executive Director as well as individuals closely linked to these parties.
This procedure governs the timescales and modes for communicating 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.
With effect beginning 3 July 2016, Hera Spa also updated the procedures for drafting and maintaining, as well as the content of the list of people with access to confidential information in compliance with the provisions introduced by Mar (EU Regulation 596/2014, Directive 2014/57 / EU, EU implementation Regulation 2016/347), which, in particular, expanded the concept of privileged information, establishing that it is an information with a precise nature which has not been made public, relating, directly or indirectly, one or more issuers or one or more financial instruments and which, if made public, could have a significant effect on the prices of such financial instruments or associated derivative financial instruments, and introducing the concept of privileged information gradually developing.

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 Spa'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..

When interacting with the Board of Directors, these committees function on the basis of internal regulations and/or communicational rules designed to guarantee that they function correctly and efficiently.

The Board of Directors, renewed on 23 April 2014, redefined the composition of the afore-mentioned committees at its meeting of 28 April 2014.

a) Appointments Committee

It was decided that the Board of Directors would fulfill the functions of the Appointments Committee, also in view of the fact that members of the Board of Directors are appointed by the shareholders through the list voting system during the shareholders' meeting.

b) Remuneration Committee

The Remuneration Committee has the task of making recommendations to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and general manager of operations as well, based on information provided by the Executive Director, for adopting general criteria for the compensation of the executives.

The Committee also regularly assesses the adequacy, the overall consistency and concrete application of the general policy adopted for the remuneration of executive directors and the general manager of operations.

In the performance of its functions, the Remuneration Committee had access to the information and business functions necessary for carrying out its duties.

This Committee, created for the first time during the meeting of the Board of Directors of November 4 2002 and renewed on 28 April 2014, is made up by the foollowing non-executive directors: Giovanni Basile (independent), Mara Bernardini (independent). Luca Mandrioli (independent) and Cesare Pillon (independent according to Article 148, paragraph 3 of the TUF.

Note that the Chairman Giovanni Basile as well as the member Luca Mandrioli have experience in accounting and 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 can attend the Committee's meetings.

The remuneration committee met on two occasions in 2016, and all of the meetings were attended by all members. The average duration of the meetings of the Remuneration Committee was approximately one hour and thirty minutes.

In 2016, the Remuneration Committee handled matters relating to remuneration policies, subject to approval by the Board of Directors at the time of the 2016 financial statements.

The Remuneration Committee proposed the introduction, after the renewal of the Board of Directors which will take place during the Shareholders' Meeting scheduled for 27 April 2017, of a claw-back clause for executive directors, as well as the introduction of a clause providing, in case of resignation, dismissal or termination of the position, a claim for compensation in the amount of 18 monthly salaries.

For additional information, please see the Remuneration Report pursuant to Art.123-ter 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, which was renewed on 28 April 2014, comprises the directors Giovanni Basile as Chairman, Massimo Giusti, Stefano Manara and Danilo Manfredi. Note that the Chairman Giovanni Basile has 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 8 occasions in 2016. All the members took part in 6 of these meetings, duly recorded in the minutes, while almost all of them took part in the remaining two; The average length of the meetings of the Internal Controls Committee was approximately one hour.

Functions assigned to the Controls and Risks Committee

The control and risk Committee is responsible for supervising the functionality of the internal control system, the efficiency of business processes, the reliability of the information provided to the corporate bodies and the market, as well as compliance with laws and regulations and on 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:

d) 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;

e) expresses its judgment regarding specific aspects of the identification of primary corporate risks;
f) 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;
g) 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;
h) monitors the autonomy, effectiveness and efficiency of the Internal Auditing Structure;
i) 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;
j) 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;
k) 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 the 2016 financial year, which were duly recorded, the following measures were carried out:

- assessment and approval of periodic reports;
- update of ongoing and completed audits;
- approval of the audit plan and budget.

The Committee also presented the synthetic internal auditing plan of AcegasApsAmga Spa and drafted the Business Plan and budget of the Internal Auditing Department.

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 2016, 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 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 Article 60 of the aforementioned Code, the Board of Directors, at its meeting of 8 October 2007, set up a suitable Committee, whose composition was renewed on 2 May 2011. Consequently, in application of Article 60 of the aforementioned Code, the Board of Directors, at its meeting of 8 October 2007, set up a suitable Committee, whose composition was renewed on 28 April 2014. This Committee comprises a director of Hera S.p.A. in the person of Massimo Giusti, Mario Viviani, and a manager with expertise in matters of social responsibility.

The Board of Directors of Hera S.p.A., at its meeting of 26 January 2011, at the end of the three-year experimental phase of using the Code of Ethics, adopted an updated text of the Code with a view to implementing it within the Company.

In 2017, the code was updated again in its fourth edition, in keeping with a process of sharing with the social partners, as well as benchmarking of similar companies and a forum involving executives and directors of the Company.

The Ethics Committee met on six occasions in 2016, and all of the meetings were attended by all members. The average duration of the meetings of the Ethics Committee was approximately ninety minutes.

Functions of the Ethics Committee

The Ethics 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, an ethics committee was established for which Whistleblowing policies are in effect, designed to provide a confidential and direct channel of communication with the committee for all the stakeholders interested in reporting any possible conduct in violation of the code and the values promoted by the Group.

In the meetings held during the course of the financial year the Committee closely examined the notices and related preliminary inquiries carried out with the relevant departments.

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 Spa listed companies, reference models and best practices at national and international levels.

The corporate governance of risks in Hera

Hera has adopted an organizational structure to manage properly the risk exposures originating from the Group's business, through an integrated approach designed to preserve the effectiveness and profitability of the management across the entire value chain.

The system of corporate governance for risk management implemented in Hera enables a unified and coherent approach of the management strategies (Enterprise Risk Management). According to this system:

- The Board of Directors has a role of guiding and assessing the effectiveness of the internal control and risk management system;
- The Chairman and CEO oversee, within their scope of responsibility, the functionality of the internal control and risk management system;
- The vice Chairman oversees the coordination between the Risk Committee and the Controls and Risks Committee;
- The Controls and Risks Committee supports the Board of Directors in defining the guidelines of the internal control and risk management system;
- The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of risk management, identifies the general guidelines for the process of risk management, carries out the mapping and monitoring of corporate risks, defines the risk policy and information protocols toward the Controls and risks committee, the Internal Audit Department and Board of Statutory Auditors.

Within Hera there is an appropriate separation between the role of control and risk management, assigned to risk owners in the various organizational parts and the role of assessing the adequacy of the risk management processes.

Specifically, monitoring the correct and effective functioning of the internal control and risk management system is centralized and carried out through a mandate by the Internal Auditing Department, reporting directly to the Vice chairman.

The two main corporate bodies in charge of overseeing the risks, according to their respective responsibilities, are described below in greater detail.

Risks Committee;

The Risk Committee, appointed by the Board of Directors on April 28, 2014, comprises the Chairman, the Vice Chairman and the CEO of Hera SpA, the Central Director of Administration, Finance and Control, the Central Market Manager and the Enterprise risk manager. Additionally, in relation to specific domains of responsibility, the Central Legal and Corporate Director, the Central Corporate Services Director, the Central Innovation Director and the General Director of Hera Trading Srl may also participate:

The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of 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 the definition of the risk policies, risk profile and risk limitations to be submitted for approval by the Hera S.p.A. Board of Directors;
- ensuring a bi-annual reporting concerning risk trends and management;
- defining and ensuring information protocols directed to the Controls and Risks Committee, the Internal Auditing Management and the Board of Statutory Auditors.

Relevant risks handled by the Risk Committee pertain to the following areas: strategic, energy, finance, credit, insurance, information and communication, technology, safety and the environment, and business continuity.

In 2016 the Risk Committee met four times and provided information on risk management to the Board of Directors during its meetings on 20 January and 28 July.

The Group's risk management structure

In the overall design of the risk management process, Hera has adopted a structured approach, in line with the industry best practices, through the introduction of the Enterprise Risk Management (Erm). This move is aimed at defining a systematic and consistent approach to their control and management, creating an effective model for guiding, monitoring and representing, aimed at rendering management processes more efficient and consistent with the objectives of top management.

In particular, this approach is intended to provide the Board of Directors with the elements useful to the assessment of the nature and level of business risk, particularly in the medium to long term, in order to enable the definition of a risk profile compatible with the strategic objectives of the group. The definition of such profile is made explicit through the approval of the Group risk management policy and the risk limits set out therein by the Board of Directors. More specifically, the policy defines the Group's direction on risk issues by identifying the risk management framework, expressed through three fundamental elements:

- The risk model, which identifies the scope for the risk management analyses carried out by the Group. It defines the universe of risks, or the different types of risk which the Group is potentially exposed to, subject to periodic revision depending on the evolution of the Group's mission, strategic objectives and business perimeter, as well as the socio-economic context.
- The Group's risk propensity, which defines the acceptable level of risk coherently with the risk management strategy. It is defined through the identification of:
  - the key risk dimensions, that is of the most significant risk factors in relation to which the Group intends to render explicit its own risk propensity;
  - risk metrics, which are necessary for the measurement of the exposure arising from a specific risk factor;
  - limits associated with each key risk dimension, outlining the maximum risk level tolerated by the Group in achieving its goals;
  - monitoring, escalation and update processes aimed at ensuring the timely identification of possible instances in which the defined risk limits were exceeded, the identification and implementation of corrective actions, the correct monitoring of all areas of significant risks and the alignment of the limits to group risk propensity.
- risk management activities, expressed
  - in enterprise risk management, aimed at analyzing the evolution of the Group's overall risk profile, providing results that constitute the tool supporting the conscious assumption of risk and the definition of strategic objectives;
  - in the management of risk in ongoing operations, which involves specific sectorial management of specific risks in ongoing operation entrusted to dedicated risk specialist/risk owner, according to ad hoc processes and developed methodologies and formalized as part of the relevant risk policies that guarantee an effectively oversee the entire universe of the main risks to which the Group is potentially exposed, as well as the overall management of the exposure of the Group in keeping with the views expressed in the risk propensity of the Group and the industrial plan objectives.

On January 20, 2016 the Board of Directors was presented with the first Erm report containing the mapping of the Group risks, accompanied by the appropriate evaluation

measures for each risk and consolidated risk (impact, probability, severity, levels of control) and in that occasion, the Board of Directors approved the Group risk Management Policy and risk limits for the year 2016.
On February 15, 2017 the Board of Directors was presented with the second Erm report containing the enlargement of the scope, the risk universe to be assessed and the types of risk and in that occasion, the Board of Directors approved the limits for 2017 and updated the Group risk Management Policy..

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 no. 58 art. 154 - bis of the TUF of February 24 1998;
- Law 262 of 28 December 2005 (and subsequent modifications, including Legislative Decree to assimilate the so calld directive 2004/109/EC on the harmonization of transparency requirements regarding the information on listed companies, approved on 30 October 2007) regarding the drafting of corporate financial documents;
- Consob Issuers' Regulation of 4 May 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 6 April 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 no. 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 spa Board of Directors in the meeting held 15 May 2013, 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:

1. Risk assessment for the identification and evaluation of risks regarding company information;
2. Identifying controls and updates for the financial-administrative procedures in view of the identified risks;
3. Evaluation of the identified risks.

Step 1: Risk Assessment

represents the process of identifying 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 the Group companies considered relevant in view of the proper functioning of the Group's control system for corporate reporting;
- identifying 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;
- a review of 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 SpA has established an internal control system under which the directors of corporate functions periodically verify the design and operating effectiveness of control activities, 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 on a regular basis.

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 Spa 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 will define 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 Spa'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.

- 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 28 April 2014, 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 operations concerning risk assessment on specific operational areas and compliance with internal rules and procedures in carrying out corporate operations.

c) Internal auditing department manager

During 2016, the manager of the department has terminated his employment relationship with Hera Spa. Steps were therefore taken to appoint, waiting to define the final organizational structure and in order to ensure proper operation of the internal control and risk management system, a coordination manager who reports to the Vice Chairman.

The Internal Auditing Department 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 Risk Management Committee and the Board of Statutory Auditors. It 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) Organizational model pursuant to Legislative Decree no. 231/2001 231/2001

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 organizational 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 organizational, 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 16 February 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. 123/07 and Legislative Decree no. 190/2012, the organizational, 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. 123/07 as well as Law.

At present, the organizational, management and control model pursuant to Legislative Decree no. 231/2001 with the purpose of creating a structured and organic system of procedures and preventive control activities having as its objective the prevention of crimes referred to in the aforementioned decree, through the identification of activities exposed to the risk of crime and their consequent proceduralization.

As of today, the organizational, managerial and control model pursuant to Legislative Decree 231/2001 includes 22 protocols, implemented over time and associated to the individual sensitive areas.

The risk factors and critical points are identified and weighed through the risk assessment against the business areas of the Group and the processes of infrastructure. The specific risks concerning the issues of 231 are defined by the supervisory body in an annual audit plan that takes into account risk assessments, coverage of new processes, regulatory changes and the extension of the business scope of the Group's companies .

An integral part of the model is the six-month review by the supervisory body of information flows regarding risk activities.

Every three years, the risk analysis document with its audit plan is drawn up for the entire Group, the last of which covers the period 2016-2018.

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

The Board of Directors also set up the surveillance body, by approving the relevant regulation.

This body, which today comprises an external member with the role of Chairman, Hera Spa's Legal and Corporate Central Director and the head of Internal Auditing of Hera S.p.A. as Chairman, specifically has the task of periodically reporting to the corporate bodies of the parent company on the implementation of said model, as pursuant to Legislative Decree. 231/2001 and its mandate will continue until the date of the next Shareholders' meeting for the approval of the financial statement as of 31 December 2016.

The supervisory board met on 7 occasions in 2016 and all these meetings were attended by all the members.

The average length of the meetings of the supervisory board was approximately one hour and ten minutes.

The Supervisory Body approved and updated the 231 protocols comprising the organizational 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 Body drew up a schedule of measures for verifying compliance with the protocols adopted.

e) Independent Auditors

The Hera Spa Shareholder's meeting of 23 April 2014 appointed Deloitte&Touche Spa 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 1 October 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; 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. Appointment of the statutory auditors

The Statutory auditors are appointed by the Shareholders meeting using the list voting mechanism established by article. 26 of the Articles of Association. Specifically, (i) municipalities, provinces, consortia established 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.

The composition of the Board of Statutory Auditors, beginning from the first renewal of this board following the effective date of Law 120/2012, and therefore with effect beginning from the shareholders' meeting called to approve the Financial Statement as at

31 December 2013, and with reference to its first three consecutive terms, complies with current regulations relating to gender balance.
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. 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.
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.
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" means 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 office of Statutory Auditor is incompatible with the offices of councilor 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.

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

The shareholder's meeting held 23 April 2014 appointed a Board of Directors comprising three standing members and two alternates, with a mandate lasting from now until the approval of the financial statement for the 2016 financial year.
. 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. .
Table 2 below 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 [HYPERLINK: http://www.gruppohera.it/].
The Board of Statutory Auditors met 17 times in 2016; 14 of these meetings were attended by all statutory auditors, while 3 were attended by almost all of them. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours.
There is a voting trust and share transfer rules agreement in place between the public shareholders which governs the procedures for drawing up the list for the appointment of two statutory members and one alternate member of the Board of Statutory Auditors.
In carrying out its activities, the Board of Statutory Auditors coordinates with the Internal Audit Department and the Controls and Risks Committee.

9. 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]).

10. 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. They are held at the registered offices or elsewhere in Italy.
The right to take part in shareholders' meetings is enjoyed by shareholders with legitimate entitlement under the rules applicable at any given moment.
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 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 will be valid if they are passed on the basis of a vote in favor by attending shareholders representing at least three-quarters (rounded if necessary) of those with voting rights.
The shareholders' meeting of 29 April 2003 approved the text of the meeting regulations, the updated version of which is published on the Company's website www.gruppohera.it, which indicates 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 2016 financial year, one shareholders' meeting was held on 28 April, which was attended by 13 directors.

Table 1: structure of the Board of Directors and Committees

Board of Directors													Controls and Risks Committee		Remuneration Committee		Appointments Committee		Executive Committee		Ethics Committee	
Office held	**Members**	**Date of birth**	**Date of first nomination ***	**In office since**	**In office until**	**List ****	**Exec.**	**Non exec.**	**Indep. Code**	**Indep. TUF**	**N° other offices *****	**(*)**	**(*)**	**(**)**	**(*)**	**(**)**	**(*)**	**(**)**	**(*)**	**(**)**	**(*)**	**(**)**
Chairman	Tomaso Tommasi di Vignano	1947	04-nov-02	23-apr-14	Appr. F.S. 2016	M	X				-	11/11							6/6	P		
CEO Del.	Stefano Venier	1963	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X				-	11/11							6/6	M		
Vice President	Giovanni Basile	1965	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	11/11	8/8	P	2/2	P			6/6	M		
Director	Mara Bernardini	1957	01-gen-06	23-apr-14	Appr. F.S. 2016	m		X	X	X	1	11/11			2/2	M						
Director	Forte Clò	1951	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	11/11										
Director	Giorgia Gagliardi	1982	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/11										
Director	Massimo Giusti	1967	23-apr-14	23-apr-14	Appr. F.S. 2016	m		X	X	X	3	11/11	8/8	M			Not present				6/6	P
Director	Riccardo Illy	1955	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	2	11/11							6/6	M		
Director	Stefano Manara	1968	28-ago-13	23-apr-14	Appr. F.S. 2016	M		X	X	X	3	11/11	8/8	M								
Director	Luca Mandrioli	1967	29-apr-11	23-apr-14	Appr. F.S. 2016	M		X	X	X	4	11/11			2/2	M						
Director	Danilo Manfredi	1969	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	11/11	6/8	M								
Director	Cesare Pillon	1953	01-gen-13	23-apr-14	Appr. F.S. 2016	M		X		X	1	10/11			2/2	M						
Director	Tiziana Primori	1959	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/11										
Director	Bruno Tani	1949	27-apr-06	23-apr-14	Appr. F.S. 2016	m		X	X	X	-	11/11										
Indicate the *quorum required to present lists for the last appointment* : the lists can be presented by sharehoders who hold at least 1% of the voting shares in the ordinary shareholders' meeting																						
N° of meetings held during the year in question							BoD: 11		CRC: 8			RC: 2		AC: /				EC: 6			Ethics C: 6	

* The date of first appointment of each director refers to the date on which the director was appointed for the first time (ever) to the company's Board of Directors.

** This column shows the list from which each director was taken ("M": the majority list; "m" minority list; "CdA": the list submitted by the Board of Directors).

*** This column indicates the number of offices as director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large enterprises. For the list of these companies, with reference at each director, see Table 3.

(*) This column indicates the percentage of attendance by directors at the meetings of the Board of Directors and of the Committees (indicate the number of attended meetings as compared the total number of meetings that he or she could have attended, e.g.. 6/8; 8/8 etc..).

(**) This column indicates the role played by the director on the Board: "P": Chairman, "M": member.

Table 2: structure of the Board of Statutory Auditors

Board of Statutory Auditors									
Office held	Members	Date of birth	Date of first nomination *	In office since	In office until	List **	Indep. Code	*** (%)	No. of other offices ****
Chairman	Sergio Santi	1943	16-ott-03	23-apr-14	Appr. F.S. 2016	m	X	16/17	-
Standing statutory auditors	Marianna Girolomini	1970	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X	17/17	-
Standing statutory auditors	Antonio Gaiani	1965	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X	15/17	-
Alternate statutory auditors	Violetta Frasnedi	1972	23-apr-14	23-apr-14	Appr. F.S. 2016	m	X	-	-
Alternate statutory auditors	Valeria Bortolotti	1950	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X	-	-

Indicate the quorum required to present lists for the last appointment:

Article 26 of the Statute specifies that (i) municipalities, provinces and consortia constituted pursuant to art. 31 of Legislative Decree. no. 267/2000 or Agencies or Public Authorites, as well as consortia or companies controlled directly or indirectly by these are allowed to present a single list and (ii) the shareholders other than those listed in (i) may present lists provided that they represent at least 3% of the shares entitled to vote (percentage reduced to 1% by Consob Resolution no. 18775 of 29/01/2014)

Number of meetings held during the year in question: 17

* 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 held by the directors in other companies.

Name and surname	Office held	Other offices (*)
Tomaso Tommasi di Vignano	Executive Chairman	Member of the Bod of Landi Renzo Spa - Listed company - until 16 april
Stefano Venier	Chief Executive Officer	
Giovanni Basile	Vice President	
Mara Bernardini	Director	Chairman of the BoD of BPER Banca Spa - Listed company
Forte Clò	Director	
Giorgia Gagliardi	Director	
Massimo Giusti	Director	Member of the BoD of Cassa di Risparmio di Rimini Member of the BoD of Finpro Soc. coop. Vice president of Nadia Spa Società Immobiliare (Gruppo BPER Banca Spa)
Riccardo Illy	Director	Member of the BoD of Gruppo Illy Spa Member of the BoD Illycaffè Spa
Stefano Manara	Director	Chairman of the BoD of Con.Ami Chairman of the BoD of Comunica Scarl Chairman of the BoD of REST Srl
Luca Mandrioli	Director	President of the liquidators of Valli di Sole, Peio and Rabbi Spa in liquidation Vice President and CEO of Funivie Folgarida e Marilleva Spa Indep. member of the BoD of Banca Interprovinciale Spa Member of the BoD of Castello SGR Spa
Danilo Manfredi	Director	
Cesare Pillon	Director	Member of the BoD of Proxima Sas
Tiziana Primori	Director	
Bruno Tani	Director	

*** The list outlines the 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 SHAREHOLDERS MEETING RESOLUTIONS

The Hera Spa Shareholders Meeting:

- having acknowledged the Board of Directors' report;
- having acknowledged the Statutory Auditors' report;
- having acknowledged the Independent Auditors' report;
- having examined the financial statements at 31 December 2016, which closes with profits totalling € 144,687,055.75 euro;

resolves

- to approve Hera Spa's financial statements as at 31 December 2016 and the corporate governance report prepared by the Board of Directors;
- to allocate profits for the 1 January 2016 – 31 December 2016 financial year, for a total of € 144,687,055.75, as follows:
  - € 7,234,352.79 to the legal reserve; and
  - € 0.09 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
  - € 3,394,215.91 to the extraordinary reserve.

The total dividend paid out therefore amounts to € 134,058,487.05, corresponding to € 0.09 for each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio);

- to establish 21 June 2017 as the initial date for dividend payment, and 19 June 2016 as ex-dividend date for coupon no. 15, dividends being paid to shares recorded at 20 June 2016.
- 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.

1.13 NOTICE CONVENING THE SHAREHOLDERS MEETING

Shareholders are called to an Ordinary Shareholders Meeting at the registered office of Hera S.p.A. – Viale C. Berti Pichat n. 2/4, Bologna – in the "Spazio Hera" area – on 27 April 2017 at 10:00 in a single call to discuss and resolve on the following:

Agenda

1. Financial statements for the year ended 31 December 2016, management report, profit allotment proposal and Board of Statutory Auditors and Independent Auditors report: related and consequent resolutions. Presentation of the consolidated financial statements as at 31 December 2016.
2. Presentation of the corporate governance report and non-binding resolutions pertaining to remuneration policies.
3. Renewal of authorisation to purchase treasury shares and procedures for arrangement of the same: related and consequent resolutions.
4. Appointment of the members of the Board of Directors: related and consequent resolutions.
5. Quantification of compensation for members of the Board of Directors: related and consequent resolutions.
6. Appointment of the members and the Chairman of the Board of Statutory Auditors: related and consequent resolutions.
7. Quantification of compensation for members of the Board of Statutory Auditors: 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 authorized storage website 1Info (www.1Info.it) under the legal terms foreseen for each of the subjects treated.

<u>Appointment of the Board of Directors and the Board of Statutory Auditors.</u>

In appointing the Board of Directors, reference is made to Article 17 of the Articles of Association, as amended by the Transitional Provision contained in said Articles:

1) shareholders representing at least 1% of the share capital in an Ordinary Shareholders Meeting are authorized to submit lists aimed at appointing fifteen members of the Board of Directors. Each list must contain a number of candidates of the least represented gender that ensures compliance with the principle of balance between the sexes at least to the extent required by current legislation;
2) said lists, in which candidates must be identified by progressive numbers, must contain a number of candidates not exceeding the number of members to be elected, and must be filed at the registered office, under penalty of cancellation, at least twenty-five days prior to the date of the meeting. Considering that this deadline would fall on a holiday (Sunday 2 April 2017), the date within which the lists must be submitted has been postponed to the first working day following that date, i.e. 3 April 2017. The lists may be filed in the following ways: i) delivery to the registered office at Viale C. Berti Pichat no. 2/4, Bologna, addressed to the Direzione Centrale Legale e Societario during regular office hours (from 9:00 to 17:00); ii) via fax to the number +39 051 287244; or iii) via email to the address societario@gruppohera.it, provided that it is possible to identify the persons responsible for filing. The lists shall be made available to the public at the Company's registered office, on its website and on the authorised storage site 1Info within the following 6 April 2017. From the list obtaining the highest number of votes, in the sequential order in which they were found in the list itself, eleven members of the Board of Directors will be chosen, at least four of which belonging to the least represented gender. For the appointment of the remaining four members, the votes obtained by each of the lists other than the most-voted list, and which were neither presented nor voted for by shareholders associated – in accordance with the current regulations in force – with the shareholders who presented or voted for this

list, are divided subsequently by one, two, three, and four. The resulting numbers are assigned progressively to the candidates of each list, in the order set forth in the lists. The candidates are then placed in a single list, organized according to the number of votes assigned to each candidate, in decreasing order. The candidates elected are those obtaining the greatest number of votes up to the number of remaining members to be elected, at least one of which must be of the least-represented gender. In the case of an equal number of votes received by candidates on different lists, for the last member elected, preference will be given to the candidate from the list that obtained the most votes or, in the case of a further tie, the oldest candidate, in compliance with the principles of gender balance set forth in existing legislation.

If the minimum number of directors belonging to the least-represented gender are not elected, the candidate of the most-represented gender located in last place in the ranking of candidates elected from most-voted list will be replaced by the candidate of the least-represented gender located in first place among non-elected candidates from the same list, and so on until reaching the minimum number of directors belonging to the least-represented gender. If, despite the application of this criterion, the minimum number of directors belonging to the least-represented gender still has not been reached, the replacement scheme indicated above will be applied to minority lists, starting with the one which received the most votes;

3) together with the lists, presenters must also file:
   i) a description of the candidates' professional curriculum;
   ii) the irrevocable acceptance of the office on the part of the candidates (on condition of their appointment);
   iii) a certification that no grounds subsist for ineligibility and/or forfeiture;
   iv) a certification that they possess the requisites of honour as mandated by article 147-quinquies of Italian Legislative Decree no. 58/1998;
   v) if necessary, a declaration stating they have the independence requisites established by article 147-ter, paragraph 4 of Italian Legislative Decree no. 58/1998 and those provided for by the Code of Conduct drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A.;
4) at least two candidates on each list must be in possession of the above-mentioned independence requirements;
5) any lists for which the above provisions are not observed or which do not include candidates of different genders in conformity with the provisions of existing regulations, shall be considered as not presented;
6) no one may be nominated in more than one list, and anyone accepting nominations in more than one list will be held to be ineligible;
7) each Shareholder may present, or contribute to presenting, and vote for, one single list; any adhesions and votes expressed that run counter to this prohibition will not be conferred to any list.

In appointing the Board of Statutory Auditors, reference is made to Article 26 of the Articles of Association:

1) shareholders who either singly or along with other represent at least 1% of the share capital in the Ordinary Shareholders Meeting are authorized to submit lists aimed at appointing the members of the Board of Statutory Auditors. In particular:
   i) Municipalities, Provinces or Consortia established pursuant to article 31 of Legislative Decree no. 267/2000, or other public bodies or authorities as well as consortia or limited companies controlled directly or indirectly by the latter, may contribute to presenting one single list;
   ii) other Shareholders have the right to present lists for the appointment of one standing auditor and one alternate auditor.

   Each list must contain a number of candidates of the least represented gender that ensures compliance with the principle of balance between the sexes at least to the extent required by current legislation. Lists presenting fewer than three candidates are exempt from compliance with this requirement.

   Two standing auditors and one alternate auditor shall be taken from the list obtaining the highest number of shareholders' votes, in the sequential order with which they are listed on the list. Of these, at least one must be a Standing Auditor of the least-represented gender. The third standing auditor and the other alternate auditor will be taken from the other lists, electing the first and second candidate, respectively, of the list that has the second-highest number of votes, which must include at least one alternate auditor of the least-represented gender. The position of Chairman of the Board of Statutory Auditors is given to the candidate ranking first in the list that has the second-highest number of votes;

2) the lists must contain a number of candidates no greater than the number of members to be elected, ranked according to a progressive number; each candidate can be presented in only one list at the risk of being deemed ineligible;
3) each shareholder may present, or take part in presenting, one list only;
4) in case of violation of this rule, no account is taken of the vote of the shareholder for any of the lists presented;
5) said lists must be filed at the registered office, under penalty of cancellation, at least twenty-five days prior to the date of the meeting. Considering that this deadline would fall on a holiday (Sunday 2 April 2017), the date within which the lists must be submitted has been postponed to the first working day following that date, i.e. 3 April 2017. The lists may be filed in the following ways: i) delivery to the registered office at Viale C. Berti Pichat no. 2/4, Bologna, addressed to the Direzione Centrale Legale e Societario during regular office hours (from 9:00 to 17:00); ii) via fax to the number +39 051 287244; or iii) via email to the address societario@gruppohera.it, provided that it is possible to identify the persons responsible for filing the lists. The latter shall be made available to the public at the Company's registered office, on its website and on the authorised storage site, within 6 April 2017;
6) the lists filed must be accompanied by:
   i) a declaration certifying the absence of agreements or any other kind of connections with other shareholders who have presented other lists;
   ii) a comprehensive description of the nominees' personal and professional characteristics;
   iii) declarations in which the individual candidates accept their candidacies and, under their own responsibility, declare that causes of ineligibility, forfeiture and incompatibility provided for by the law do not exist and that they meet the requisites of integrity and professionalism required by law for the members of the Board of Statutory Auditors, and provide a list of the administrative and control offices they hold in other companies;
7) any list for which the above provisions are not observed or which do not include candidates of different genders in conformity with the provisions of existing regulations, shall be considered as not presented;
8) each party entitled to vote will be able to vote for one single list.

Every list filed for the appointment of the members of the Board of Directors and the Board of Statutory Auditors must be accompanied by an indication of the identity of the shareholders presenting it and the overall percentage of equity held. The intermediary's communication certifying ownership of the equity held at the date of filing may be submitted after the list is filed, provided this occurs by the deadline for the publication of the list, and therefore within 17:00 of 6 April 2017, at the email address hera@pecserviziotitoli.it.

Pursuant to article 144-sexies p. 5 of the Consob Issuers Regulation, if by the end of 3 April 2017 only one list for the appointment of the Board of Statutory Auditors has been filed, or only lists displaying links with other lists have been filed, filing can take place up to 15:00 of 6 April 2017 and the percentage of shares held required for submission shall be reduced to 0.5% of the share capital.

Right to attend and participation by proxy

All those entitled to vote at the end of the accounting day of 18 April 2017 (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. 24 April 2017, 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 18 April 2017 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 for this purpose the proxy form available on the Company’s website (www.gruppohera.it), where 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, within 25 April 2017, 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 valid 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 24 April 2017 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, 7 March 2017

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

CHAPTER 2

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

2.01 FINANCIAL STATEMENT

2.01.01 Income statement

€/mln	notes	2016	2015
Revenue	*1*	4,460.2	4,487.0
Other operating revenues	*2*	403.4	330.8
Use of raw materials and consumables	*3*	(2,176.8)	(2,256.6)
Service costs	*4*	(1,198.8)	(1,132.1)
Personnel costs	*5*	(524.1)	(510.8)
Other operating costs	*6*	(75.0)	(62.4)
Capitalised costs	*7*	27.8	28.5
Amortisation, depreciation,provisions	*8*	(459.6)	(442.2)
Operating profit		**457.1**	**442.2**
Portion of profits (loss) pertaining to joint ventures and associated companies	*9*	13.8	11.8
Financial income	*10*	80.1	81.1
Financial expense	*10*	(211.3)	(227.2)
Financial operations		**(117.4)**	**(134.3)**
Pre-tax profit		**339.7**	**307.9**
Taxes	*11*	(119.3)	(113.5)
Net profit for the year		**220.4**	**194.4**
Attributable to:			
Shareholders of the Parent Company		207.3	180.5
Non-controlling interests		13.1	13.9
Earnings per share	*12*		
basic		**0.141**	**0.123**
diluted		**0.141**	**0.123**

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate income statement outlined in paragraph 2.04.01 of this consolidated financial statement.

2.01.02 Comprehensive Income statement

€/mln	notes	2016	2015
Profit (loss) for the period		**220.4**	**194.4**
Items reclassifiable to the income statement			
fair value of derivatives, change in the year	*19*	0.6	1.2
Tax effect related to the other reclassifiable items of the comprehensive income statement		(0.2)	(0.4)
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	*26*	(4.1)	7.8
Tax effect related to the other not reclassifiable items of the comprehensive income statement		(0.1)	(2.3)
Total comprehensive income/ (loss) for the year		**216.6**	**200.7**
Attributable to:			
Shareholders of the Parent Company		203.5	185.9
Non-controlling interests		13.1	14.8

2.01.03 Statement of financial position

€/mln	notes	31 Dec 16	31 Dec 15
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	2.019,2	2.031,6
Intangible assets	*14*	2.968,0	2.895,6
Goodwill	*15*	375,7	378,0
Non-controlling interests	*16*	148,5	157,1
Non-current financial assets	*17*	110,2	125,2
Deferred tax assets	*18*	80,3	73,0
Financial instruments - derivatives	*19*	109,5	108,2
Total non-current assets		**5.811,4**	**5.768,7**
Current assets			
Inventories	*20*	104,5	116,3
Trade receivables	*21*	1.665,5	1.533,0
Current financial assets	*17*	29,4	34,6
Current tax assets	*22*	33,9	29,1
Other current assets	*23*	232,4	226,1
Financial derivatives instruments	*19*	56,5	6,5
Cash and cash equivalents	*17, 30*	351,5	541,6
Total current assets		**2.473,7**	**2.487,2**
TOTAL ASSETS		**8.285,1**	**8.255,9**

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

cont.d

€/mln	notes	31 Dec 16	31 Dec 15
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	*24*		
Share capital		1.468,1	1.474,2
Reserves		742,5	703,7
Profit (loss) for the period		207,3	180,5
Group equity		**2.417,9**	**2.358,4**
Non-controlling interests		144,2	144,7
Total equity		**2.562,1**	**2.503,1**
Non-current liabilities			
Non-current financial liabilities	*25*	2.933,1	2.943,8
Post-employment benefits	*26*	145,8	148,3
Provisions for risks and charges	*27*	397,6	365,3
Deferrred tax liabilities	*18*	27,2	23,8
Financial derivatives instruments	*19*	44,1	33,4
Total non-current liabilities		**3.547,8**	**3.514,6**
Current liabilities			
Current financial liabilities	*25*	182,3	484,3
Trade payables	*28*	1.270,8	1.121,3
Current tax liabilities	*22*	21,0	25,7
Other current liabilities	*29*	636,3	584,6
Financial derivatives instruments	*19*	64,8	22,3
Total current liabilities		**2.175,2**	**2.238,2**
TOTAL LIABILITIES		**5.723,0**	**5.752,8**
TOTAL EQUITY AND LIABILITIES		**8.285,1**	**8.255,9**

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

2.01.04 Cash Flow Statement

€/mln	notes	31 Dec 16	31 Dec 15
Pre-tax profit		**339.7**	**307.9**
Adjustments to reconcile net profit to the cashflow from operating activities:			
Amortisation and impairment of property, plant and equipment		157.1	161.2
Amortisation and impairment of intangible assets		189.0	177.5
Allocations to provisions		113.5	103.6
Effect of valuation using the equity method		(13.8)	(11.8)
Financial expense / (Income)		131.2	146.1
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)		4.4	8.0
Change in provisions for risks and charges		(22.1)	(29.5)
Change in provisions for employee benefits		(10.0)	(11.6)
Total cash flow before changes in net working capital		**889.0**	**851.4**
(Increase) / Decrease in inventories		10.7	3.5
(Increase) / Decrease in trade receivables		(229.6)	(124.7)
Increase / (Decrease) in trade payables		140.7	(75.7)
(Increase) / Decrease in other current assets/ liabilities		67.4	134.0
Change in working capitals		**(10.8)**	**(62.9)**
Dividends collected		9.9	5.2
Interests income and other financial income collected		64.1	49.6
Interests expense and other financial charges paid		(151.2)	(159.3)
Taxes paid		(137.9)	(126.5)
Cash flow from (for) operating activities (a)		**663.1**	**557.5**
Investments in property, plant and development		(133.2)	(109.7)
Investments in intangible fixed assets		(251.2)	(236.2)
Investments in companies and business units net of cash and cash equivalents	*30*	(19.0)	(66.6)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)		20.5	6.9
Divestment of unconsolidated companies and contingent consideration		0.4	1.4
(Increase) / Decrease in other investment activities		5.3	(22.9)
Cash flow from (for) investing activities (b)		**(377.2)**	**(427.1)**
New issues of long-term bonds		88.2	100.0
Repayments and other net changes in borrowings		(401.9)	(359.4)
Lease finance payments		(3.3)	(4.6)
Investments in consolidated companies		-	(33.4)
Share capital increase		-	9.1
Dividends paid out to Hera shareholders and non-controlling interests		(145.4)	(145.0)
Change in treasury shares		(13.4)	10.0
Other minor changes		(0.2)	-
Cash flow from (for) financing activities (c)		**(476.0)**	**(423.3)**
Effect of change in exchange rates on cash and cash equivalents (d)		**-**	**-**
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)		**(190.1)**	**(292.9)**
Cash and cash equivalents at the beginning of the period		541.6	834.5
Cash and cash equivalents at the end of the period		351.5	541.6

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate cash flow statement outlined in paragraph 2.04.03 of this consolidated financial statement.

2.01.05 Statement of changes in equity

€/mln	Share capital	Reserves	Reserves for derivatives instruments recognized at fair value	Reserve actuarial income/(losses) post-employment benefits	Profit for the year	Equity	Non-controlling interests	Total
Balance at 31 December 2014	**1,469.9**	**707.5**	**(1.1)**	**(30.2)**	**164.8**	**2,310.9**	**148.1**	**2,459.0**
Profit for the year					180.5	**180.5**	13.9	**194.4**
Other components of comprehensive income at 31 december 2015:								
Fair value of derivatives, change in the period			0.5			**0.5**	0.3	**0.8**
Actuarial income/(losses) post-employment benefits				4.9		**4.9**	0.6	**5.5**
Net profit for the year		**-**	**0.5**	**4.9**	**180.5**	**185.9**	**14.8**	**200.7**
Change in treasury shares	4.3	5.7				**10.0**		**10.0**
Payment for non-controlling shares						**-**	9.1	**9.1**
Change in equity interests		(15.6)		(0.2)		**(15.8)**	(17.6)	**(33.4)**
Allocation of 2014 profit :								
- dividends paid out		(6.2)			(126.4)	**(132.6)**	(9.7)	**(142.3)**
- allocation to ohter reserves		8.1			(8.1)	**-**		**-**
- undistributed profits to retained to retained earnings		30.3			(30.3)	**-**		**-**
Balance at 31 December 2015	**1,474.2**	**729.8**	**(0.6)**	**(25.5)**	**180.5**	**2,358.4**	**144.7**	**2,503.1**
Balance at 31 December 2015	**1,474.2**	**729.8**	**(0.6)**	**(25.5)**	**180.5**	**2,358.4**	**144.7**	**2,503.1**
Profit for the year					207.3	**207.3**	13.1	**220.4**
Other components of comprehensive income at 31 december 2016:								
fair value of derivatives, change in the year			0.2			**0.2**	0.2	**0.4**
Actuarial income/(losses) post-employment benefits				(4.0)		**(4.0)**	(0.2)	**(4.2)**
Net profit for the year		**-**	**0.2**	**(4.0)**	**207.3**	**203.5**	**13.1**	**216.6**
Change in treasury shares	(5.9)	(7.6)				**(13.5)**		**(13.5)**
Change in equity interests		2.1				**2.1**	(2.1)	**-**
Other movements	(0.2)	0.1				**(0.1)**	(0.1)	**(0.2)**
Allocation of 2015 profit :								
- dividends paid out		-			(132.5)	**(132.5)**	(11.4)	**(143.9)**
- allocation to ohter reserves		39.5			(39.5)	**-**		**-**
- undistributed profits to retained to retained earnings		8.5			(8.5)	**-**		**-**
Balance at 31 December 2016	**1,468.1**	**772.4**	**(0.4)**	**(29.5)**	**207.3**	**2,417.9**	**144.2**	**2,562.1**

2.02 CONSOLIDATED EXPLANATORY NOTES

2.02.01 Reporting principles

Hera Spa (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 31 December 2016, comprised of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity and explanatory notes, have been prepared in compliance with Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of International Accounting Financial Reporting Standards (hereinafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 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. When comparing individual lines of the income statement and financial position, it is also necessary to take into account changes in the scope of consolidation as indicated in that specific section.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of and for the year ended 31 December 2015. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results.

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

In the financial statements any non-recurring costs and revenues are indicated separately.

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

The 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.

Following amendments to IAS 1, the Group decided to aggregate the item "investment properties" under "Tangible fixed assets" considering this item involves barely significant values and uses the same evaluation criteria:

€/mln	31 Dec 15 published	Reclassifications	31 Dec 15
Property, plant and equipment	2,028.0	3.6	2,031.6
Property investments	3.6	(3.6)	-

This consolidated financial statement as at 31 December 2016 was drawn up by the Board of Directors and approved by the same at the meeting held on 21 March 2017. It has been audited by Deloitte & Touche Spa.

2.02.02 Scope of consolidation

The consolidated financial statements as at 31 December 2016 include the financial statements of the Parent Company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Small-scale subsidiaries are excluded from the scope of consolidation and are carried at cost.

Equity investments in joint ventures (as defined by IFRS 11), in which the Hera Group exercises joint control with other companies, are consolidated with the equity method. The equity method is also used to evaluate equity investments in companies over which a significant influence is exercised. Small-scale subsidiaries are carried at cost. Subsidiaries and associated companies that are not consolidated, or are accounted for with the equity method, are reported in Note 16.

Companies held exclusively for future sale are excluded from consolidation and valued at their fair value or, if fair value cannot be determined, at cost. These investments are recorded as separate items.

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2015 financial year as compared to the consolidated financial statement at 31 December 2015:

Acquisition of control	Loss of control/deconsolidation
Gran Sasso Srl	
Julia Servizi Più Srl (1)	
Business unit "Romagna Energia"	
Business unit "Cordenons"	
	Esil Scarl

1) Company merged by incorporation into Hera Comm Marche Srl following its acquisition;

Acquisition significant influence	loss of significant influence/deconsolidation
	Ghirlandina Solare Srl

On April 8, 2016 the Group was permanently awarded the call for tenders announced by the City of Giulianova (TE) for the acquisition of the entire stake in the companies selling gas and electricity Julia Servizi Più Srl. The cash outlay for the acquisition was approximately 5.4 million euro and the merger led to a client list to be registered for 8.9 million euro. Later, effective as of 1 October 2016, the company was merged by incorporation into Hera Comm Marche Srl.

On 6 October 2016 the Group acquired all the shares of the sales company Gran Sasso Srl, thus acquiring control over it. The cash outlay for the acquisition was approximately 7.5 million euro and the merger led to a client list to be registered for 9.8 million euro.

On 20 December 2016 the shareholders' meeting approved that the Esil Scarl be dissolved and liquidated following the closure of its operations. The company was deconsolidated and is valued at cost on the basis of no longer relevant financial values.

On 27 December 2016, Herambiente Spa acquired from Romagna Energia Srl in liquidation control over a business unit consisting of plants producing energy from landfill waste biogas. The cash outlay for the acquisition was approximately 0.6 million euro.

On 28 December 2016, Herambiente Spa acquired from Geo Nova Srl control over a business unit consisting of the non-hazardous waste storage facility under construction, located in the municipality of Cordenons (Friuli-Venezia Giulia) . The cash outlay for the acquisition was approximately 5.2 million euro.

With effect from 1 January 2016, as a result of non-significant operating and financial data compared to the size of the Group, the company Ghirlandina Solare Srl is valued at cost.

In reference to the main operations of control acquisition previously mentioned, see the section "Other Business Combination operations" below for an analysis of their effects on the consolidated financial statements.

It should also be noted that the income statement reflects the consolidation for the full year of Waste Recycling Spa, which the Group acquired control over on December 31, 2015 and therefore included only in terms of its statement of financial position in the consolidated financial statements at December 31, 2015.

The lists of the companies included in the scope of consolidation are shown at the end of these notes.

Changes in equity investments

Later, effective as of 1 May 2016, the company Fucino Gas Srl, already held by Hera Comm Srl and fully consolidated, was sold and merged by incorporation into Hera Comm Marche Srl. As a result of this operation, the Group's interest in the net assets of the merged company has gone from 100% to 72.01%.
During the divestiture, the difference between the adjustment of these minority stakes and their fair value was recognized directly in equity and attributed to the parent company's shareholders.

Other corporate operations

Effective at 1 January 2016, the companies Neweco Srl and Rew Trasporti Srl, already 100% held and fully consolidated by the Group's company Waste Recycling Spa, were merged into the parent company.

Beginning 1 January 2016, Insigna Srl, fully consolidated and 100% held, was merged into the parent company Acegas Aps Amga Spa.

From 1 July 2016 Inrete Distribuzione Energia Spa, a company 100% held by the parent company Hera Spa, became operational by virtue of the transfer of business units related to the distribution of gas and electricity by the same parent company.

On 7 July the merger between the Group's company Rila Gas EAD and Black Sea Technology Company AD, both partially held by AcegasApsAmga Spa and operating in Bulgaria. The name of the company resulting from the merger is Aresgas AD.

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting principle IFRS3 revised. Specifically, the management conducted analyses of the fair value of assets and liabilities and contingent liabilities, on the basis of information concerning facts and events available at the date of acquisition. The evaluation period ended on 31 December 2016.

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

€/mln	Julia Servizi Più Srl	Gran Sasso Srl	Business unit R.Energia	Business unit Cordenons	Total business combination
Non-current assets					
Property, plant and equipment	0.3		1.1	5.2	6.6
Intangible assets	9.0	9.8			18.8
Deferred tax assets	0.5				0.5
Current assets					
Trade receivables	4.9	4.0			8.9
Other current assets	0.2				0.2
Cash and cash equivalents	0.2	0.2			0.4
Non-current liabilities					
Non-current financial liabilities	(0.2)				(0.2)
Post-employment benefits	(0.1)				(0.1)
Provisions for risks and charges	(0.3)				(0.3)
Deferrred tax liabilities	(2.6)	(2.8)			(5.4)
Current liabilities					
Current financial liabilities	(0.7)		(0.5)		(1.2)
Trade payables	(5.1)	(3.7)			(8.8)
Other current liabilities	(0.7)				(0.7)
Total net assets acquired	**5.4**	**7.5**	**0.6**	**5.2**	**18.7**
Fair value of fees/payment	5.4	7.5	0.6	5.2	18.7
Fair value shares held					-
Non-controlling interests acquired					-
Total merger value	**5.4**	**7.5**	**0.6**	**5.2**	**18.7**
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:

€/mln	Julia Servizi Più Srl	Gran Sasso Srl	Business unit R.Energia	Business unit Cordenons	Total business combination
Carying amount of acquired assets	**(0.9)**	**0.5**	**-**	**-**	**(0.4)**
Adjustments to fair value:					
Property, plant and equipment			1.1	5.2	6.3
Intangible assets	8.9	9.8			18.7
Financial liabilities			(0.5)		(0.5)
Deferred tax assets / (liabilities)	(2.6)	(2.8)			(5.4)
Fair value net assets acquired	**5.4**	**7.5**	**0.6**	**5.2**	**18.7**
Cash payment	5.4	6.9	0.6	5.2	18.1
Potential fees/payments		0.6			0.6
Fair value of fees/payment	**5.4**	**7.5**	**0.6**	**5.2**	**18.7**

As regards the evaluation of the fair value of the tangible and intangible assets acquired, in the management's evaluations, that also considered the recoverable value of said assets (calculated on the basis of the business plans of the acquired entities), the following significant differences between carrying amounts and fair value came to light:

- Julia Servizi Più Srl 8.9 million euro derived from the evaluation of the gas and electricity client list in the areas served.
- Gran Sasso Srl, 9,8 million euro derived from the evaluation of the gas and electricity client list in the areas served;
- The "Romagna Energia" unit, 1.1 million euro arising from the valuation of the acquired production facilities (some of which were held under finance leases);
- Geo Nova Srl, 5.2 million euro associated with the site where the landfill already authorized is being developed.

Please see note 30 "Comments to the financial report" for an analysis of the cash flows associated with the combination operation.

2.02.03 Accounting policies and consolidation principles

The financial statements used for the preparation of the consolidated statement of financial position and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the Parent Company) for the purposes of consistency with the accounting standards and principles of the Group. 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". This negative difference was recorded in equity only if it related to acquisitions prior to 31 March 2004.

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 1 January 2016". 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:

	2016	31 Dec 16	2015	31 Dec 15
	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Serbian Dinar	123.106	123.403	120.687	121.451

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 - impairment").

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 following tables contain the depreciation rates taken into account for the depreciation of the assets.

General services	% min	% max
Buildings	1	3.33
Light constructions	5	10
Generic plants	7.5	15
Laboratory equipment	5	10
Office furniture, electronic machines	6	12
Machines, systems and data processing units	10	20
Motor vehicles and means of internal transport	10	20
Cars	12.5	25
Remote control	2.5	20
Public Lighting	1.25	8

Purification service	% min	% max
Building civil works	1.5	3
Purification plant/Civil works	1.66	3.33
Putification plant	3.33	6.67
Generic and specific plants	5	15
Lifting equipment	6	12
Network	2.5	5
Laboratory equipment	5	10

Gas service	% min	% max
1st stage pressure reducer stations	2.5	15
2nd stage pressure reducer stations - district - specific plant - user stations	3.13	10
Distribution network in steel	1.75	8
Outlets/intakes	2.33	8
Meters	4	10
Cathodic protection	3.7	8

District heating service	% min	% max
Buildings	1.92	5.5
Generic and specific plants	3.85	9
Distribution network	2.7	8
Meters	2.5	6.67
Heat exchange units	4.5	9
Equipment	5	10

Water service	% min	% max
Buildings	1.75	3.5
Wells	1.43	10
Captation	1.25	2.5
Production, raising and drinking water plants	1.43	15
Tanks	1.11	5
Pipelines and distribution network	1	5
Outlets/intakes and connections	2.22	5
Meters	4	10

Electricity production and distribution service	% min	% max
Buildings	1.5	3
MV underground and overhead distribution network	2	4
LV underground and overhead distribution network	2.5	8
HV/MV - BT/MV transformers	2	7
Connections	2.5	8
Meters	4	10
Tables	1.66	5
Limiting devices	1.66	5
Masonry and single-pole stations	1.66	3.57
Polyfers	1.25	2.5
Receiver stations	1.66	3.33

Waste management service	% min	% max
Buildings	1.5	3
Generic plants	7.5	15
Specific IIR plant		
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 -2	3.33 - 4
- external building works	1.66	3.33
- electricity production plants	2	4
- general plants	2.5	5
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant. storage + IRE		
- buildings	1 - 1.25	2 -2.5
- fixed plant with real estate pertinency	1.66 -2	3.33 - 4
- external building works	1.66	3.33
- electricity production plants	2.5	5
- CDR packing	2.5	5
- selection, chopping, feeding and sorting plant	2.5 - 3.33	5 - 6.67
- ventilation plant	3.33	6.67
- general plant - stabilisation plant - storage tanks	2.5	5
- control systems	5	10
- containers and bins	5 -10	10 -20
- internal handling equipment	4.16	8.33
Specific waste composting plant		
- buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinency	1.66 - 2	3.33 - 4
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.5	5
- mixing plant	3.33 - 5	6.67 - 10
- palleting plant	5	10
- energy recovery plant	2.5	5
- screening and refining plant	3.33 - 4.16	6.67 - 8.33
- weighing plant	2.25	5
- deoxidisation/organic treatment systems	3.33	6.67
- second maturing	5	10
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10	25
Equipment	5	10

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.
During the year ending December 31, 2016 a change in the scheduled depreciation did not occur for any of the categories of tangible fixed assets.

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 risk and benefits incident to ownership are 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 business. 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.

Advertising expenses are charged directly to the income statement.

Industrial patent rights and know-how are representative of assets that are identifiable and capable of generating future economic benefits under the Company's control; 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.

As for depreciation, they 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; trademarks and licenses are depreciated according to the duration of their associated rights (three to five years).

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, exept 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", 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. The implementation of IFRIC 12 made it necessary to apply IAS 11 to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. So, 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 "Assets Companies", established 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 (Salvage Value, or "SV"), 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 utilisation.

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 risk and benefits incident to the ownership of the asset are transferred to the buyer.

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.

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 revalued 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 there is any indication that said 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 - In application of IAS 32, treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement

Investments - Investments entered in this item refer to long-term investments.

Investments in associated companies - An associated company is a company over which the Group is able to exercise significant 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. Investments in associated companies are accounted for with the equity method, except in the cases where they are classified as "held for sale", or when they are not of a significant value; in such an event they are carried at cost, with writedowns if necessary based on the results of the impairment test. 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 to the single investments. 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 and financial instruments - Other investments and financial instruments are accounted according to IAS 39 "available-for-sale financial assets" (as discussed in the specific section). They comprise equity instruments and are evaluated at fair value in equity. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted if there are losses of value.
If the reasons for the write-down cease to exist, the investments carried at cost are revalued through profit or loss, or in equity if the investments are held as available for sale. 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.
As more fully specified hereunder, the financial assets that the Company intends or is able to hold to maturity are stated at cost, represented by the fair value of the initial consideration, increased by transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Receivables and financial assets - The Group classifies financial assets in the following categories:
- assets valued at fair value with matching entry in the income statement;
- Receivables and loans
- financial assets held to maturity;
- financial assets available for sale.

The management determines their classification when they are first recorded.

Assets valued at fair value with matching entry in the income statement - 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. Changes in fair value of the instruments belonging to this category are immediately recorded in the income statement.
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.

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. These assets are valued at depreciated cost on the basis of the effective interest rate method. 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: losses in value determined through impairment test are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment test had not been carried out. 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 also 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.

Held-to-maturity financial assets - These are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity. They are classified as current assets if their contractual maturity is expected within the next 12 months. 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: losses in value determined through impairment test are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment test had not been carried out.

Available-for-sale financial assets - These are any non-derivative financial assets designated on initial recognition as available for sale or that are not classified under the previous items. These assets are valued at fair value, the latter determined by referring to the market prices at the balance sheet date, infra-annual situations or using financial measurement techniques and models, recording their change in value in equity ("Reserve for available-for-sale financial assets"). This reserve is released to income only when the financial asset is actually sold or, in the case of negative changes, when the value reduction already recorded in the shareholders' equity is found to be unrecoverable. 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 impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of future cash flows. The negative value changes previously recorded in the shareholders' equity reserve are reversed to the income statement. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

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. The environmental bonds assigned free of charge are initially recorded at a nil value. 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 non-current assets - These are stated at par value, and possibly adjusted for any losses in value corresponding to the amortised cost.

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. Furthermore, these assets are derecognized in the event of sale which transfers all risks and benefits associated with their management to third parties.

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.

Post-employment benefits - Liabilities related to defined-benefit plans (such as the employee severance accrued until 1 January 2007) are reported net of any plan assets on the basis of actuarial assumptions and on an accrual basis, in keeping with the service necessary to obtain benefits.The liability is valued by independent actuaries. The liability is valued by independent actuaries. Actuarial gains and losses are reported as other comprehensive income/losses. Following the Budget Act of 27 December 2006, no. 296, for companies with more than 50 employees, the severance amounts accruing after 1 January 20017 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 peculiar to the Hera Group, physical and financial trading in commodities (with particular reference to electrical energy) and environmental securities have been authorized. These activities are governed by specific procedures and are segregated from characteristic activities in special "Trading Portfolios". These activities include physical and financial contracts on commodities and environmental securities and are measured at fair value with any change in the fair value 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. Il 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 reversed to income whenever 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 "cash flow hedge reserve" 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 "cash flow hedge reserve" relating to it is kept until the economic effects of the underlying contract arise.

Derivatives embedded in financial assets/liabilities are separated and independently assessed at fair value, except for those cases where, in accordance with the provisions of IAS 39, the exercise price of the derivative instrument as at the starting date is close to the value calculated on the basis of the amortised cost of the underlying asset/liability. In such cases, the measurement of the embedded derivative instrument is absorbed in the measurement of the financial assets/liabilities.

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 as held for sale the moment the sale of the group of assets is considered highly likely and the assets and liabilities are immediately available for sale in their current condition.
Assets held for sale 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 accounting period and are therefore recorded on an accruals basis.

Revenue 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 the 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 from services rendered are recognized on the basis of services provided and in compliance with the relevant contracts;
- revenues from the sale of goods are recognised at the time the Group transfers the significant risks and benefits associated with ownership of the assets to the purchaser;
- 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 companies" are recorded in the income statement, at the time the right to receive payment is established.

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 items which 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 consideration the effects of the IAS tax reform introduced by law no. 244 of 24 December 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 and liabilities 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

IFRS 7 requires classification of financial instruments measured at fair value in 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 31 December 2016, 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.

Business continuity

The directors have evaluated the applicability of the business continuity assumption in preparing the consolidated financial statements, concluding that this assumption is appropriate since there is no doubt on business continuity.

Impairment test

The Group carries out an analysis of the recoverable value of goodwill as well as of its 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 paragraphs 15 and 16 of these notes.

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 and 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.

Determining Fair Value 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 valuation of non-performance risk, if this is considered relevant All derivative contracts entered into by the Group are with leading institutional counterparties.

2.02.04 Changes in the international accounting principles

Accounting standards, amendments and interpretations applicable from 1 January 2016

Starting 1 January 2016 the following amendments to IFRSs, as issued by the IASB and endorsed by the European Union, apply:

Amendments to IAS 19 - Employee benefits: Defined-benefit plans - employee contributions (Regulation 29/2015). Document issued by the IASB on 21 November 2013. The objective of the amendments is to simplify the accounting treatment of contributions, which are independent of the number of service years for employees, such as employee contributions calculated on the basis of a fixed salary percentage.

On 12 December 2013 the International Accounting Standards Board (IASB) published the **"Improvements to the International Financial Reporting Standards (2010-2012 Cycle)"**, subsequently adopted by the European Union with Regulation 28/2015. These improvements include amendments to the following existing IFRSs:

- **IFRS 2 -** Share-based Payments: Definitions relating to vesting conditions. The definitions of vesting conditions and market conditions are changed and the new definitions of performance condition and service condition are introduced.
- **IFRS 3 -** Accounting for contingent consideration in a business combination. A contingent consideration in a business acquisition classified as an asset or a liability should be measured at fair value at every year-end, whether it falls within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability.
- **IFRS 8 -** Operating segments: Aggregation of operating segments. The improvement requires disclosure of management's considerations in the process of aggregation of operating segments.
- **IFRS 8 -** Operating segments: Reconciliation of the total of the reportable segment assets to the entity's total assets. This improvement calls for the reconciliation to be reported only in the event that the total of the segment assets are regularly reported to the management.
- **IFRS 13 -** Fair value measurement: Short-term receivables and payables. This improvement clarifies that the introduction of IFRS 13 does not change the possibility to account for short-term receivables and payables without discounting, when the effect of discounting is immaterial.
- **IAS 16 -** Property, plant and equipment & IAS 38 - Intangible assets: Revaluation method. These improvements remove certain inconsistencies in the recognition of depreciation and amortization, when an item or property, plant and equipment or an intangible is revalued. In particular, they clarify that the gross carrying amount must be adjusted consistently with the revaluation of the carrying amount of the asset and that accumulated depreciation is equal to the difference between the gross carrying amount and the carrying amount minus any previously recognized impairment.
- **IAS 24 -** Related parties: Key management personnel. Clarifications are provided for the identification of related parties and the disclosure in relation to key management personnel.

Amendments to IFRS 11 - Joint arrangements: acquisitions of interests in joint operations(Regulation 2173/2015). Amendments issued by the IASB on 6 May 2014. The document establishes that the standards contained in IFRS 3 - Business combinations concerning recognition of a business combination must be applied to recognise the acquisition of a joint operation in which the activity constitutes a business.

Amendments to IAS 16 and IAS 38 - Clarifications as to acceptable methods for depreciation and amortisation (Regulation 2231/2015). Amendments issued by the IASB on 12 May 2014. The documents specifies that, except for a few limited circumstances, a method of amortisation related to revenues cannot be considered acceptable for property, plant and equipment nor for intangible assets.

On 25 September 2014 the International Accounting Standards Board (IASB) published the **"Improvements to the International Financial Reporting Standards (2012-2014 Cycle)"**, subsequently adopted by the European Union with Regulation 2343/2015. These improvements, include amendments to the following existing IFRSs:

- **IFRS 5 -** Non-current Assets held for sale and discontinued operations: changes in methods of disposal. The amendment establishes the guidelines to be followed in case an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa) or cases in which an asset no longer meets the criteria of held-for-distribution accounting.
- **IFRS 7 -** Financial Instruments: supplementary disclosures. The document adds additional guidance to clarify whether a servicing contract constitutes continuing involvement in an asset transferred for the purposes of the requested report. Furthermore, as regards compensation between financial assets and liabilities, the document clarifies that the report is not explicitly required for all the interim financial statements. However, the information could be necessary to respect the requisites foreseen by IAS 34, in case the information in question is significant.
- **IAS 19 -** Employee Benefits: problems related to the discount rate. The document introduces amendments to IAS 19 in order to clarify that high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The amendments specify that the scope of the market for high quality corporate bonds should be assessed at currency level.
- **IAS 34 -** Interim Financial Reporting: position of supplementary disclosures**.** The document introduces amendments in order to clarify cases in which the required information is presented in the interim report, but not in the balance sheet sections. The amendment specifies that such information be included by way of cross-references between the two documents, provided that both are made available to users on the same terms and at the same time.

Amendments to IAS 1 - Presentation of Financial Statements (Regulation 2406/2015). Document issued by the IASB on 18 December 2014. The amendments are aimed at improving the clarity of financial statements. The amendments introduced concern:

- materiality and aggregation - clarifies that information should not be obscured by way of aggregation or disaggregation and that the concept of materiality is applied to balance sheet formats, explanatory notes and the specific informatory requirements specified by each IFRS. It also clarifies that the information specifically required by IFRSs is to be provided only if the information is material;
- statement of financial position and statement of comprehensive income - clarifies that the list of items specified by IAS 1 for such statements can be aggregated or disaggregated according to individual cases. Guidelines are also provided as to the use of subtotals within the statements;
- presentation of other comprehensive income (OCI) - clarifies that an entity's share of OCI of equity-accounted associates and joint ventures is presented in an aggregated form as single line item, based on whether or not it will subsequently be reclassified to profit or loss;
- explanatory notes - clarify that entities are entitled to flexibility in defining the structure of the explanatory notes and guidelines are provided as to the systematic order in which notes are to be presented.

Amendments to IFRS 10, IFRS 11 and IAS 28 - Investment Entities: applying the consolidation exception (Regulation 1703/2016). The document, issued by IASB on 18 December 2014, introduces the following amendments:

- the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity;
- the requirement, for an investment entity, of consolidating a subsidiary providing services that relate to the parent's investment activities, to be applied only for subsidiaries that are not, themselves, investment entities;
- when applying the equity method to an associate or joint venture that is an investment entity, it is possible to retain the fair value measurement applied by the associate or joint venture to its interests in its own subsidiaries;
- an investment entity measuring all of its subsidiaries at fair value must provide the disclosures required by IFRS 12.

Following amendments to IAS 1 and with reference to the cessation for the requirement that the items in the statement of assets and liabilities include a minimum content, the Group decided to aggregate the item "investment properties" under "Tangible fixed assets" considering this item involves barely significant values and uses the same evaluation criteria, maintaining at any rate the detailed report in the notes.

With reference to the application of the other amendments introduced, no effect has been identified on the Group's financial statement.

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 1 January 2018, the following accounting standards and amendments of accounting standards will be obligatorily applied, having also already concluded the process of community endorsement:

IFRS 9 - Financial Instruments (Regulation 2067/2016). Published by the IASB in its final version on 24 July 2014 at the end of a process lasting many years, intended to replace the current IAS 39. The standard, whose application has been defined at 1 January 2018, introduces new criteria to classify financial assets and liabilities, for the derecognition and impairment of financial assets, and the treatment and accounting of hedging transactions. Currently detailed analyses are being carried out in order to evaluate the effects that the introduction of the new principle will have on the Group.

IFRS 15 - Revenue from contracts with customers (Regulation 1905/2016). Standard issued by the IASB on 28 May 2014 that replaces the IAS 18 - Revenue, the IAS 11 - Construction contracts, the interpretations SIC 31, IFRIC 13 and IFRIC 15. The new standard applies to all contracts with customers except for leases within the scope of IAS 17 - Leasing for insurance policiesand financial instruments. It establishes a principle to be delivered in five phases, defining a timetable and the amount of revenue to be recognised (identifying the contracts with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price, recognising revenue when (or as) the entity satisfies a performance obligation).
Application of the standard begins on 1 January 2018, and earlier application is permitted. The standard will be applied with retroactive effect, with the possibility of choosing whether to represent the financial years presented in the comparative report or to recognise the effects arising from its application in the opening balance of equity as at the date of the first reporting period in which it was applied. Currently detailed analyses are being carried out in order to evaluate the effects that the introduction of the new principle will have on the Group.

Accounting standards, amendments and interpretations not yet endorsed by the European Union

The following standards, updates and amendments of IFRSs (already approved by the IASB) as well as interpretations (already approved by the IFRS IC) are in the process of being endorsed by the competent bodies of the European Union:

IFRS 16 - Leases Standard published by the IASB on 13 January 2016, to replace the IAS 17 principle "Leases", as well as the IFRIC interpretations 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 a lease ". The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish lease contracts from service contracts, specifying the following determination criteria: the identification of the good in question, the right to replace it, the right to obtain essentially all of the economic benefits arising from the use of the good and the right to manage the use of the good governed by the contract. Its application will be effective 1 January 2019. Early adoption is permitted for entities that apply Ifrs 15. Detailed analyses will be carried out in the following months in order to evaluate the effects that the introduction of the Ifrs 16 will have on the Group.

Amendments to Ias 12 – Recognition of deferred tax assets for unrealized losses. Document issued by the IASB on 19 January 2016. The amendments, applicable as of financial years beginning 1 January 2017, clarify how to account for a deferred tax asset associated with a financial liability evaluated at fair value. Early adoption is permitted. The directors are currently evaluating the possible impacts arising from the introduction of these amendments on the Group's consolidated financial statements.

Amendments to IAS 7 - Reporting. Document issued by the IASB on 29 January 2016. The amendments, applicable as of financial years beginning 1 January 2017, require the entities to provide information regarding variations in their tax liabilities so that the users can better evaluate the reasons underlying the change in the entity's indebtedness. The directors are currently evaluating the possible impacts arising from the introduction of these amendments on the Group's consolidated financial statements.

Amendments to IFRS 2 - Share-based Payments**.** On 20 June 2016 the International Accounting Standards Board (IASB) published the document "Classification and measurement of share-based payment transactions". The amendments provide some clarifications explaining the reporting of the effects of the vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the reporting of the changes to the terms and conditions of one share-based payment that alter its classification from cash-settled to equity-settled. The amendments will be effective beginning from 1 January 2018, but earlier application is allowed. The directors are currently evaluating the possible impacts arising from the introduction of these amendments on the Group's consolidated financial statements.

Amendments to IFRS 4 - Application of Ifrs 9 "financial tools" and Ifrs 4 "Insurance contracts". This document, issued by Iasb on 12 September 2016, includes a series of amendments that aim at clarifying the issues concerning the temporary volatility of the results presented in the financial statement originating from the application of the new principle Ifrs 9, before the planned replacement of the current Ifrs 4 by the Iasb. . The amendments will be effective beginning from 1 January 2018, but earlier application is allowed. No effects on the Group's consolidated financial statement have been found following the application of the amendments introduced.

On 8 December 2016 the International Accounting Standards Board (IASB) published the document **"Improvements to the International Financial Reporting Standard (2014-2016 Cycle)"**. These improvements include changes three existent international accounting principles: **Ifrs 12** - Report of investments in other companies (applicable beginning 1 January 2017), **Ifrs 1** - First adoption (applicable beginning 1 January 2018) and **Ias 28** - Investments in associated companies and joint ventures (applicable beginning from 1 January 2018). The amendments clarify, correct or remove redundant wordings or formulations in the text of the respective principles. The directors are currently evaluating the possible impacts arising from the introduction of these amendments on the Group's consolidated financial statements.

Ifric 22 – Foreign currency operations and anticipated compensation. The interpretation, published by Iasb on 8 December 2016 and applicable beginning 1 January 2018, determines the exchange rate to use in foreign exchange transactions involving compensation paid or cashed ahead of time. The directors are currently evaluating the possible impacts arising from the introduction of the new interpretation on the Group's consolidated financial statements.

Amendments to IAS 40 - Real estate assets**.** Document issued by the IASB on 8 December 2016. The amendments will be effective beginning from 1 January 2018 and clarify the requirements for transferring real estate assets for sale or purchase. The directors are currently evaluating the possible impacts arising from the introduction of these amendments on the Group's consolidated financial statements.

For the following standards and interpretations, the EU endorsement process has been suspended:

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 11 September 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 1 January 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.

2.02.05 Explanatory notes to 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

	2016	2015	Change
Revenues from sales and services	4,448.1	4,483.3	(35.2)
Changes in inventories of work in process, semifinished and finished products and work in progress	12.1	3.7	8.4
Total	**4,460.2**	**4,487.0**	**(26.8)**

Revenues are achieved mainly in Italy.

2 Other operating revenues

	2016	2015	Change
Long-term contract	210.7	201.2	9.5
White certificates	95.1	45.2	49.9
Operating grants and grants for separated waste collection	31.4	30.1	1.3
Apportionments of operating grants	8.9	8.2	0.7
Uses of provisions	5.4	5.6	(0.2)
Other revenues	51.9	40.5	11.4
Total	**403.4**	**330.8**	**72.6**

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 under concession pursuant to IFRIC 12 interpretation. The change is due to greater investment in the networks held under concession as compared to the 2015 financial year.

“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 iServiziEnergetici e Ambientali. The amendment is related to what specified in note 3 of the statement of financial position for the item “Green, grey and white certificates”.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 1.9 million euro (4.8 million euro tin 2015 as well), 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 29.5 million euro (25.3 million euro as at 31 December 2015) 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 provisions", this item is associated with the costs incurred internally and duly accounted for in relation to labour, leachate and vehicle hours.

"Other revenues" mainly represents proceeds from recovering the costs incurred for activities related to environmental, electrical and gas services, security incentives, active leases and insurance refunds. The change is mainly attributable to the capital gain earn following the sale of networks and plants in the municipalities of Meldola and Forlimpopoli to the company Unica Reti - Asset, 4 million euro, as well as the earnings originating from the renegotiation of some multi-year contracts, 3.9 million euro, and the earning form the prescription of debts, 1.1 million euro .

3 Use of raw materials and consumables

	2016	2015	Change
Electricity ready for sale	1,000.4	1,104.2	(103.8)
Gas ready for sale and net of change in stocks	811.3	847.1	(35.8)
White, green an grey certificates	95.0	40.8	54.2
Maintenance materials net of changes in stocks	73.2	73.1	0.1
Electricity for industrial use	57.9	57.8	0.1
Water	49.0	46.1	2.9
Charges and revenues from certificate valuation	25.6	9.1	16.5
Chemical products	15.7	15.9	(0.2)
Fuels and lubricants	15.0	15.8	(0.8)
Methane for industrial use	14.2	18.5	(4.3)
Heat management combustible materials	2.0	2.1	(0.1)
Charges and revenues from derivatives	(2.5)	11.7	(14.2)
Consumables and sundry	20.0	14.4	5.6
Total	**2,176.8**	**2,256.6**	**(79.8)**

The most substantial changes by comparison with the previous fiscal year are described below.

"White, Grey and Green Certificates" includes the purchase cost of the various types of environmental certificates incurred during 2016, and specifically: 92.7 million euro for White certificates (38.3 million euro in 2015) and 2.1 million euro for Grey certificates (2.2 million euro in 2015). The change from the previous financial year was due to the different purchasing dynamics in view of the Group's certificate needs. These needs are defined on the basis of the requirements for the distribution companies and are more numerous, and with procurement prices rising sharply, compared to the ones established for the previous year.

"Charges and revenues from certificate valuation" reflects the valuation of environmental certificates in stock, mainly made up of Green certificates The significant increase in net charges from the previous period is due to the new incentive mechanism that no longer takes into account green certificates, but a favourable tariff for the sale of electricity. Consequently, the portfolio associated to this type of security will be extinguished, with a negative effect in terms of evaluation, at the time of delivery to the GSE or selling it in the market.

For the item "Charges and revenues from derivatives," please see note 19 of the statement of financial position.

4 Service costs

	2016	2015	Change
Charges for works and maintenance	308.4	289.8	18.6
Transport and storage	281.1	283.8	(2.7)
Waste transport, disposal and collection service	280.6	248.8	31.8
Fees paid to local authorities	77.8	78.8	(1.0)
IT and data processing services	37.8	29.1	8.7
Professionnal, legal, tax and organisational services	27.1	25.6	1.5
Rents and leases payable	23.9	22.6	1.3
Other commercial services	19.4	17.7	1.7
Technical services	18.4	15.3	3.1
Recruitement training and other staff cost	17.7	17.8	(0.1)
Insurances	16.0	16.5	(0.5)
Postal and telephone cost	14.6	14.7	(0.1)
Agency costs	13.5	10.5	3.0
Bank fees and charges	11.0	11.5	(0.5)
Cleaning and security costs	7.9	8.1	(0.2)
Announcements and advertising	7.7	7.2	0.5
Meters reading	6.8	5.9	0.9
Remuneration to statutory auditors and directors	4.7	5.1	(0.4)
Fees payable	4.5	4.9	(0.4)
Other service costs	19.9	18.4	1.5
Total	**1,198.8**	**1,132.1**	**66.7**

The most substantial changes by comparison with the previous fiscal year are described below.

"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 the increase of activities of land reclamation and full service regarding environmental business as well as restructuring and requalifying thermo-hydraulic plants for third parties, particularly with respect to apartment buildings and buildings of public organizations.

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution.

"Waste Transportation, disposal and collection", the increase is mainly due to the increase of mediation activities in the management of waste and delta perimeter due to the acquisition in December 2015 of both a business unit by the company Geo Nova Srl and the control of the Waste Recycling Spa company (the latter totalling 15.5 million euro).

The item "Fees paid to local authorities" also includes the charges incurred for the use of public owned networks, fees paid to the companies that own these assets for the rent of gas, water and electricity cycle assets, and the leasing of the drop-off points.

"Information services and data processing" This increase is mainly due to higher costs incurred pursuant to the implementation of the Group's transactional system in the subsidiaries Acegas Aps Amga Spa and Marche Multiservizi Spa.

The item "Other costs for services" includes items related to users, organizational services and laboratory analyses.

5 Personnel costs

	2016	2015	Change
Wages and salaries	368.3	362.6	5.7
Social security contributions	122.7	117.3	5.4
Employee leaving indemnity and other benefits	1.3	1.3	-
Other costs	31.8	29.6	2.2
Total	**524.1**	**510.8**	**13.3**

The increase in labour costs of 13.3 million euro as compared to the previous financial year is mainly due to the consolidation of the Waste Recycling Spa for the entire financial period for 5.6 million euro (control assumed on 31 December 2015), in addition to the normal evolution of contractual dynamics.

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

	2016	2015	Change
Managers	153	151	2
Middle-management	527	509	18
Clerks	4,489	4,375	114
Blue-collar workers	3,242	3,335	(93)
Total	**8,411**	**8,370**	**41**

Overall, the average cost of labour per capita for 2016 was 62.3 thousand euro (61 thousand euro in 2015).

At 31 December 2015, the actual number of employees was 8,374 (8,426 employees at 31 December 2015).

6 Other operating costs

	2016	2015	Change
Bad debt expense	20.8	11.9	8.9
Taxation other than income taxes	13.3	14.1	(0.8)
State rentals	6.1	5.3	0.8
Landfill special tax	4.6	5.0	(0.4)
Losses on disposals and divestitures of assets	4.1	6.9	(2.8)
Other minor charges	26.1	19.2	6.9
Total	**75.0**	**62.4**	**12.6**

"Bad debt expense" refer mainly to the sale of "non performing" credits, related to the residential market, for which the extra-judicial recovery activities ended with negative results.

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

"State rentals" is mainly related to fees paid to the Emilia-Romagna region and land reclamation consortia.

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

"Losses on the sale of goods and disposal of assets", arising mainly from the disposal of certain components of the distribution networks and WTE plants, following cyclical replacement as well as projects no longer considered feasible. The value of the previous fiscal year comprises the demolition of a building being used as office space.

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

7 Capitalized costs

	2016	2015	Change
Increases in self-constructing asset	27.8	28.5	(0.7)

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

8 Amortisation, provisions and depreciation

	2016	2015	Change
Amortisation property,plant and equipment	157.1	160.8	(3.7)
Amortisation intangible assets	188.9	177.2	11.7
Allowance for bad debts	85.1	71.8	13.3
Provisions for risks and charges	32.8	36.6	(3.8)
Impairment of property, plant and equipment and intangibles	0.1	0.6	(0.5)
Releases from provisions	(4.4)	(4.8)	0.4
Total	**459.6**	**442.2**	**17.4**

For the composition of the items, please refer to the detailed reports and comments on "Fixed Assets", "immaterial assets", "commercial credits" and "Provisions for risks and charges" in the statement of financial position.

The higher amortization of intangible assets is related to the increase of the amortization of assets related to contracted public services provided on commissions and carried out in previous years. In addition, the acquisition of Waste Recycling Spa and Biogas 2015 Srl, which occurred in the second half of 2015, and the acquisition of Julia Servizi Più Srl (merged into Hera Comm Marche Srl) and Gran Sasso Srl during the year 2016 led to higher depreciation in the current period, especially as a consequence of customer lists.

The item "removal from provisions" includes the re-classification of various budget funds. As of 31 December 2016, there were re-classifications for "legal risks funds" amounting to 1 million euro and "other risks funds" in the amount of 2.7 million euro and for "landfill closure and post-closure expenses funds".

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

	2016	2015	Change
Share of net profit pertaining to joint ventures	6.2	6.1	0.1
Share of net profit pertaining to associated companies	7.6	5.7	1.9
Total	**13.8**	**11.8**	**2.0**

The item "Share of profits/losses pertaining to joint ventures and associated companies" includes the effects generated by the evaluation of the companies included in the scope of 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, 0.9 million euro (1.7 million euro in 2015) and Estenergy Spa, 5.3 million euro (4.8 million euro in 2015).

The "net subsidiary company income" mainly refers to the share of the net income earned by Aimag Spa, 3.4 million euro (2 million euro in 2015) and Sgr Servizi Spa, 3.9 million euro (3.8 million euro in 2015).

10 Financial income and expenses

	2016	2015	Change
Interest rate and foreign exchange derivatives	53.5	57.8	(4.3)
Customers	16.3	5.7	10.6
Valuation at fair value of financial liabilities	2.6	7.8	(5.2)
Other financial income	7.7	9.8	(2.1)
Total income	**80.1**	**81.1**	**(1.0)**

	2016	2015	Change
Bonds	99.4	107.8	(8.4)
Interest rate and foreign exchange derivatives	48.8	38.6	10.2
Discounting of provisions and financial leases	18.5	19.9	(1.4)
Write-downs of financial assets	13.1	6.3	6.8
Charges from valuation at fair value of financial liabilities	10.9	21.1	(10.2)
Loans	6.3	8.7	(2.4)
Factoring charging	6.2	9.9	(3.7)
Charge from the valuation of financial liabilities at amortised cost	2.4	7.0	(4.6)
Other financial expense	5.7	7.9	(2.2)
Total Expense	**211.3**	**227.2**	**(15.9)**

Total net financial income / (expense)	**(131.2)**	**(146.1)**	**14.9**

The change in financial management is described, overall, in the Directors' Report.

The increase of the item "Customer" is mainly due to the full implementation of the billing system of default interest for gas and electricity customers.

For details on costs and the structure of the items "Financing" and "Bonds", please refer to note 25 "Current and non-current financial liabilities". For "Income and expenses related to changes in the fair value of financial liabilities" and "Interest rate derivatives" reference is made to note 19 "Financial tools and derivatives".

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

	2016	2015	Change
Post-closure landfill	10.8	11.8	(1.0)
Restoration of third-party assets	5.1	5.4	(0.3)
Employee leaving indemnity and other benefits	2.0	1.6	0.4
Finance leases	0.4	0.9	(0.5)
Plants dismantling	0.2	0.2	-
Total	**18.5**	**19.9**	**(1.4)**

This decrease of the item "Discounting of provisions and finance leases" for an amount of 1.4 million euro is mainly due to the lowering of financial expenses incurred for financial leases, thanks to the conclusion of some contracts and the discounting of the post-closure funds of the Group's landfills, specifically due to the combined effect of the lowering of the discount rate used, to reflect current market conditions, as well as rescheduling the cash flows associated with future payments to cope with the post-closure charges.

"Write-down of financial assets" for 13.1 million euro, mainly refer to the write down of holdings Energoo Doo, for 1 million euro and Galsi Spa, for 12.1 million euro. In the case of Galsi, in particular, note that the impairment was made following the confirmation, in the course of 2016, of the absence of prospects for development of the construction project, and the new pipeline management that will link Algeria with Sardinia and Tuscany. This decision takes into account the fact that, even today, because of changing market conditions, the realization of this project is considered unlikely, at least in the medium term. The decision to make such a devaluation was adopted specifically following the approach adopted in recent months by the Region of Sardinia and the Ministry of Economic Development in relation to the creation of coastal LNG methane deposits for the island (Small Scale LNG), which currently prevent the possibility to anticipate the part of the project concerning Italy (the Sardinian line and the part crossing the Tyrrhenian Sea to Tuscany) to be used in "reverse flow" to supply Sardinia directly from the Snam national grid, this option was considered likely until last year.

"Finance expenses from factoring" refers to the sale of receivables aimed at optimizing the management of the Group's working capital.

The item "Charges from the valuation of financial liabilities at depreciated cost" represents the breakdown (depreciation) of the costs associated with financial liabilities (e.g. fees, investigation costs , etc .) for the entire duration of the loans using the effective interest method. The 4.6 million euro decrease as compared to the previous year is mainly due to the operation of offset of derivatives that took place over the course of 2015. In particular, the withdrawal of the hedge for some derivatives resulted in the reclassification of the positive fair value adjustments previously associated with the underlying loan to depreciated cost.

"Other financial charges" include the net effect, amounting to 3 million euro, of the partial buy-back of bonds maturing in the year 2019, as described in more detail in note 25.

11 Taxes

This item is made up as follows:

	2016	2015	Change
Current taxes (Ires, Irap and substitute tax)	130.5	122.2	8.3
Deferrred tax	2.8	(14.3)	17.1
Prepaid taxes	(14.0)	5.6	(19.6)
Total	**119.3**	**113.5**	**5.8**

The tax burden for the year 2016 amounted to 119.3 million euro, compared to 113.5 million euro for the previous year. The tax rate is thus 35.1% as compared to the 36.9% of the previous year.

The significant improvement in the tax rate in 2016 is mainly due to the benefits introduced by the recent laws of Stability: patent box, maxi depreciation and credit for research and development (2.7 million euro), in addition to the benefit ace (2.5 million euro) and the positive effects generated by the release of goodwill through a substitute tax payment and higher values generated by extraordinary operations completed during the year (1.9 million euro). It should also be noted that the tax rate for 2015 was affected by the negative effect resulting from the adjustment of deferred taxes to the new IRES rate of 24%, effective from 2017, for approximately 9 million euro.

Current taxes are broken down as follows:

	2016	2015	Change
Ires	99.7	91.3	8.4
Irap	27.9	26.7	1.2
Substitute tax	2.9	4.2	(1.3)
Total	**130.5**	**122.2**	**8.3**

The statutory tax rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 27.50%; the reconciliation with the effective rate is shown below.

	2016		2015	
	Income statement amount	Effect in percentage	Income statement amount	Effect in percentage
Pre-tax profit	339.6		307.9	
Ires				
Ordinary rate	(93.4)	-27.5%	(84.7)	-27.5%
IRAP deductions	0.9	0.3%	1.0	0.3%
Participation exemptions and investments impairment	(3.7)	-1.1%	(2.3)	-0.7%
Tax holidays and incentives	4.4	1.3%	3.8	1.2%
Deferred taxation adjustment (nominal rate)			(8.6)	-2.8%
Ires previous years	2.3	0.6%	0.4	0.1%
Other increases/decreases	(3.5)	-1.0%	(0.2)	-0.1%
IRAP and other current taxes				
Irap	(27.3)	-8.0%	(25.1)	-8.1%
Franked invesment income	1.0	0.3%	2.2	0.7%
Effective rate	**(119.3)**	**-35.1%**	**(113.5)**	**-36.9%**

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

The item "Franked investment income" 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 prepaid and deferred taxes relating to the year 2016 refer to the following variations between taxable income and profit recorded in the financial statements.

Deferred tax assets	2016			2015		
	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals
Deferred tax assets with effects on the income statement and on the statement of comprehensive income:						
Allowance for bad debt	76.3	16.4		51.7	12.4	
Provisions for risks and charges	139.5	30.3		128.1	28.3	
Provisions for employee benefits	13.0	3.5		15.9	4.3	
Depreciation and amortisation	271.8	66.7		248.5	61.2	
Non-controlling interests	75.0	21.2		60.1	16.9	
Tax loss carry forward				0.2	0.1	
cash flow hedge	1.1	0.3		1.9	0.4	
Other	18.9	4.8		35.9	7.1	
Total tax effect	**595.6**	**143.2**	**0.5**	**542.3**	**130.7**	**1.7**
Amount credited (charged) to the statement of comprehensive icome		**(2.0)**			**(0.4)**	
Amount credited (charged) to the income statement		**14.0**			**(5.6)**	

Deferrred tax liabilities	2016			2015		
	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals
Deferred tax assets with effects on the income statement and on the statement of comprehensive income:						
Provisions for risks and charges	55.4	15.0		55.2	15.7	
Provisions for employee benefits	2.1	0.6		4.5	0.8	
Amortisation and depreciation (FTA - fair value as deemed cost)	220.5	62.5		209.3	59.2	
Leases	7.9	2.2		7.4	2.1	
Capital gains recognized on installments	2.1	0.5		1.0	0.2	
Other	45.9	11.7		26.1	6.5	
Total tax effect	**333.9**	**92.5**	**5.4**	**303.5**	**84.5**	**14.1**
Amount credited (charged) to the statement of comprehensive icome		**0.2**				
Amount credited (charged) to the income statement		**(2.8)**			**14.3**	

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by law no. 244 from 24 December 2007, and associated implementational decrees, Ministerial Decree. from 1 April 2009, no. 48 and Ministerial Decree 8 June 2011, to coordinate international accounting standards with the rules to determine the taxable base for IRES and IRAP purposes, as per article 4, paragraph 7-quarter,of . Legislative Decree 38/2005. 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"

Below is a report on tax disputes outstanding at year-end.

Assessment notices issued in 2010 to Hera Spa: management fee Ferrara and Forlì-Cesena

On 29 December 2010 Hera Spa received three assessment notices for IRES, IRAP and VAT related to the financial year 2005, following a tax audit which ended with a tax audit report by the Finance Police, Bologna's tax police unit, dated 1 October 2010. The tax audit report brought to light findings related to intercompany services (general management expenses and expenses related to the use of the trademark) provided by Hera Spa, in its capacity as parent company of the Hera Group, to the operating subsidiary for the local area, Hera Forlì-Cesena S.R.L. Therefore, on 27 May 2011, the related appeals were submitted to the Provincial Tax Commission of Bologna. Following said appeals presented by the company, the Tax Authorities, by means of act notified on 17 August 2011, partially cancelled the payment orders already issued in respect of the IRES component regarding royalties for use of the trademark, and for the entire recovery effected for VAT purposes. The hearing was held before the Provincial Tax Commission of Bologna on 19 September 2012 and the rulings, which were all entered on 31 October 2012, are all in favour of the Company, for IRES, IRAP and VAT purposes. On 29 April 2013, notice was received of the appeals filed by the General Directorate of the Revenue Agency against the first instance rulings and on 26 June 2013 the company filed its counterclaims and appeal. On January 11, 2017 the hearing procedure was held before the Regional Tax Commission of Emilia-Romagna and the results have not yet been released. In relation to this dispute, which currently amounts to 1,598 thousand euro, having consulted with the Group lawyers as well, it was decided that there is no need to proceed with any provision to the risks fund, as the alleged violations are considered unfounded.

Assessment notices served to Herambiente Spa and Hera Spa

On April, 24 2012 Herambiente was notified of an assessment notice by the municipality of Ferrara for failure to report and non-payment of ICI for the 2009 tax year with regard to the Ferrara incinerator. The established amount, including penalties and interest, amounts to 718 thousand euro. On April, 24 2012, Hera Spa received notification of two assessments, once again from the municipality of Ferrara, for failure to report and non-payment of ICI relating to the tax years 2008 and 2009, with reference to the same incinerator in Ferrara. The established amounts, including penalties and interest, amount to 1,461 and 723 thousand euro, respectively. The notices of assessment, all challenged by the appeal filed 23 July 2012, resulting from the land registry reclassification initiated in late 2001 by the Ferrara Territorial Agency which had carried out a reclassification for the incinerator of Ferrara from category E9 - exempt from taxation for properties "with the purpose of meeting particular public needs and/or serving the public interest" as proposed by the Company, to category D1, "Industrial Factories", resulting in an amount due in terms of municipal property tax (now IMU) for the contested properties. The 2016 rulings by the court of Ferrara were all in favour of the Company; on 9 June 2016 Herambiente Spa and Hera Spa were notified the appeals by the Municipality of Ferrara and the hearing is about to be scheduled.

During the 2015 and 2016 financial years, regarding the same plant, Herambiente Spa was notified for the years 2010 to 2014 of tax assessments for non-payment of ICI/IMU amounting to 1,470 thousand euro for the 2010 year, 1,432 thousand euro for the 2011 years, 1,496 thousand euro for the 2012 year and 1,415 thousand euro for the 2013 year and 1510 for 2014. The company filed appeals against these assessment notices. Currently the rulings are suspended, awaiting the result of the associated land registry decision.

On December 12, 2016 the company was notified Ici / IMU tax assessments for the years 2011 to 2015 concerning Sotris Spa (previously controlled and then merged into Herambiente Spa), for 382 000 euro, in relation to buildings located in Ravenna on land over which the Municipality of Ravenna holds surface rights. On December 21, 2016 the company was notified Ici / IMU tax assessments for the years 2012 to 2015 concerning land registry changes, for 1639 thousand euro, while on December, 28 2016 further tax assessments for the tax year 2011 to 2015 in relation to the value of the construction areas located in via Romea nord in Ravenna, for 123,000 euro. 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.

Invitation to appear for Ici / IMU from 2010 to 2015 was notified to the Company Frullo Energia AmbienteSrl.

In 2016, the subsidiary Frullo Energia AmbienteSrl was notified an invitation to appear by the Union of Municipalities Terre di Pianura regarding the alleged obligation to pay ICI / IMU for the years 2010 to 2015, relative to the WTE located in the Municipality of Granarolo dell'Emilia. The dispute with the Municipality, who believes the current cadastral classification of the plant in category E and exempt from taxation to be incorrect, ended negatively for the Company, and was followed by the notification on 20 December 2016 of the assessment notice for the tax years 2010 and 2011, with the contesting of 2,583 thousands euro for the tax and 5,166 for the sanction at its maximum; On 30 December 2016 the office has suspended the assessment notice until 31 March 2017, awaiting the cadastral verification process. 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 assessment on Herambiente Spa

On 7 March 2012, an audit was initiated at Herambiente by the Revenue Agency - Emilia Romagna Regional Department - Large Taxpayers Office. The audit covered the 2009 fiscal year and focused mainly on the amount the company owed in relation to the IRAP subsidy as per nos. 2), 3) and 4) of paragraph 1, letter a) of art. 11 of Legislative

Decree no. 446/97, the so-called "tax wedge". On 22 May 2012 the formal notice of assessment was received, after which the company, on 19 July 2012, presented defensive comments contesting the entire content of the notice in question. On 21 and 22 October 2014 it was served with the associated assessment notices, against which the company appealed on December 18 2014. The Provincial Tax Commission found in favour of the Company on 10 June 2015 in relation to the "tax wedge" deduction. On January 5, 2016, the Inland Revenue Office served notice of the appeal and on 4 March 2016 the Company filed a cross appeal.

On 26 November 2014 a further tax audit was launched in relation to IRAP for 2010 and 2011, focused on the amount the company owed in relation to the IRAP subsidy as per nos. 2), 3) and 4) of paragraph 1, letter a) of art. 11 of Legislative Decree no. 446/97, the so-called "Tax wedge, and, for 2011, the incorrect application of IRAP given that, according to the interpretation the office presented, the company had not applied the 4.20% rate relative to the concessionary companies. On 24 January 2015 comments for the verbal verification process was submitted, while on 29 April 2015 the assessment notice was served for 2010, to which an appeal was made on June, 10 2015. On July 4, 2016 the hearing procedure was held and the results have not yet been released.

On December 15 2015 an assessment notice was served in relation to 2011, against which an appeal was filed on February 5 2016. The ruling was favourable to the Company and filed on February 6, 2017. On October 21 2016 the assessment notices were served for the 2012 and 2013 Irap analogously to what was assessed for the previous fiscal years; the associated appeals were made on December 7 2016.

The Group did not make any provision for the disputes in question, considering the allegations as baseless.

Tax assessment on Hera Trading Srl

The Inland Revenue Office contested the company's application of the increased IRAP rate for the production and distribution of electricity, gas and heat as per article 1 of Emilia-Romagna Regional Law no. 19/2006. In this regard, the Company received tax assessment notices, notices of irregularities or payment requests for the tax years 2007 to 2011, all paid in full, also providing for the regularization of the increased Irap rate for the tax years 2012, 2013 and 2014 through voluntary redemption of the owed taxes.

Furthermore, on 28 January 2015 the Finance Police - Bologna tax police unit conducted a tax audit initially concerning the 2013 tax period but then extended to the financial years from 2010 to 2014. This investigation, which ended with the notification of preliminary findings on 9 July 2015, was focused on the handling, for the purposes of direct taxation, of the costs the company incurred in relation to subjects residing in the so-called black list countries, pursuant to Article 110, paragraphs 10 et seq of the Italian Income Tax Code, as well as the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates. The Company prepared comments on the above PVC, which were filed on 7 September 2015, and subsequently integrated on October 6 2016 with specific reference made to derivatives financial tools.

For the black list part, Dre of Emilia-Romagna and the Dre of Friuli-Venezia Giulia notified the company two questionnaires for the costs, respectively, of 2010, 2011 as well as 2012 and 2013. Following these proceedings, the Inland Revenue of Emilia-Romagna served notice of the sanction for failure to separately indicate these costs, which was resolved with the Company paying a moderate amount. For Friuli-Venezia Giulia the results of the proceedings have yet to be issued.

As far as the assessment pertaining to the valuation of derivatives and energy certificates, on November 2, 2016 the company was notified an assessment notice for 2011 Ires in which the alleged improper deduction of costs for 7,826 thousands euro was contested. On December 28, 2016 the associated appeal was notified and the hearing has yet to be scheduled.

The Group, having consulted with its consultants, 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 assessment on Hera Comm Srl

Regarding the application of the increased IRAP rate established for the production and distribution of electricity, gas and heat as per article 1 of Emilia-Romagna Regional Law no. 19/2006, the Company received tax assessment notices, notices of irregularities or payment requests for the tax years 2008 to 2011, all paid in full, also providing for the regularization of the increased Irap rate for the tax years 2012, 2013 and 2014 through voluntary redemption of the owed taxes. On October 17, 2016 a tax audit was initiated by the Regional Directorate of Emilia-Romagna concerning IRES, IRAP and VAT, for the tax year 2013, which ended with the notification of the PVC on 21 December 2016; the only objection, of modest importance, concerns the incorrect application of the 10% VAT on the sale of gas and electricity.

12 Earnings per share

€/mln	2016	2015
Profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (A)	207.3	180.5
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
- basic (B)	1,471,822,892	1,473,737,913
- diluted (C)	1,471,822,892	1,473,737,913
Earnings (loss) per share (euro)		
- basic (A/B)	**0.141**	**0.123**
- diluted (A/C)	**0.141**	**0.123**

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

As of this writing, the share capital of the parent company, Hera Spa, consisted of 1,489,538,745 ordinary shares, unchanged from 31 December 2015, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	31 Dec 2016	including assets held on the basis of lease finance arrangments	31 Dec 2015	including assets held on the basis of lease finance arrangments	Change
Land and buildings	564.3	16.4	567.6	16.8	(3.3)
Plants and machinery	1,233.3	6.6	1,263.9	8.1	(30.6)
Other moveable assets	119.2	0.2	113.1	0.7	6.1
Assets under construction	99.6	-	83.4	-	16.2
Operating assets	**2,016.4**	**23.2**	**2,028.0**	**25.6**	**(11.6)**
Property investments	2.8	-	3.6	-	(0.8)
Total	**2,019.2**	**23.2**	**2,031.6**	**25.6**	**(12.4)**

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

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	Impairments	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 15										
Land and buildings	558.3	8.6	(3.4)	(16.5)	11.2	-	9.4	567.6	730.5	(162.9)
Plants and machinery	1,307.5	33.3	(3.6)	(116.7)	16.8	(0.8)	27.4	1,263.9	2,496.0	(1,232.1)
Other moveable assets	117.1	16.8	(1.7)	(27.6)	3.6	-	4.9	113.1	400.3	(287.2)
Assets under construction	80.8	51.1	(0.9)	-	0.8	-	(48.4)	83.4	83.4	-
Total	**2,063.7**	**109.8**	**(9.6)**	**(160.8)**	**32.4**	**(0.8)**	**(6.7)**	**2,028.0**	**3,710.2**	**(1,682.2)**
31 Dec 16										
Land and buildings	567.6	9.2	(1.3)	(16.9)	0.3	-	5.4	564.3	744.5	(180.2)
Plants and machinery	1,263.9	47.3	(4.8)	(113.3)	1.1	-	39.1	1,233.3	2,565.9	(1,332.6)
Other moveable assets	113.1	20.5	(1.0)	(26.9)	-	-	13.5	119.2	423.3	(304.1)
Assets under construction	83.4	56.5	(1.5)	-	5.2	-	(44.0)	99.6	99.6	-
Total	**2,028.0**	**133.5**	**(8.6)**	**(157.1)**	**6.6**	**-**	**14.0**	**2,016.4**	**3,833.3**	**(1,816.9)**

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

"Land and buildings", totalling 564.3 million euro, consisted of 112.3 million euro in land and buildings and 452 million euro in buildings. These are mainly company-owned properties on which the majority of the sites and production plants stand.

"Plant and machinery", amounting to 1,233.3 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. Compared to December 31, 2015 the increase of investment for 14 million euro is mainly due to the waste disposal activities originating from the expansions of active landfills. The divestitures concern, instead, the sale of assets related to the heating business management.

"Other moveable assets", equal to 119.2 million euro, include the equipment, waste disposal bins for 59.5 million euro, moveable assets, furniture and electronic machines for 16.1 million euro, and vehicles and cars for 43.6 million euro.

"Assets under construction and advance payments", amounting to 99.6 million euro, include mainly investment for development of district heating and electricity distribution and periodic replacement of waste-to-energy plant components.

"Other changes" includes adjustments for 13.7 million euro to dismantlement and reactivation costs - as estimated when the plants were created or expanded - for the year 2016. Furthermore, 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

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

14 Intangible assets

	31 Dec 16	31 Dec 15	Change
Industrial patents and intellectual property rights	59.8	50.6	9.2
Concessions, licences, trademarks and similar rights	95.5	107.6	(12.1)
Public services under concession	2,539.6	2,444.7	94.9
Intangible assets under construction and public services under concession	111.1	140.2	(29.1)
Intangible assets under construction	48.5	47.7	0.8
Other	113.5	104.8	8.7
Total	**2,968.0**	**2,895.6**	**72.4**

Intangible assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 15									
Industrial patents and intellectual property rights	47.9	5.3	-	(21.2)	-	18.6	50.6	294.7	(244.1)
Concessions, licences, trademarks and similar rights	110.7	1.5	-	(12.0)	7.4	-	107.6	389.3	(281.7)
Public services under concession	2,370.2	115.5	(2.7)	(132.2)	-	93.9	2,444.7	3,849.7	(1,405.0)
Intangible assets under construction and public services under concession	134.5	85.5	-	-	-	(79.8)	140.2	140.2	-
Intangible assets under construction	54.2	25.8	(3.9)	-	-	(28.4)	47.7	47.7	-
Other	79.6	2.4	-	(11.8)	34.2	0.4	104.8	195.0	(90.2)
Total	**2,797.1**	**236.0**	**(6.6)**	**(177.2)**	**41.6**	**4.7**	**2,895.6**	**4,916.6**	**(2,021.0)**
31 Dec 16									
Industrial patents and intellectual property rights	50.6	6.5	-	(24.7)	-	27.4	59.8	328.6	(268.8)
Concessions, licences, trademarks and similar rights	107.6	0.5	(0.1)	(12.2)	-	(0.3)	95.5	387.0	(291.5)
Public services under concession	2,444.7	142.7	(9.0)	(137.6)	-	98.8	2,539.6	4,073.0	(1,533.4)
Intangible assets under construction and public services under concession	140.2	67.5	(0.8)	-	-	(95.8)	111.1	111.1	-
Intangible assets under construction	47.7	31.0	(0.3)	-	-	(29.9)	48.5	48.5	-
Other	104.8	3.2	-	(14.4)	18.8	1.1	113.5	217.1	(103.6)
Total	**2,895.6**	**251.4**	**(10.2)**	**(188.9)**	**18.8**	**1.3**	**2,968.0**	**5,165.3**	**(2,197.3)**

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

"Industrial patents rights and know-how," in the amount of 59.8 million euro, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licenses, trademarks and similar rights," amounting to 95.5 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 2,539.6 million euro, consists of the goods related to the activities of gas and electricity distribution (in the Imola area), integrated water management and public lighting (for the latter, except for what outlined in note 17 below) 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. The significant increase of the investments in the "contracted Plant and Machinery" category is mainly due to the water sector and gas distribution. Regarding divestitures, note the sale of the gas plant and networks located in the municipalities of Meldola and Forlimpopoli.

"Intangible assets under construction and public services under concession," amounting to 111.1 million euro, refers to investments related to the these same contracts that have yet to be concluded at year-end.

"Intangible assets in progress and advance payments", equal to 48.5 million euro, essentially comprises IT projects that are still incomplete.

The item "Other", amounting to 113.5 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 and customer lists acquired through business combinations.

"Other changes" include the reclassifications of the assets under construction to the specific categories once these have entered service during the financial year and other reclassifications to property, plant and equipment.

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

15 Goodwill

The item Changes in the scope of consolidation reflects mainly:

- the integration resulting in the creation of Hera Spa 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;
- Integration of Geat Distribuzione Gas into Hera Spa, effective beginning 1 January 2006, 11.7 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 Marche Multiservizi Spa Group, 20.8 million euro;
- acquisition of control over the Hera Comm Marche Srl, 4.6 million euro;

As provided for by the International Accounting Principles (Ias 36), goodwill was verified though impairment tests identifying 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 2017 - 2020 business plan approved by the Board of Directors of the parent company at its meeting of 11 January 2017.

The impairment test was applied to the following cash-generating units: gas, electricity, integrated water management, the environment and other services (Public lighting and telecommunications) that are consistent with the business areas used for internal periodic reporting and with the sector-based reporting in the annual financial report in accordance with the provisions of IFRS 8 - operating areas.

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 2017-2020 Business Plan consistent with those used in previous plans and, on the basis of the final reported values, forecasts were defined that had been internally processed through reference 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 AEEGSI 573/13 (RTDG), 367/14 (RTDG) and 654/15 (TIT) resolutions for gas and electricity respectively, and taking into account the respective WACC values approved, effective from 2016, through Resolution no. 583/15. 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, taking into account the new parameters underlying the coverage of approved financial and fiscal costs. 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 disposal 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 for Plan was developed by formulating prospective hypotheses based on all information available at the time of drafting the Plan. The most recent rate of inflation reported in the financial statement was taken into account, as well as the rate of inflation estimated on the basis of the Government's Economic Planning Document and forecasts by the Bank of Italy and the 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 determined using the forecasted data for the 2017 - 2020 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 free normalized cash flow with the medium/long-term timeframe for the relevant sector (2% on average) for the 2021-2036 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, waste disposal and telecommunication), the cash flow resulting from the application of the perpetuity criterion for the last year (2036) 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 gas distribution services, integrated water management and public lighting in the CGU "Other 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 VNC 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. Specifically, for the purpose of the evaluation, it was considered necessary to use the so called unconditional methodology, which involves to determine the WACC using a risk-free rate that incorporates the country risk normalized by monetary policies implemented by the Central Banks. 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 use value is determined net of the tax effect as this method produces values that are substantially equivalent to those obtainable by discounting the cash flows before deducting taxes at a discount rate before taxes.
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. In particular, for Italy a 5.58% WACC was used for the environment and 5.00% for other business, while a WACC of 5.32% was used for the remaining European countries .

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 accounted for, therefore this anlysis has further confirmed the carrying values.

An impairment test was also carried out on the activities related to electricity generation. Please refer to note 16 "Equity Investments" for the results of this test.

16 Equity investments

	31 Dec 16	31 Dec 15	Change
Equity investments valuated using the equity method	131.5	127.1	4.4
Other investments	17.0	30.0	(13.0)
Total	**148.5**	**157.1**	**(8.6)**

The changes in joint ventures and associated companies as compared to 31 December 2015 take into account the pro-quota profits/losses reported by the respective companies (including the other components of the comprehensive income statement) as well as the reduction of the value for any dividends that were distributed. The portion of the results for the period accounted for with the equity method is reported in Note 9.

The changes in equity investments consolidated with the equity method are as follows:

	31-dic-15	Investments	Valuation using Equity method	Dividends collected	Other changes	31 Dec 16
Aimag Spa	44.1		3.5	(1.4)	(0.1)	46.1
Enomondo Srl	13.0		0.9	(0.8)	0.1	13.2
EstEnergy Spa	11.3		5.3	(4.5)		12.1
Q.Thermo Srl	1.3	0.2	(0.1)	-		1.4
Set Spa	35.8		0.4	-		36.2
Sgr Servizi Spa	20.6		3.9	(2.8)		21.7
Other minor companies	1.0		(0.1)	(0.1)		0.8
Total	**127.1**	**0.2**	**13.8**	**(9.6)**	**-**	**131.5**

The equity investments in companies not included in the scope of consolidation, instead, underwent the following changes.

	31 Dec 15	Investments	Disinvestments	Impairments	Other changes	31 Dec 16
Other investments						
Energo Doo	5.0			(1.0)		4.0
Calenia Energia Spa	7.0					7.0
Galsi Spa	12.1			(12.1)		-
H.E.P.T. Co.Ltd	0.4	0.4				0.8
Other minor companies	5.5		(0.4)		0.1	5.2
Total	**30.0**	**0.4**	**(0.4)**	**(13.1)**	**0.1**	**17.0**

Regarding the write-down of the investments in Energo Doo and Galsi Spa, see Note 10 "Financial income and expenses"

Of "Other equity investments", the item "Other minor investments" is composed primarily of the non-qualified investment in Veneta Sanitaria Finanza di Progetto Spa, with a 17.50% equity interest and a carrying amount of euro 3.6 million.

Below are presented the main aggregate values of jointly controlled companies (Enomondo Srl and EstEnergy Spa).

ASSETS	31 Dec 16
Non-current assets	
Property, plant and equipment	40.9
Intangible assets	-
Non-controlling interests	-
Financial assets	-
Deferred tax assets	3.6
Total non-current assets	**44.5**
Current assets	
Inventories	47.2
Trade receivables	4.0
Financial assets	0.1
Current tax assets	0.2
Other current assets	12.9
Cash and cash equivalents	4.7
Total current assets	**69.1**
Total assets	**113.6**

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec 16
Share capital and reserves	
Share capital	15.7
Reserves	22.1
Profit / (loss) for the year	12.2
Group equity	**50.0**
Non-current liabilities	
Non-current financial liabilities	6.8
Employee leaving indemnity and other benefits	0.2
Provisions for risks and charges	0.9
Deferrred tax liabilities	0.4
Financial instruments - derivatives	0.4
Total non-current liabilities	**8.7**
Current liabilities	
Current financial liabilities	12.8
Trade payables	35.5
Current tax liabilities	-
Other current liabilities	6.6
Total current liabilities	**54.9**
Total equity and liabilities	**113.6**

INCOME STATEMENT	2016
Revenue	137.7
Other operating revenues	6.0
Use of raw materials	(60.4)
Service costs	(52.4)
Personnel costs	(4.6)
Amortisation, depreciation,provisions	(7.9)
Other operating costs	(0.5)
Operating profit	**17.9**
Financial income	0.3
Financial expense	(0.8)
Total financial operations	**(0.5)**
Pre-tax profit	**17.4**
Taxes for the period	(5.2)
Net profit for the period	**12.2**

Below are presented the main aggregate values of companies with significant influence (Aimag Spa, Q.Thermo Srl, Set Spa, Sgr Servizi Spa, Sosel Spa, and Tamarete Energia Srl):

ASSETS	31-dic-16
Non-current assets	
Property, plant and equipment	404.9
Intangible assets	47.7
Goodwill	39.9
Non-controlling interests	11.4
Financial assets	3.5
Deferred tax assets	11.5
Total non-current assets	**518.9**
Current assets	
Inventories	4.8
Trade receivables	189.3
Contract work in progress	0.1
Current tax assets	1.3
Other current assets	17.7
Cash and cash equivalents	21.4
Total current assets	**234.6**
Total assets	**753.5**

SHAREHOLDERS' EQUITY AND LIABILITIES	31-dic-16
Share capital and reserves	
Share capital	88.0
Reserves	219.0
Profit / (loss) for the year	29.1
Group equity	**336.1**
Non-controlling interests	10.3
Total equity	**346.4**
Non-current liabilities	
Non-current financial liabilities	222.2
Employee leaving indemnity and other benefits	8.9
Provisions for risks and charges	30.1
Deferrred tax liabilities	0.6
Total non-current liabilities	**262**
Current liabilities	
Current financial liabilities	6.9
Trade payables	118.8
Current tax liabilities	2.4
Other current liabilities	17.2
Total current liabilities	**145.3**
Total liabilities	**753.5**

INCOME STATEMENT	2016
Revenue	493.6
Other operating revenues	1.6
Use of raw materials	(258.2)
Service costs	(94.7)
Personnel costs	(36.2)
Amortisation, depreciation,provisions	(41.1)
Other operating costs	(11.8)
Operating profit	**53.2**
Financial income	0.1
Financial expense	(7.9)
Total financial operations	**(7.8)**
Other non-recurring non-operating costs	(0.3)
Pre-tax profit	**45.1**
Taxes for the period	(14.3)
Net profit for the period	**30.8**

Impairment of electricity generation assets

With reference to the market for electric generation, in the presence of different impairment indicators and in keeping with previous 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 Spa, Set Spa e Tamarete Energia S.r.l. in order to verify whether or not it is possible to recuperate the financial assets (equity investments and financial receivables) reported in the financial statement in relation to these companies (equal to 7.8 million euro, 72.2 million euro and 30.2 million euro, respectively).

The negative trend in the electricity generation market that has been going on for several years has recently shown some signs of improvement, supported by favourable conditions in the larger context, without prejudice to prospects for a consolidation of this recovery in the medium / long term. The factors that have determined the performance of the electricity generation market continues in recent years stem from the combination of multiple factors on both demand and supply sides. The main factors affecting current price dynamics are to be found in:

- the attainment of full operational capability of the plants built in the recent cycle of investment in new thermoelectric capacity (period until 2010/2011);
- the introduction of significant production capacity in renewable energy in the past few years (about 33GW of installed power at the end of 2015, excluding hydroelectricity);
- low levels of energy demand caused by the negative economic cycle of the past few years, with the resulting impact on the reserve margin of the system which has reached a historical high.

The current economic condition is expected to change in the medium/long term, particularly due to:

1. 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 terms (not easy to implement, due to unfavourable financial market conditions and, in the case of foreign operators engaging in Italy, subject to the need for cross-border optimization of investment portfolios); b) exit from the generation market, with a resulting reduction of capacity on the supply side and price rise;
2. lack of productive investments in the expansionary phase, 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);
3. lawmakers' interventions intended to reduce economic incentives for new renewable power, with a consequent impact on investment growth in the sector;
4. the progressive return of demand for electricity toward pre-crisis levels, with consequent reduction of the system's reserve margin.

That said, future cash flows 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 and the system's expected reserve margin, as previously outlined, discounted to present value at an after-tax rate of 5.03% (for details about this, see note 15 "Goodwill") give rise to amounts for the investments and related financial assets greater than their carrying amounts for Calenia Energia Spa, Set Spa and Tamarete Energia Srl, therefore, no adjustment was made to their carrying amounts.

A sensitivity analysis was also carried out by reducing the curve of the spark spread by 2 euro/MWh compared to the medium-longterm scenario suggested above. In this case as well, the adequacy of the amounts recorded for equity investments and related financial assets in Calenia Energia Spa, Set Spa and Tamarete EnergiaSrl was confirmed.

17 Current and non-current financial assets

	31 Dec 16	31 Dec 15	Change
Receivables for loans	72.6	78.0	(5.4)
Portfolio securities	2.4	2.8	(0.4)
Other financial receivables	35.2	44.4	(9.2)
Total non-current financial assets	**110.2**	**125.2**	**(15.0)**
Receivables for loans	15.3	16.8	(1.5)
Portfolio securities	0.1	6.0	(5.9)
Other financial receivables	14.0	11.8	2.2
Total current financial assets	**29.4**	**34.6**	**(5.2)**
Total cash and cash equivalents	**351.5**	**541.6**	**(190.1)**
Total financial assets, Cash and cash equivalents	**491.1**	**701.4**	**(210.3)**

"Loan receivables", comprises non-interest bearing loans or loans regulated at market rate, made to the following companies:

	31 Dec 16			31 Dec 15		
	non current portion	current portion	Total	non current portion	current portion	Total
Enomondo Srl	-	4.1	4.1	-	4.1	4.1
Aloe Spa	10.0	0.6	10.6	10.4	0.4	10.8
Set Spa	29.6	6.3	35.9	32.2	7.3	39.5
Tamarete Energia Srl	26.8	3.4	30.2	28.6	2.5	31.1
Other minor companies	6.2	0.9	7.1	6.8	2.5	9.3
Total	**72.6**	**15.3**	**87.9**	**78.0**	**16.8**	**94.8**

The item "Portfolio Securities" includes, in the non-current section, bonds, funds and insurance policies in the amount of 2.4 million euro to replace and reconstitute the sum to guarantee the post-closure of the landfill managed by the subsidiary Asa Scpa.
Bonds classifiable as Assets available for Sale are recorded in the current section, the book value of which is essentially in line with their fair value at the end of the financial year. The decrease in this item as compared to 31 December 2015 was due, in the current period, to the paying off of bonds, deposits and insurance policies.

For "Other financial receivables", the non-current section includes the following:

- Loan to The City of Padua, regulated at market rates, for the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 18.2 million euro;
- Loan to the "Collinare" Consortium of Municipalities represents the receivable for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end, in the amount of 11.7 million euro;
- Loan for 1.9 million euro to 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";
- Loan to the Municipality of Padua, regulated at market rates, following the deferral of payment over ten years for supplying electricity for street lighting systems in the amount of 1.1 million euro;

The decrease as compared to the previous period is mainly due to the reclassification of the loan to Acosea Impianti Srl in the nature of a deposit under "Other current assets".

For "Other financial receivables", the current section mainly includes:

- public grant receivables to be received from various different subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region, among others) by the subsidiary Acegas Aps Amga Spa, for over 7.3 million euro;
- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the imminent commencement of the calls for tender, in the amount of 2.7 million euro;

- deposit accounts set up to guarantee Hera Trading Srl operativeness on exchange platforms, in the amount of 1.6 million euro;

the item "Cash and cash equivalents" included cash, cash equivalents, and bank cheques and drafts held in the cashier office at headquarters and at other companies for a total of 0.1 million euro; the deposit accounts at banks and credit institutions, generally available for current operations, as well as post office bank accounts in the amount of 351.4 million euro.

To better understand the financial dynamics taking place during the 2016 financial year, see the financial statement and the comments shown in the management report.

18 Deferred tax assets and liabilities

	31 Dec 16	31 Dec 15	Change
Differred tax assets	143.2	130.7	12.5
Deferred taxation adjustment	(65.3)	(60.7)	(4.6)
Substitute tax credit	2.4	3.0	(0.6)
Total net deferred tax assets	**80.3**	**73.0**	**7.3**
Deferred tax liabilities	92.5	84.5	8.0
Deferred taxation adjustment	(65.3)	(60.7)	(4.6)
Total net deferred tax liabilities	**27.2**	**23.8**	**3.4**

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

"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.

Note the inclusion of future tax benefits, amounting to 4.3 million euro and generated by release operations carried out by the Group during the year, under deferred tax assets. 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 the introductory section of these notes.
For more detail regarding the composition and dynamics of deferred tax assets and liabilities as well as an analysis of release operations, see note 11 "Income taxes for the year".

19 Financial derivatives instruments

Non current assets/liabilities							
Underlying	Fair Value Hierarchy	31 Dec 16			31 Dec 15		
		Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate and foreign exchange derivatives							
Loans	2	1.000 mln	83.6		1.000 mln	93.4	
Loans	2	168.3 mln		44.1	176.3 mln		33.4
Total Interest rate and foreign exchange derivatives			**83.6**	**44.1**		**93.4**	**33.4**
Exchange rate derivatives (financial transactions)							
Loans	2	20 bln JPY	25.9		20 bln JPY	14.8	
Total non-current derivatives			**109.5**	**44.1**		**108.2**	**33.4**

Current assets/liabilities							
Underlying	Fair Value Hierarchy	31-dic-16			31-dic-15		
		Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate and foreign exchange derivatives							
Loans	2		-	-	0.0	-	-
Commodity derivatives							
Foreign Gas Hubs	3	790,348 MWh	1.9	-	85,553 MWh	0.5	-
Crude oil	2	500 Bbl	-	-	10,200 Bbl	0.2	-
Refined oil/coal	2	-	-	-	5,900 Ton	0.7	-
Formule Energia Elettrica	2	8,944,992 MWh	54.6	-	4,848,966 MWh	5.1	-
Foreign Gas Hubs	3	405,383 MWh	-	0.8	1,383,464 MWh	-	8.5
Crude oil	2	12,400 Bbl	-	0.2	141,000 Bbl	-	2.2
Refined oil/coal	2	9,100 MWh	-	0.7	-	-	-
Formule Energia Elettrica	2	8,676,054 MWh	-	63.1	6,371,525 MWh	-	11.6
Total commodity derivatives			**56.5**	**64.8**		**6.5**	**22.3**

Derivative financial instruments classified under non-current liabilities amounted to 109.5 million euro (108.2 million euro as at 31 December 2015); they refer to interest rate derivatives for 83.6 million and derivatives on exchange rates for 25.9 million. Derivative financial instruments classified under non-current assets amounted to 44.1 million euro (33.4 million euro as at 31 December 2015) 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. The derivative financial instruments classified as current assets amounted to 56.5 million euro (6.5 million as at 31 December 2015) and refer entirely to commodity derivatives. The derivative financial instruments classified as current assets amounted to 64.8 million euro (22.3 million as at 31 December 2015) and likewise refer entirely to commodity derivatives.

With regard to derivatives on current and long-term interest rates in the form of Interest Rate Swaps (IRS) as at 31 December 2016, the Group's net exposure was positive by 39.5 million euro, compared with a positive exposure of 60 million euro as at 31 December 2015. 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 of the derivatives for that period.

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 25.9 million euro as at 31 December 2016, as compared to an assessment that was positive, amounting to 14.8 million euro, as at 31 December 2015. The positive change in fair value in the amount of 11.1 million euro is due prevalently to the exchange rate, since the Japanese yen gained on the euro during the year.

At 31 December 2016 the net fair value of commodity and currency derivatives was negative for 8.3 million euro, as compared to a negative fair value of 15.8 million euro at 31 December 2015. The significant increase in absolute terms of the fair value of assets and liabilities, compared to 31 December 2015, was due - especially in relation to the contracts linked to special price arrangements ("Formule Energia Elettrica"), which constitute the majority of the company's contracts - to trends in the dynamics of the Group's procurement activities, which involved making greater use of this type of contract. In relation to prices, moreover, it should be noted that the performance of the French market, especially in the last months of 2016, resulted in an increase of price fluctuation with a consequent effect on the absolute value of buying and selling positions.

During the 2016 financial year, there were no transfers between the different levels of fair value indicated above.

Interest rate and foreign exchange derivative instruments held as at 31 December 2016, subscribed in order to hedge loans, can be classed into the following categories (figures in millions of euro):

Interests exchange rate derivatives (financial transactions)							
Type	Underlying	31 Dec 16			31 Dec 15		
		Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges	Loans	18.5 mln	-	1.2	26.5 mln	-	2.0
- Fair Value Hedge	Loans	149.8 mln	25.9	31.5	149.8 mln	14.8	28.9
- Non Hedge Accounting	Loans	1.000 mln	83.6	11.4	1.000 mln	93.4	2.5
Total fair value			**109.5**	**44.1**		**108.2**	**33.4**
Type	Underlying	31-dic-16			31-dic-15		
		Income	Expense	Net effect	Income	Expense	Net effect
Cash Flow Hedges	Loans	-	(1.0)	(1.0)	-	(1.3)	(1.3)
- Fair Value Hedge	Loans	15.9	(10.8)	5.1	25.7	(8.3)	17.4
- Non Hedge Accounting	Loans	37.6	(37.0)	0.6	32.1	(29.0)	3.1
Total Income / expense		**53.5**	**(48.8)**	**4.7**	**57.8**	**(38.6)**	**19.2**

Interest rate derivatives identified as cash flow hedges show a residual notional amount of 18.5 million euro (26.5 million euro as at 31 December 2015) against variable rate loans of the same amount. Charges associated with this class of derivatives predominantly 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.

As at 31 December 2016, the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to 1 million euro, have no relevance in relation to other classes:

The derivatives on interest rates and exchange rates, identified as fair value hedges of liabilities reported in the balance sheet (fair value hedges) have an overall negative fair value of 5.6 million euro as compared to a negative fair value of 14.1 million euro, as at 31 December 2015. This positive change in the period is mainly due to the effect of Cross Currency Swaps (CCS).

The derivatives on interest rates, identified as non-hedge accounting hedges, have an overall positive fair value of 72.2 million euro (90.9 million euro as at 31 December 2015). In this regard, it should be noted that, during the year, 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 IAS 39. 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 31 December 2016, the breakdown of income and expenses associated with derivatives classified as fair value hedges, non-hedge accounting and related underlying liabilities, as adjusted for the income and losses attributable to the hedged risk, are as follows:

Fair Value Hedges	31 Dec 16			31 Dec 15		
	Income	Expense	Total	Income	Expense	Total
- Derivates valuation	10.9	(2.6)	8.3	21.1	-	21.1
- Accrued Interest	0.2	-	0.2	0.2	-	0.2
- Cash inflow	4.8	(8.2)	(3.4)	4.4	(8.3)	(3.9)
- ineffective portion	-	-	-	-	-	-
Derivatives financial impact Fair Value Hedges	**15.9**	**(10.8)**	**5.1**	**25.7**	**(8.3)**	**17.4**

Non Hedge Accounting	31 Dec 16			31 Dec 15		
	Income	Expense	Total	Income	Expense	Total
- Derivates valuation	1.8	(20.4)	(18.6)	2.2	(14.0)	(11.8)
- Accrued Interest	0.2	(0.2)	-	0.2	(0.5)	(0.3)
- Cash inflow	35.6	(16.4)	19.2	29.7	(14.5)	15.2
- ineffective portion	-	-	-	-	-	-
Derivatives financial impact Non Hedge Accounting	**37.6**	**(37.0)**	**0.6**	**32.1**	**(29.0)**	**3.1**

Underlying	31 Dec 16			31 Dec 15		
	Income	Expense	Total	Income	Expense	Total
Financial liabilities valutation	2.6	(10.9)	(8.3)	7.8	(21.1)	(13.3)

The positive 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. No significant ineffective portions were found in the financial year.

Commodity derivative instruments held as at 31 December 2016 can be classed into the following categories (figures in millions of euro):

Commodity/change rate derivatives (commercial transactions)							
Type	Underlying	31 Dec 16			31 Dec 15		
		Fair Value Assets	Fair Value Liabilities	Net effect	Fair Value Assets	Fair Value Liabilities	Net effect
- Non Hedge Accounting	Transactions on commodities	56.5	64.8	(8.3)	6.5	22.3	(15.8)
Type	Underlying	31 Dec 16			31 Dec 15		
		Income	Expense	Net effect	Income	Expense	Net effect
- Non Hedge Accounting	Transactions on commodities	84.1	(81.6)	2.5	36.4	(48.1)	(11.7)

At financial year-end there were no commodity derivatives accounted for as hedges. 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 strict 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 recognized as operating costs.

Overall, these derivatives, in the 2016 financial year, generated a net income of 2.5 million euro, 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.

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, Fair Value Hedges and non-hedge accounting) 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 31 December 2016, at like-for-like exchange rates, the potential increase in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly 0.6 million euro. Likewise, conjecturing an instant shift of +25 basis points in the interest rate curve, there would be a potential decrease in fair value of about 0.5 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. Likewise, they would not have any appreciable effect on equity, since the derivatives accounted for as cash flow hedges are not significant at the consolidated level.

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 31 December 2016 would amount to approximately 18.6 million euro. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 22.8 million euro. As exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

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 (essentially 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.

Although they do not formally fall under the IAS 39 criteria to be accounted for under hedge accounting, these derivatives 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 31 December 2016 would amount to approximately 2.5 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 2.5 million euro.

In assuming an instant change in the exchange rate of 0.05 dollars per euro, with no change in the Brent price and a steady pun curve, the potential increase in the fair value of derivative financial instruments held as at 31 December 2016 would amount to approximately 0.1 million euro. Similarly, an instant change of the same amount in the opposite direction would bring about a potential decrease in the fair value of the instruments of around euro 0.2 million.

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 31 December 2016 would amount to approximately 2.2 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 around 2.2 million euro.

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20 Inventories

	31 Dec 16	31 Dec 15	Change
Raw materials and stock	63.5	84.5	(21.0)
Materials held for sale and finished products	10.5	10.2	0.3
Contract work in progress	30.5	21.6	8.9
Total	**104.5**	**116.3**	**(11.8)**

The "Raw materials and stocks", already shown net of an associated obsolescence provision, amount to 63.5 million euro. They are comprised mainly of gas stocks, for 29.6 million euro (53.2 million euro as at 31 December 2015) and replacement parts and equipment used for the maintenance and running of operating plants, equal to 33.9 million euro (31.3 million euro as at 31 December 2015). The decrease in stored gas is mainly attributable to the Group's procurement policies, which are linked to trends in the price of the raw material.

The item "Materials earmarked for sale" primarily comprises the value of the GVG - Steam Generator to Grid system (for a total of 6.3 million euro) and complementary plant components (for a total of 3.2 million euro), classified in previous years under the category fixed assets in course of acquisition in that it was earmarked for the enlargement of the Modena incinerator (as a matter of fact, the Group was interested in constructing a new line of incinerators in the plant area of the current WTE facility). Following changes in the relevant regulatory framework, the Group has decided not to proceed with the construction of this line, as it was not able, among other things, to request an additional time extension for beginning the construction work. It is still expected that the carrying value of these inventories will be recovered by revamping other incineration plants already present among the Group's assets.

The item "Commissioned work in progress", which at 31 December 2016 amounted to 30.5 million euro, includes long-term contracts for plant engineering construction work, mainly in relation to gas, water and public lighting (the latter in the amount of13.2 million euro), as well as for design activities aimed at acquiring commissions in the national and international markets.

21 Trade receivables

	31 Dec 16	31 Dec 15	Change
Trade receivables	1,201.3	1,115.9	85.4
Allowance for bad debt	(211.1)	(203.4)	(7.7)
Intangible assets under construction	675.3	620.5	54.8
Total	**1,665.5**	**1,533.0**	**132.5**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2016, 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 Aeegsi. The provisions for bad debts are considered to be fair in relation to the estimated realizable value of said receivables.

Changes in the provisions for bad debts were as follows:

	Opening balance	Allocation to provisions	Change in the scope of consolidation	Uses and other movements	Closing balance
Year 2015	183.0	71.8	2.5	(53.9)	203.4
Year 2016	203.4	85.1	0.9	(78.3)	211.1

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the 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".

The change in the scope of consolidation mainly reflects the acquisition of control over the companies Gran Sasso Srl and Julia Servizi Piu (this latter having been incorporated by merger with Hera Comm Marche Srl) as outlined in these notes in the paragraph "Changes in the scope of consolidation."

The following table displays these receivables from clients on the basis of bills issued, organized by degree of past-due:

	31 Dec 16	*Effect*	31 Dec 15	*Effect*	Change
Not yet due	405.9	*34%*	380.9	*34%*	25.0
Due 0-30 days	122.0	*10%*	107.7	*10%*	14.3
Due 31-180 days	139.6	*12%*	131.4	*12%*	8.2
Due 181-360 days	101.2	*8%*	80.3	*7%*	20.9
Due beyond 360 days	432.6	*36%*	415.6	*37%*	17.0
Total	**1,201.3**		**1,115.9**		**85.4**

Credit risk

The value of trade receivables reported in the financial statements at 31 December 2016 represents the Group's maximum exposure to credit risk. The procedure in place to govern the granting of loans to customers involves carrying out specific individual evaluations; this approach reduces the concentration and exposure to credit risk posed by both business customers and private ones. With regard to mass client base receivables, write-downs are carried out on the basis of historic analysis (in relation to the age 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 positions still in place, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down.

The carrying amount of trade receivables at year-end approximated their fair value.

22 Current tax assets and liabilities

	31 Dec 16	31 Dec 15	Change
Income tax credits	12.1	8.2	3.9
IRES refund credit	21.8	20.9	0.9
Total current tax assets	**33.9**	**29.1**	**4.8**
Income tax payable	16.0	15.3	0.7
Substitute tax payable	5.0	10.4	(5.4)
Total current tax liabilities	**21.0**	**25.7**	**(4.7)**

"Income tax credits" refer to the excess advance IRES and IRAP payments over the tax amount payable. The item "IRES refund receivable" refers to requests for IRES refunds due for the 2007 and 2011 years, following the deductibility of IRES from IRAP related to labour costs and the like under Law Decree 201/2011.

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

"Substitute tax payable" reflect the remaining tax instalments in relation to exemption operations carried out in current and past financial years. The decrease as compared to 31 December 2015 is due to the instalments paid during the year 2016 for the associated release and to transactions carried out in previous years (7.8 million euro), net of the debt recorded during 2016 in connection with the release of the higher value of the controlling interest in Gran Sasso Srl and tax goodwill from the merger of Julia Servizi Piu Srl and Fucino Gas Srl into Hera Comm Marche Srl, which will be paid in subsequent years (amounting to a total of 2.4 million euro).

23 Other current assets

	31 Dec 16	31 Dec 15	Change
Certificates of energy efficiency and emission trading	73.3	67.2	6.1
Security deposits	30.7	11.4	19.3
Fund for the electricity and gas sectors for standardisation and continuity income	25.7	32.3	(6.6)
VAT, excise and additional taxes	22.1	29.6	(7.5)
Prepaid costs	19.3	16.2	3.1
Advances to suppliers/employees	9.5	6.5	3.0
Receivables related to tariff components	6.5	9.5	(3.0)
Other receivables	45.3	53.4	(8.1)
Total	**232.4**	**226.1**	**6.3**

The breakdown and changes in the main items are described compared with 31 December 2015:

"Energy efficiency bonds and emissions trading", includes:

- green certificates, 10.4 million euro (42.1 million euro as at 31 December 2015);
- White certificates, 60.1 million euro (22.4 million euro as at 31 December 2015);
- grey certificates, 2.8 million euro (2.7 million euro as at 31 December 2015);

The significant decrease in the number of green certificates held as compared to 31 December 2015 is due to the new incentive mechanism for electricity production from renewable sources that no longer takes into account green certificates, but establishes a favourable rate for the sale of electricity. Consequently, the portfolio associated with this type of security will be extinguished, with a negative effect in terms of evaluation, at the time of delivery to the GSE or selling on the market. In relation to white certificates, the increase in portfolio value is due to the higher share of certificates recognized in the period and the higher value of the units themselves.

“Security Deposits”, amounting to 30.7 million euro (11.4 million euro as at 31 December 2015). The increase of 12.4 million euro is due to the reclassification of receivables from Acosea Impianti Srl that qualify as security deposits, previously accounted for under "Non-current financial assets", to this item while 5.1 million euro of the amount are due to deposits paid to guarantee participation in foreign contract negotiation platforms on commodities and new auctions on the electricity market.

"Fund for Energy and Environmental Services for standardisation and continuity income", totalling 25.7 million euro (32.3 million euro as at 31 December 2015). The decrease is mainly attributable to a lower credit for the equalization of gas distribution and the electricity sector for the year, resulting from a thermal trend during the financial year that led to billing sellers at a significantly higher amount than the previous year.

"VAT, excise and additional taxes", amounting to 22.1 million euro (29.6 million euro at 31 December 2015), is comprised of tax credits payable to the treasury for value added tax in the amount of 16.8 million euro and for excise and additional taxes in the amount of 5.3 million euro. The change as compared to 31 December 2015 is due to an increase of 6.5 million euro in receivables for value added tax (23.3 million euro at 31 December 2015) and a decrease of 1 million euro in receivables for excise and additional taxes (6.3 million euro as at 31 December 2015). These changes should be interpreted together with the same change shown in the liability item "Other current liabilities" in Note 29. In particular, with regard to excise duties and the components of 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/debit positions with differences that can be significant even between one period and another.

"Prepaid costs" are mainly costs for a future period deriving from external work and services in the amount of 5.3 million euro, costs incurred for insurance policies, surety, bank fees and charges in the amount of 4.2 million euro, fees due and concession fees for network services in the amount of 3.3 million euro, and prepaid lease and rental fees in the amount of 1.2 million euro.

The change in the item "Receivables for tariff components" was due to the time lag in billing between sales companies and distribution companies as well as variability in the asset/liability balance due in part to the seasonal effect between one financial period and the other.

The item "Other receivables" groups together residual items including receivables from asset companies in the amount of 5.7 million euro and tax credits in the amount of 4 million euro.

24 Share capital and reserves

Compared to 31 December 2015, shareholders' equity increased by 59 million euro due to the combination of the following effects:

- the distribution of dividends in the amount of 143.9 million euro;
- decrease due to transactions on treasury shares, in the amount of 13.5 million euro;
- overall revenues for the period in the amount of 216.6 million euro.

The statement of changes in equity is shown in section 2.01.05 of these consolidated financial statements.

Share capital

The share capital as at 31 December 2016 amounted to 1,468.1 million euro, made up of 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up.

The treasury shares, whose nominal value at 31 December 2016 was 20.8 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 742.5 million euro, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 787.1 million euro, cumulative loss in the other comprehensive income (OCI) reserve for 29.9 million euro and reserves for operations on negative treasury shares in the amount of 14.7 million euro. These latter items reflect transactions carried out on treasury shares as at 31 December 2016. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 2.2 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.

25 Current and non-current financial liabilities

	31 Dec 16	31 Dec 15	Change
Bonds and loans	2,913.2	2,920.4	(7.2)
Other financial liabilities	5.0	5.8	(0.8)
Financial leasing payables	14.9	17.6	(2.7)
Total non-current financial assets	**2,933.1**	**2,943.8**	**(10.7)**
Bonds and loans	71.7	284.9	(213.2)
Other financial liabilities	36.2	68.2	(32.0)
Financial leasing payables	2.3	2.0	0.3
Overdrafts and interest expense	72.1	129.2	(57.1)
Total non-current financial assets	**182.3**	**484.3**	**(302.0)**
Total financial liabilities	**3,115.4**	**3,428.1**	**(312.7)**

The change in "Bonds and loans" is mainly due, in current assets, to the repayment of the bond that came due in February 2016 with a nominal value of 195.4 million euro.

During the month of October 2016, taking advantage of favourable market conditions in interest rates, the Group completed a tender offer aimed at renegotiating the Bonds maturing in December 2019 and October 2021, both with a nominal value of 500 million euro and coupons of 4.5% and 3.25% respectively. The transaction made it possible to extend the average debt duration and, residually, to improve the average debt rate at which the group is financed, carrying out (also due to the way the transaction was handled) a modification of the existing bond debt and the way it is accounted for. The tender offer concluded with total participation in the exchange in the amount of 280.7 million euro (70.6 million euro of which related to 2019 securities and 210.1 million euro to 2021 securities). In addition, the Group continued its direct repurchase of bonds maturing in 2019 with a nominal value of 34.8 million euro. This operation led to the partial repayment of the debt for the nominal share repurchased and the recording of net charges totaling 3 million euro (see the comment regarding note 10 "Financial income and expenses"). At the same time, the Group issued a new bond with a nominal value of400 million euro, out of the program outstanding euro medium term notes, with a coupon of 0.875%, listed on the regulated market of the Luxembourg Stock Exchange.

At 31 December 2016, the item "Other financial debt" includes, for the portion due after the close of the financial year, the debt amounting to 4.7 million euro owed to the municipal pension fund of the City of Trieste.
The current part mainly consists of:

- payables to municipalities for Tari collections in the amount of 16.3 million euro;
- payables for potential amounts identified as part of business combinations in the amount of 1.8 million euro;
- tax payables for the receipt of the RAI fee in the amount of 3.7 million euro;
- payables owed to the Fund for Energy and Environmental Services in relation to revenue from protected category customers, following anticipated payments already received for these latter, in the amount of 12.5 million euro.

At 31 December 2016, 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 21 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 1.9 million euro.
- mortgages securing the loan granted to the subsidiary Acegas Aps Amga Spa, with a nominal outstanding value of 1.8 million euro.

The table below shows the financial liabilities broken down by category as at 31 December 2016, with an indication of the portion expiring within the period, within 5 years and after 5 years:

Type	Residual amount '31 Dec 16	Portion due within the period	Portion due within 5° year	Portion due beyond 5° year
Bond	2,396.8	-	722.3	1,674.5
Bank loans	588.1	71.7	210.8	305.6
Other financial liabilities	41.2	36.2	5.0	
Financial leasing payables	17.2	2.3	7.5	7.4
Overdrafts and interest expense	72.1	72.1		
Total loans and financial liabilities	**3,115.4**	**182.3**	**945.6**	**1,987.5**

The following shows the total bonds outstanding as at 31 December 2016:

Bonds		Duration (year)	Maturity	Nominal value (mln)	Coupon	Annual interest rate
Eurobond	Luxembourg Stock Exchange	10	03 Dec 19	394.6 €	Fixed, annual	4.500%
Bond	Luxembourg Stock Exchange	8	04 Oct 21	289.8 €	Fixed, annual	3.250%
Bond	Luxembourg Stock Exchange	10	22 May 23	68.0 €	Fixed, annual	3.375%
Green Bond	Luxembourg Stock Exchange	10	04 July24	500.0 €	Fixed, annual	2.375%
Bond	Unlisted	15	05 Aug 24	20,000.0 Jpy	Fixed, six monthly	2.925%
Bond	Luxembourg Stock Exchange	12	22 May 25	15.0 €	Fixed, annual	3.500%
Bond	Luxembourg Stock Exchange	10	14 Oct 26	400.0 €	Fixed, annual	0.875%
Bond	Unlisted	15/20	14 May 27/32	102.5 €	Fixed, annual	5.250%
Bond	Luxembourg Stock Exchange	15	29-gen-28	700.0 €	Fixed, annual	5.200%

As at 31 December 2016, existing bonds amounting to 2,619.7 million euro show a fair value of 3,102.2 million euro determined on the basis of market quotations, when available.
There are no covenants on the debt except those, for a few loans, which requires the company not to have even one agency lower its corporate rating below investment grade (BBB-). As of the balance sheet date this covenant has been complied with.

The item "Financial lease payables" represents the recording of payables arising from accounting for leasing transactions using the financial method.
The change as compared to 31 December 2015 is mainly due to paying down overdue principal instalments.
The value of the lease payments still due as at 31 December 2016 amounted to 19.4 million euro.

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 31 December 2015 unused lines of credit amounted to approximately 1,000 million euro while available committed credit lines amounted to 395 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".

26 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 item "tariff reduction provision" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The table below shows the changes in the above provisions during the year.

	31 Dec 15	Service cost	Financial expense	Actuarial gains/ (losses)	Uses and other movements	Changes in the scope of consolidation	31 Dec 16
Employee leaving indemnity	129.9	0.7	1.7	5.1	(8.0)	0.1	129.5
Provision for tariff reduction	8.0	-	0.2	(0.6)	(0.3)	-	7.3
Premungas	5.3	-	-	0.1	(0.6)	-	4.8
Gas discount	5.1	-	0.1	(0.5)	(0.5)	-	4.2
Total	**148.3**	**0.7**	**2.0**	**4.1**	**(9.4)**	**0.1**	**145.8**

"Actuarial gains/(losses)" reflects the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recognized directly in the comprehensive income statement(paragraph 2.01.02 of these Notes).

The item "Uses and other movements" mainly includes the amounts paid to employees during the course of the financial year, amounting to 9.4 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-east area)
Annual discount rate	0.70%	0.52%
Annual salary increases	2.00%	-
Annual employee departure for reasons other than death	1.09%	1.14%
Annual usage rate of employee leaving indemnity	2.53%	2.56%

In interpreting said assumptions, account is taken of the following:

- regarding inflation rates, the inflation scenario was derived from the "Update on Economics and Finance for 2016" employing an IPCA index of 1% for 2017, 1.2% for 2018 and 1.4% from 2019 onwards;
- for probabilities of death, Istat SIMF 2015 tables were consulted;

- In the actuarial valuations, account was taken of the new effective dates for pensions under Law Decree 6 December 2011, no. 201 entitled "Urgent measures for growth, equity, and the consolidation of public finances", as amended by Law 22 December 2011 no. 214, as well as the regulation for adjusting requirements for accessing the pension system in view of increased life expectancies in accordance with Article 12 of Legislative Decree no. 78 of 31 May 2010, converted with amendments by Law n. 122;
- the probability of service termination for reasons other than death were determined by examining corporate data; in particular, where possible, propensity to leave the Group according to age and sex based was determined based on analytical data relating to the Group;
- in order to take into account the effect severance pay advances have on the timing of disbursements, and, consequently on the company's debt, the probability of accrued volumes leaving were calculated. 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 for all Group companies, accounting for 70% of severance pay or the maximum amount set by current regulations;
- Actuarial projections were made on the basis of the Euro Composite AA yield curve.

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 as at 31 December 2016, 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 5.8 million euro. Likewise assuming a reduction of this rate of 50 bps, there would be an increase in the present value of the liabilities of about 6.3 million euro.
Assuming a 50 bps increase in the in the rate of inflation compared to that actually applied to value the liabilities at 31 December 2016, 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 3.1 million euro. Likewise assuming a reduction of this rate of 50 bps, there would be a decrease in the present value of the liabilities of about 3 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.

27 Provisions for risks and charges

	31 Dec 15	Allocation to provisions	Financial expense	Uses and other movements	Changes in the scope of consolidation	31 Dec 16
Provisions for landfill post-closure and closure expenses	115.7	4.9	10.8	1.2	-	132.6
Provision for restoration of third-party assets	162.0	10.1	5.1	(0.1)	-	177.1
Provisions for labour disputes	25.5	3.4	-	(4.9)	0.3	24.3
Other provisions for risks and charges	62.1	14.8	0.2	(13.5)	-	63.6
Total	**365.3**	**33.2**	**16.1**	**(17.3)**	**0.3**	**397.6**

The "provision for landfill closure and post-closure expenses", equal to 132.6 million euro, 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 in use. 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 adjustments to property, plant and equipment for the same amount, are classified under "Other movements".

The item "Uses and other movements" underwent a net increase of 1.2 million euro, as follows:

- decreases in the amount of 12.1 million euro due to current cash outlays for the management of landfills, 5.4 million euro of which refer to internal costs (note 2 "other operating revenues");
- increases in the amount of 13.2 million euro due to adjustments in estimated closure and post-closure costs of active landfills, which led to an adjustment in the same amount as the value of tangible assets (Note 13, "tangible assets");
- decreases in the amount of 0.6 million euro as a result of revised estimates for post-management costs for completed landfills;
- increases in the amount of 0.7 million euro due to the reclassification of the value of post-management costs for the Ponte San Nicolò (Padua) plant from potential liabilities identified as arising from business combinations to "Other provisions for risks and charges" following the emergence of additional costs not initially predicted, owed by the Group.

The "provision for restoration of third-party assets", totalling 177.1 million euro, includes provisions made in relation to law and contractual requirements for 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 lesser 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", amounting to 24.3 million euro, reflects the outcomes of lawsuits and disputes brought by employees. The provision includes 7.4 million euro relating to the dispute with INPS (5.4 million euro as at 31 December 2015). It should be noted that some Group companies have participated in proceedings against INPS relating to the finding that there is no obligation to pay INPS contributions for the redundancy fund (CIG), the extraordinary redundancy fund (CIGS), unemployment benefits, involuntary unemployment benefits, sick leave and the total non-payment of family (CUAF) and maternity benefits. During 2015, with reference to the subsidiary Acegas Aps Amga, Equitalia requested, without the possibility of paying in multiple instalments, the payment of the INPS folders for the Trieste office in the amount of 6.5 million euro. 2.8 million euro were set aside in view of a possible similar request for the Padua office. As concerns Hera Spa and certain Group companies, the dispute is considered permanently closed following a definitive agreement signed 25 January 2013 with INPS and Equitalia, and the payment of the premiums and contributions payable with associated interest; in relation to these, what remains to be paid are the civil sanctions, for which a request was made to break these into instalments. Following the agreement, however, INPS issued a number of payment notices for limited lots not included in the above agreement, to definitively settle all liabilities. Meanwhile, following the conclusion of certain cases, the Hera Group was found to have some credit positions in relation to INPS. In relation to the above, since it proved impossible to define the extent of the sums due in agreement with INPS, a lawsuit was initiated against this agency in April 2015. Given this, on the basis of currently available information and taking into account the likely development of litigation and legal opinions accumulated over time, the provision is considered adequate.

The item "Other provisions for risks and charges", amounting to 63.6 million euro, comprises provisions made against sundry risks. Below, there is a description of the main items:

- 11.3 million euro, due to the potential liability related to existing obligations (guarantee on financial exposure given by AcegasApsAmga Spa) in case of abandonment of the operations run by the foreign subsidiaries Aresgas (Bulgaria) and Sigas (Serbia).
- 7.9 million euro for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill.
- 7.3 million euro, for the future work of decommissioning waste-to-energy plants.
- 5.8 million euro relating to the potential risk of non-receipt of the share of green certificates for waste-to-energy facilities calculated according to the differential between auxiliary services arising from total internal consumption and those estimated according to the benchmark percentage;
- 4.1 million euro, for the risk associated with the enactment of the Decree of the Ministry of Economic Development of 20 November 2012 "New procedures to determine the component of the avoided fuel cost (CEC), under measure CIP6/92, and determination of the adjustment amount of CEC for 2011", which introduced new procedures for the determination of the component of avoided fuel cost (CEC) for 2010, 2011 and 2012;
- 2.7 million euro to cover the risk arising from Aeegsi Resolution no. 527/2016 which, by incorporating the results of the GSE, ordered that the energy and environmental services fund recover from Frullo Energia Ambiente Srl the amounts that were allegedly wrongly received for electrical energy produced by the Granarolo (Bo) WTE plant.

The item "Uses and other movements" underwent a net decrease of 13.5 million euro, as follows:

- uses for 8.1 million euro, mainly represented by the 2.2 million in costs incurred for the disposal of waste deposited at the end of the previous year and 3.7 million for the payment of penalties associated with gas and electricity distribution;
- de-provisioning for 2.7 million euro due to the annulment of liability for which the provision was established;

changes in the scope of consolidation are due to the acquisition of control over Julia Servizi Più Srl (merged by incorporation into Hera Comm Marche Srl).

28 Trade payables

	31 Dec 16	31 Dec 15	Change
Trade payables	598.6	531.6	67.0
Trade payables – invoices receivable	672.2	589.7	82.5
Total	**1,270.8**	**1,121.3**	**149.5**

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

29 Other current liabilities

	31 Dec 16	31 Dec 15	Change
Payables due to advances to the Equalisation Fund	146.6	104.9	41.7
Capital grants	140.9	132.2	8.7
Security deposits	100.2	97.9	2.3
Equalisation Fund for energy and environmental services	51.2	54.2	(3.0)
Due to social security institutions	41.9	39.7	2.2
Personnel	40.0	38.3	1.7
Employee witholding	15.5	16.8	(1.3)
Revenues paid in advance other expense	11.5	14.5	(3.0)
VAT, excise and additional taxes	10.6	11.0	(0.4)
Other payables	77.9	75.1	2.8
Total	**636.3**	**584.6**	**51.7**

"Debts for advances to the Fund for Energy and Environmental Services", mainly consisting of 141.2 million euro (103.1 million euro as at 31 December 2015) in relation to the debt for the non-interest-bearing advances allocated to the Fund for energy and environmental services, in accordance with the integration mechanism stipulated by AEEG resolutions no. 370 of 20 September 2012 and no. 519 of 6 December 2012, in relation to past due and uncollected receivables owed by customers covered by the safeguard regime, up to 31 December 2013.

"Plant investment grants" refers mainly to investments made in the water and environment sector; this item has decreased in proportion to the amount of depreciation calculated on the fixed assets in question.

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

"Fund for components and equalization of the Electricity and Gas Sectors", reflects debt in relation to the energy and environmental services fund for the equalization of gas distribution/measurement for certain components of the gas service system and the equalization of the electricity service.

"Payables to social security institutions" and "Employee withholdings" relate to contributions owed to these institutions and the Inland Revenue Office for the month of December.

“Personnel" includes compensation for wages not yet paid out and the vacation time accrued and not used as of 31 December 2016, as well as the productivity bonuses accounted for by department.

"VAT, excise and additional taxes", shows a total of 3.6 million euro of VAT (2.2 million euro at 31 December 2015), with an increase of 1.4 million euro. This item includes, additionally, 7 million euro of excise and additional taxes (8.8 million euro as at 31 December 2014) with a decrease of 1.8 million euro as compared to the previous financial year. As illustrated in note 23, "Other current assets", this change must be interpreted 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.

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

- payables to municipalities for environmental inconveniences and to constitute guarantees, in the amount of 22 million euro;

- payables for insurance and deductibles in the amount of 11.6 million euro;
- payables to users for deposits and specific rate reductions, in the amount of 5 million euro;
- tax payables in the amount of 3.6 million euro;
- payables for rate components in the amount of 3.3 million euro;
- payables to shareholders in the amount of 1.5 million euro;
- payables related to the obligation to return Energy Efficiency Certificates for 2 million euro, comprising almost entirely gray certificates, to the competent authorities.

30 Comments to the consolidated cash flow statement

Investments in companies and business operations

During the 2016 period control was acquired over the gas and electricity sales companies Julia Servizi Più Srl and Gran Sasso Srl, as well as the waste disposal business units "Romagna Energia" and "Cordenon". Smaller investments were also made in non- consolidated subsidiaries of a non-relevant size. The table below details the main cash disbursements and cash holdings acquired:

Transactions leading to acquisition of control	
Cash paid acquisition of Gran Sasso	(7.5)
Cash paid acquisition of Julia Servizi Più	(5.4)
Cash paid acquisition of business unit "Cordenons"	(5.2)
Cash paid acquisition of business unit "Romagna Energia"	(0.6)
Investment in non-consolidated subsidiaries and joint ventures	
Other minor investment	(0.7)
Total cash outlays	**(19.4)**
Cash and cash equivalents of Gran Sasso	0.2
Cash and cash equivalents of Julia Servizi Più	0.2
Total cash and cash equivalents obtained	**0.4**
Investments net of cash and cash equivalents	**(19.0)**

31 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.

31 Dec 16	Income statement Fair value	Receivables and loans	Held to maturity	Available for sale	Total
Financial assets valued at fair value			2.4		2.4
Receivables and loans		72.6			72.6
Financial receivables		35.2			35.2
Non-current assets		**107.8**	**2.4**		**110.2**
Trade receivables		1,665.5			1,665.5
Financial assets valued at fair value				0.1	0.1
Receivables and loans		15.3			15.3
Financial receivables		14.0			14.0
Other assets	15.7	250.6			266.3
Current assets	**15.7**	**1,945.4**		**0.1**	**1,961.2**

31 Dec 15	Income statement Fair value	Receivables and loans	Held to maturity	Available for sale	Total
Financial assets valued at fair value			2.8		2.8
Receivables and loans		78.0			78.0
Financial receivables		44.4			44.4
Non-current assets		**122.4**	**2.8**		**125.2**
Trade receivables		1,533.0			1,533.0
Financial assets valued at fair value				6.0	6.0
Receivables and loans		16.8			16.8
Financial receivables		11.8			11.8
Other assets	45.5	209.7			255.2
Current assets	**45.5**	**1,771.3**		**6.0**	**1,822.8**

With respect to "non-current 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.

31 Dec 16	Income statement Fair value	Underlying (fair value hedge)	Amortised cost	Total
Receivables and loans		143.3	2,774.9	2,918.2
Financial leasing payables			14.9	14.9
Non-current liabilities		**143.3**	**2,789.8**	**2,933.1**
Trade payables			1,270.8	1,270.8
Receivables and loans			180.0	180.0
Financial leasing payables			2.3	2.3
Other liabilities	1.5		655.8	657.3
Current liabilities	**1.5**		**2,108.9**	**2,110.4**

31 Dec 15	Income statement Fair value	Underlying (fair value hedge)	Amortised cost	Total
Receivables and loans		134.9	2,791.3	2,926.2
Financial leasing payables			17.6	17.6
Non-current liabilities		**134.9**	**2,808.9**	**2,943.8**
Trade payables			1,121.3	1,121.3
Receivables and loans			482.3	482.3
Financial leasing payables			2.0	2.0
Other liabilities	1.6		608.7	610.3
Current liabilities	**1.6**		**2,214.3**	**2,215.9**

With respect to "non-current liabilities" reference is made to note 25.
With respect to "current liabilities" reference is made to notes 22, 25, 28 and 29.

Guarantees

	31 Dec 16	31 Dec 15
Sureties and bank guarantees	967.0	923.1
Sureties and insurance guarantees	324.6	243.3
Total	**1,291.6**	**1,166.4**

Sureties and bank guarantees, the value as at 31 December 2016 comprises the following:

- 559 million euro for guarantees made to public institutions (the Ministry of the Environment, the Region of Emilia Romagna, other provinces and municipalities) and private entities to guarantee the suitable management of plants for treating waste, landfills and dumps, for the suitable provision of waste disposal services, for reclamation work and management and operational activities, including post-closure ones, and for the proper fulfilment of contractual commitments;
- 408 million euro for guarantees and comfort letters issued to guarantee timely payment for the supply of raw materials.

"Guarantees and insurance guarantees", as at 31 December 2016 this item refers to guarantees issued to public entities (various provinces and municipalities that are part of Emilia Romagna and the Marche, 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 roads owned by private individuals, reclamation work, managing waste treatment systems and related activities including the post-closure of landfills.

	31 Dec 16	31 Dec 15
Collateral posted on behalf of third parties	178.8	168.8

"Real guarantees to third parties" includes:

- Special mortgages and privileges on land, plants and machinery pledged by the subsidiary Frullo Energia Ambiente Srl to the banking syndicate that underwrote financing in the amount of 150 million euro and by the subsidiary Waste Recycling Spa to a banking institute in the amount of 10 million euro;
- mortgages on the buildings of the Pesaro and Urbino headquarters of Gruppo Marche Multiservizi in relation to the bank that underwrote financing in the amount of 19 million euro.

2.02.06 Report by business line

The outline of results by business line is based on the approach uses to monitor the Group's performance by homogeneous business area. Costs and net assets of the business support departments, in line with the Group's internal control model, are attributed entirely to the active business lines.

At 31 December 2016, the Hera Group was organized into the following business lines:

- **Gas:** includes the distribution and sale of methane gas and LPG, district heating and heat management;
- **Electricity:** includes the production of energy and the distribution and sale of electricity;
- **Water Cycles:** includes aqueduct, treatment and sewerage system services;
- **Environment:** includes the collection, treatment, recovery and disposal of waste;
- **Other Services:** includes public lighting, telecommunications and other minor services.

The following are assets and liabilities by business line for the 2015 and 2016 financial years:

	Gas	Electricity	Water	Waste management	Other services	Total
31 Dec 16						
Assets (property, plant and equipment and intangibles)	1,435.0	542.5	1,738.6	1,158.8	112.4	**4,987.3**
Goodwill	109.7	42.1	43.0	176.0	4.9	**375.7**
Non-controlling interests	59.1	45.9	19.2	24.3		**148.5**
Fixed assets not attributed						**53.0**
Net non-current assets	**1,603.8**	**630.5**	**1,800.8**	**1,359.1**	**117.3**	**5,564.5**
Net working capital attributed	9.9	128.4	(55.0)	(3.2)	15.3	**95.4**
Net working capital non attributed						**4.5**
Net working capital	**9.9**	**128.4**	**(55.0)**	**(3.2)**	**15.3**	**99.9**
Provisions for risks	(152.6)	(25.4)	(127.4)	(233.3)	(4.7)	**(543.4)**
Net invested capital	**1,461.1**	**733.5**	**1,618.4**	**1,122.6**	**127.9**	**5,121.0**
31 Dec 15						
Assets (property, plant and equipment and intangibles)	1,411.9	586.4	1,729.3	1,095.9	103.6	**4,927.1**
Goodwill	108.9	42.3	42.5	176.0	8.3	**378.0**
Non-controlling interests	69.1	46.5	18.4	22.9	0.2	**157.1**
Fixed assets not attributed						**49.0**
Net non-current assets	**1,589.9**	**675.2**	**1,790.2**	**1,294.8**	**112.1**	**5,511.2**
Net working capital attributed	61.3	115.1	(18.8)	(7.6)	19.5	**169.5**
Net working capital non attributed						**(12.5)**
Net working capital	**61.3**	**115.1**	**(18.8)**	**(7.6)**	**19.5**	**157.0**
Provisions for risks	(152.1)	(34.6)	(111.6)	(210.5)	(4.7)	**(513.5)**
Net invested capital	**1,499.1**	**755.7**	**1,659.8**	**1,076.7**	**126.9**	**5,154.7**

The following are the main result measures by business line for the 2015 and 2016 financial years:

	Gas	Electricity	Water	Waste management	Other services	Headquarters	Total
31 Dec 16							
Direct revenues	1,593.8	1,464.6	779.5	919.7	99.0	7.0	**4,856.6**
Infracyclical revenues	49.4	54.7	6.2	39.6	32.7	39.5	**182.5**
Total direct revenues	**1,643.1**	**1,519.3**	**785.7**	**959.3**	**131.6**	**46.5**	**5,085.6**
Indirect revenues	12.2	4.2	22.0	8.0	0.1	(46.5)	**-**
Total revenue	**1,655.3**	**1,523.5**	**807.7**	**967.3**	**131.8**	**-**	**5,085.6**
EBITDA	**300.6**	**135.3**	**228.8**	**230.7**	**21.3**	**-**	**916.6**
Direct amortisation, depreciation, provisions	116.4	60.9	100.8	119.1	14.3	48.1	**459.6**
Indirect amortisation, depreciation, provisions	9.2	2.9	20.0	15.6	0.3	(48.1)	**-**
Total amort. deprec. prov.	**125.6**	**63.8**	**120.8**	**134.8**	**14.5**	**-**	**459.6**
Operating result	**175.0**	**71.4**	**108.0**	**95.9**	**6.7**	**-**	**457.1**
31 Dec 15							
Direct revenues	1,572.5	1,534.2	772.8	834.2	96.1	8.0	**4,809.8**
Infracyclical revenues	47.2	61.5	5.4	53.4	30.1	34.9	**197.5**
Total direct revenues	**1,619.7**	**1,595.7**	**778.2**	**887.5**	**126.1**	**42.9**	**5,050.3**
Indirect revenues	13.8	4.2	18.0	6.8	0.1	(42.9)	**-**
Total revenue	**1,633.5**	**1,599.9**	**796.2**	**894.3**	**126.2**	**-**	**5,050.3**
EBITDA	**299.5**	**101.0**	**232.5**	**230.0**	**21.4**	**-**	**884.4**
Direct amortisation, depreciation, provisions	106.3	58.6	99.8	128.9	15.1	33.5	**442.2**
Indirect amortisation, depreciation, provisions	11.1	5.1	15.6	1.3	0.4	(33.5)	**-**
Total amort. deprec. prov.	**117.4**	**63.7**	**115.5**	**130.2**	**15.5**	**-**	**442.2**
Operating result	**182.1**	**37.3**	**117.1**	**99.9**	**5.9**	**-**	**442.2**

2.03 NET FINANCIAL DEBT

2.03.01 Net financial debt

€/mln		31 Dec 16	31 Dec 15
a	**Cash and cash equivalents**	**351.5**	**541.6**
b	**Other current financial receivables**	**29.4**	**34.6**
	Current bank debt	(72.1)	(129.2)
	Current portion of bank debt	(71.7)	(284.9)
	Other current financial liabilities	(36.2)	(68.2)
	Finance lease payables due within 12 months	(2.3)	(2.0)
c	**Current financial debt**	**(182.3)**	**(484.3)**
d=a+b+c	**Net current financial debt**	**198.6**	**91.9**
	Non-current bank debt and bonds issued	(2,847.8)	(2,845.4)
	Other current financial liabilities	(5.0)	(5.8)
	Lease payments due after 12 months	(14.9)	(17.6)
e	**Non-current financial debt**	**(2,867.7)**	**(2,868.8)**
f=d+e	**Net debt - CONSOB Communication No 15519/2006**	**(2,669.1)**	**(2,776.9)**
g	**Non-current financial receivables**	**110.2**	**125.2**
h=f+g	**Net non-current financial debt**	**(2,558.9)**	**(2,651.7)**

2.03.02 Net financial indebtedness according to the Consob notice DEM/6064293 of 2006

€/mln		31 Dec 16	A	B	C	D	31 Dec 15	A	B	C	D
a	**Cash and cash equivalents**	**351.5**					**541.6**				
	of which Related parties										
b	**Other current financial receivables**	**29.4**					**34.6**				
	of which Related parties		**0.2**	**14.1**	**1.8**	**1.2**			**14.1**	**1.9**	**1.0**
	Current bank debt	(72.1)					(129.2)				
	Current portion of bank debt	(71.7)		(0.8)			(284.9)		(0.8)		
	Other current financial liabilities	(36.2)			(14.7)		(68.2)			(13.6)	
	Finance lease payables due within 12 months	(2.3)					(2.0)				
c	**Current financial debt**	**(182.3)**					**(484.3)**				
	of which Related parties			**(0.8)**	**(14.7)**				**(0.8)**	**(13.6)**	
d=a+b+c	**Net current financial debt**	**198.6**					**91.9**				
	of which Related parties		**0.2**	**13.3**	**(12.9)**	**1.2**			**13.3**	**(11.7)**	**1.0**
	Non-current bank debt and bonds issued	(2,847.8)					(2,845.4)				
	Other current financial liabilities	(5.0)			(4.7)		(5.8)			(5.5)	
	Lease payments due after 12 months	(14.9)					(17.6)				
e	**Non-current financial debt**	**(2,867.7)**					**(2,868.8)**				
	of which Related parties				**(4.7)**					**(5.5)**	
f=d+e	**Net debt - CONSOB Communication No 15519/2006**	**(2,669.1)**					**(2,776.9)**				
	of which Related parties		**0.2**	**13.3**	**(17.6)**	**1.2**			**13.3**	**(17.2)**	**1.0**
g	**Non-current financial receivables**	**110.2**					**125.2**				
	of which Related parties			**57.9**	**19.3**	**14.6**			**64.5**	**19.6**	**25.1**
h=f+g	**Net non-current financial debt**	**(2,558.9)**					**(2,651.7)**				
	of which Related parties		**0.2**	**71.2**	**1.7**	**15.8**			**77.8**	**2.4**	**26.1**

Key to column headings, related parties:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04 FINANCIAL STATEMENT FORMATS ACCORDING TO CONSOB RESOLUTION 15519 / 2006

2.04.01 Income statement according to Consob resolution 15519 / 2006

			of which Related parties							of which Related parties					
€/mln	notes	2016	A	B	C	D	Total	%	2015	A	B	C	D	Total	%
Revenue	*1*	4,460.2		79.3	316.4	7.6	403.3	*9.0%*	4,487		91.6	311.7	10.8	414.1	*9.2%*
Other operating revenues	*2*	403.4		0.4	3.1	4.1	7.6	*1.9%*	331		0.2	1.1		1.3	*0.4%*
Use of raw materials and consumables	*3*	(2,176.8)		(29.9)		(46.3)	(76.2)	*3.5%*	(2,257)		(31.6)	(0.7)	(43.7)	(76.0)	*3.4%*
Service costs	*4*	(1,198.8)	(0.1)	(10.8)	(32.0)	(33.1)	(76.0)	*6.3%*	(1,132)		(8.2)	(32.6)	(31.5)	(72.4)	*6.4%*
Personnel costs	*5*	(524.1)							(511)						
Other operating costs	*6*	(75.0)			(3.3)	(0.8)	(4.1)	*5.5%*	(62)		(0.0)	(1.8)	(0.6)	(2.4)	*3.9%*
Capitalised costs	*7*	27.8							29						
Amortisation, depreciation,provisions	*8*	(459.6)							(442)						
Operating profit		**457.1**	**(0.1)**	**39.0**	**284.2**	**(68.5)**	**254.6**		**442.2**		**52.0**	**277.6**	**(65.0)**	**264.6**	
Portion of profits (loss) pertaining to joint ventures and associated companies	*9*	13.8		13.8			13.8	*100.0%*	11.8		11.8			11.8	*100.0%*
Financial income	*10*	80.1		2.8	1.0	0.1	3.9	*4.9%*	81.1		2.6	1.1	0.1	3.8	*4.7%*
Financial expense	*10*	(211.3)		(1.2)	(0.3)		(1.5)	*0.7%*	(227.2)		(8.2)	(0.3)		(8.5)	*3.7%*
Financial operations		**(117.4)**		**15.4**	**0.7**	**0.1**	**16.2**		**(134.3)**		**6.2**	**0.8**	**0.1**	**7.1**	
Pre-tax profit		**339.7**	**(0.1)**	**54.4**	**284.9**	**(68.4)**	**270.8**		**307.9**		**58.2**	**278.4**	**(64.9)**	**271.7**	
Taxes for the period	*11*	(119.3)							(113.5)						
Net profit for the period		**220.4**	**(0.1)**	**54.4**	**284.9**	**(68.4)**	**270.8**		**194.4**		**58.2**	**278.4**	**(64.9)**	**271.7**	
Attributable to:															
Shareholders of the Parent Company		207.3							180.5						
Non-controlling interests		13.1							13.9						
Earnings per share	*12*														
basic		0.141							0.123						
diluted		0.141							0.123						

Key to column headings, related parties:

A non-consolidated subsidiaries

B Associated and jointly controlled companies

C Related companies with significant influence (shareholder municipalities)

D Other related parties:

2.04.02 Statement of financial position according to Consob resolution 15519 / 2006

			of which Related parties							of which Related parties					
€/mln	*notes*	'31 Dec 16	A	B	C	D	Total	%	'31 Dec 15	A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	*13*	2,019.2							2,031.6						
Intangible assets	*14*	2,968.0							2,895.6						
Goodwill	*15*	375.7							378.0						
Non-controlling interests	*16*	148.5	0.3	136.6	0.0	7.2	144.1	*97.0%*	157.1	0.5	132.7	0.0	19.4	152.6	*97.2%*
Non-current financial assets	*17*	110.2		57.9	19.3	14.6	91.8	*83.3%*	125.2		64.5	19.6	25.1	109.2	*87.2%*
Deferred tax assets	*18*	80.3							73.0						
Financial instruments - derivatives	*19*	109.5							108.2						
Total non-current assets		**5,811.4**	**0.3**	**194.5**	**19.3**	**21.8**	**235.9**		**5,768.7**	**0.5**	**197.2**	**19.6**	**44.5**	**261.8**	
Current assets															
Inventories	*20*	104.5							116.3						
Trade receivables	*21*	1,665.5		14.3	45.0	19.1	78.4	*4.7%*	1,533.0	0.4	21.9	43.1	6.0	71.4	*4.7%*
Current financial assets	*17*	29.4	0.2	14.1	1.8	1.2	17.3	*58.8%*	34.6		14.1	1.9	1.0	16.9	*48.8%*
Current tax assets	*22*	33.9							29.1						
Other current assets	*23*	232.4		0.9	4.6	14.6	20.1	*8.6%*	226.1		3.8	3.4	2.3	9.5	*4.2%*
Financial instruments - derivatives	*19*	56.5							6.5						
Cash and cash equivalents	*17, 30*	351.5							541.6						
Total current assets		**2,473.7**	**0.2**	**29.3**	**51.4**	**34.9**	**115.8**		**2,487.2**	**0.4**	**39.7**	**48.4**	**9.3**	**97.8**	
TOTAL ASSETS		**8,285.1**	**0.5**	**223.8**	**70.7**	**56.7**	**351.7**		**8,255.9**	**0.9**	**236.9**	**68.1**	**53.8**	**359.6**	
			of which Related parties							of which Related parties					
thousands of euros	*Note*	'31 Dec 16	A	B	C	D	Total	%	'31 Dec 15	A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	*24*														
Share capital		1,468.1							1,474.2						
Reserves		742.5							703.7						
Profit / (loss) for the year		207.3							180.5						
Group equity		**2,417.9**							**2,358.4**						
Non-controlling interests		144.2							144.7						
Total equity		**2,562.1**							**2,503.1**						
Non-current liabilities															
Non-current financial liabilities	*25*	2,933.1			4.7		4.7	*0.2%*	2,943.8			5.5		5.5	*0.2%*
Post-employment benefits	*26*	145.8							148.3						
Provisions for risks and charges	*27*	397.6							365.3						
Deferrred tax liabilities	*18*	27.2							23.8						
Financial instruments - derivatives	*19*	44.1							33.4						
Total non-current liabilities		**3,547.8**			**4.7**		**4.7**		**3,514.6**			**5.5**		**5.5**	
Current liabilities															
Current financial liabilities	*25*	182.3		0.8	14.7		15.5	*8.5%*	484.3		0.8	13.6		14.5	*3.0%*
Trade payables	*28*	1,270.8		10.4	19.0	31.1	60.5	*4.8%*	1,121.3	0.4	12.1	23.0	24.9	60.5	*5.4%*
Current tax liabilities	*22*	21.0							25.7						
Other current liabilities	*29*	636.3		6.7	11.5		18.2	*2.9%*	584.6		2.4	11.9	0.3	14.6	*2.5%*
Financial instruments - derivatives	*19*	64.8							22.3						
Total current liabilities		**2,175.2**		**17.9**	**45.2**	**31.1**	**94.2**		**2,238.2**	**0.4**	**15.3**	**48.6**	**25.3**	**89.6**	
TOTAL LIABILITIES		**5,723.0**		**17.9**	**49.9**	**31.1**	**98.9**		**5,752.8**	**0.4**	**15.3**	**54.1**	**25.3**	**95.1**	
TOTAL EQUITY AND LIABILITIES		**8,285.1**		**17.9**	**49.9**	**31.1**	**98.9**		**8,255.9**	**0.4**	**15.3**	**54.1**	**25.3**	**95.1**	

Key to column headings, related parties:

A non-consolidated subsidiaries

B Associated and jointly controlled companies

C Related companies with significant influence (shareholder municipalities)

D Other related parties:

2.04.03 Cash flow statement according to Consob resolution 15519 / 2006

€/mln	31 Dec 16	of which Related parties
Pre-tax profit	**339.7**	
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	157.1	
Amortisation and impairment of intangible assets	189.0	
Allocations to provisions	113.5	
Effect of valuation using the equity method	(13.8)	
Financial expense / (Income)	131.2	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	4.4	
Change in provisions for risks and charges	(22.1)	
Change in provisions for employee benefits	(10.0)	
Total cash flow before changes in net working capital	**889.0**	
(Increase) / Decrease in inventories	10.7	
(Increase) / Decrease in trade receivables	(229.6)	(7.0)
Increase / (Decrease) in trade payables	140.7	
(Increase) / Decrease in other current assets/ liabilities	67.4	5.2
Change in working capitals	**(10.8)**	
Dividends collected	9.9	9.8
Interests income and other financial income collected	64.1	3.9
Interests expense and other financial charges paid	(151.2)	(0.3)
Taxes paid	(137.9)	
Cash flow from (for) operating activities (a)	**663.1**	
Investments in property, plant and development	(133.2)	
Investments in intangible fixed assets	(251.2)	
Investments in companies and business units net of cash and cash equivalents	(19.0)	(0.7)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)	20.5	
Divestment of unconsolidated companies and contingent consideration	0.4	0.2
(Increase) / Decrease in other investment activities	5.3	4.6
Cash flow from (for) investing activities (b)	**(377.2)**	
New issues of long-term bonds	88.2	
Repayments and other net changes in borrowings	(401.9)	0.2
Lease finance payments	(3.3)	
Investments in consolidated companies	-	
Share capital increase	-	
Dividends paid out to Hera shareholders and non-controlling interests	(145.4)	(56.9)
Change in treasury shares	(13.4)	
Other minor changes	(0.2)	
Cash flow from (for) financing activities (c)	**(476.0)**	
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**(190.1)**	
Cash and cash equivalents at the beginning of the year	541.6	
Cash and cash equivalents at the end of the year	351.5	

2.04.04 List of related parties:

The values reported in the table as at 31 December 2016 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries and joint ventures

AdriaLinkSrl	Esil Scarl in liquidation
Black Sea Comp.Compr.GAS Ltd	HERAtech Srl
Consorzio Akhea Fondo Consortile in liquidation	Marche Multiservizi Falconara Srl

Group B - Associated and jointly controlled companies

Aimag Spa	So.Sel Spa
Natura Srl in liquidation	OikothenScarl
Tamarete Energia Srl	S2A Scarl
Enomondo Srl	SEI Spa in liquidation
Q.Thermo Srl	SET Spa
Estenergy Spa	SGR Servizi Spa
Centro Idrico di Novoledo Srl	Ghirlandina Solare Srl
Adriatica Acque Srl	H.E.P.T. Co.Ltd
Estense Global Service Scarl	Energo doo

Group C - Related parties with significant influence:

City of Bologna	Rimini Holding Spa
Con.Ami	City of Rimini
City of Casalecchio di Reno	City of Ravenna
City of Modena	City of Cesena
City of Ferrara	City of Imola
Holding Ferrara ServiziSrl	City of Trieste
Ravenna Holding Spa	City of Padua

Group D - Other related parties:

Aloe Spa

Romagna Acque Spa

Unica reti-Asset

Amir Spa-Asset

Sis Società Intercomunale di Servizi Spa in liquidation

TE.AM. Società Territorio Ambiente Spa in liquidation

Acosea Impianti Srl

Aspes Spa

Megas Net Spa

Sassuolo Gestioni Patrimoniali Srl

Formigine Patrimonio Srl

Serramazzoni Patrimonio Srl

Maranello Patrimonio Srl

Fiorano Gestioni Patrimoniali Srl

Società Italiana Servizi Spa-Asset

Calenia Energia Spa

Acquedotto del DragoneImpianti Spa

Mayors, administrators, strategic managers, family members and entities related to strategic managers

2.04.05 Explanatory notes to relations with related parties

Service management

The Hera Group is the provider in most of the territory it serves and in almost all the shareholder municipalities in the provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna, Rimini, Padua, Udine, Trieste, Gorizia and Pesaro of local public services of economic interest (distribution of natural gas via local gas pipelines, integrated water services and environmental services including street sweeping, waste collection, transport and preparation for waste recovery and disposal). The electricity distribution service is provided in the areas of Modena and Imola, and in the municipalities of Trieste and Gorizia. Other utilities (including district heating systems, heat management and public lighting) are provided in a free market system or through specific agreements with the local authorities involved. Through special agreements with local authorities and/or Agencies, Hera is also entrusted with waste treatment and disposal services not already included in municipal waste management 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. They are provided on the basis of agreements with the respective local authorities, of varying duration, 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 with the local area authorities also task the provider with designing and implementing new networks and systems to be used to carry out the service. The agreements regulate the economic aspects of the contractual relationship and forms of service management as well as setting high standards of performance and quality.

Beginning in 2012, authority over rates was transferred from the state to the Authority which, as part of this task it has been assigned, approved a first transitional rate for 2012-2013, a 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 has also updated the agreements on the basis of a schema type it has established. The rates charged for 2016 are those approved by local authorities, pending approval by the National Authority, which in the meantime intervened.

To carry out this service, the provider makes use of networks, systems and other amenities owned by it, owned by municipalities, and owned by asset companies. At the end of the contract period those goods which are part of restricted water resources or rented or licensed for use by the provider must be returned to the municipalities, asset companies or local Authorities, to be made available to the incoming provider. The structures built by Hera for water services must be returned to the aforementioned entities upon payment of the residual value of these assets.

Hera's relations with users are governed by the rules of supply and the service charters drawn up on the basis of reference frameworks approved by the local Authority, on the basis of the Authority's requirements in terms of the quality of services and resources.

Environmental 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 amount received by the provider for the

services it carries out is defined annually based on the provisions of Presidential Decree 158/1999, integrated, starting from 2013, by the regulation on Tares/Tari.
To run treatment plants for municipal waste, the Hera Group is required to obtain provincial authorizations; furthermore, for 2016, 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 the contract to distribute natural gas using local pipelines, initially set for periods ranging from between ten and 30 years from the original deeds of assignment signed with municipalities, was revised by Decree 164/2000 (the so-called Letta Decree, transposing Directive 98/30/EC) and subsequent reform of the energy market, mentioned in the Regulations section of the financial report. 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 contracts has not changed from that foreseen in the quotation. Agreements for distribution contracts govern the distribution of natural gas or other similar products for heating, domestic, craft, industrial and other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions. 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 rate rules in force at the time of the annual consolidated financial statements attached to this report are mainly represented by resolutions no. 774/2016/R/gas from 22 December 2016 (Update of tariffs for gas distribution services and metering for 2017) and no. 775/2016/R/gas from 22 December 2016 (Infra-term update of the rates applicable to gas distribution and metering, for the period 2017-2019. Approval of the Regulation of rates
for gas distribution and metering (hereinafter RTDG) services for the three-year period from 2017 to 2019, with which the new version of the RTDG for the regulation period 2014-2019 was approved, following changes in terms of recognized operating costs, determining the rate component to cover the costs of the metrological verifications, recognition of the costs associated with telemetering/remote control systems and concentrators and the definition of the Group's standard costs for electronic metering equipment, for the years 2017-2019. Beginning 1 January 2014, in fact, the new Regulation governing gas distribution and metering service rates for the regulation period 2014-2019 (Rtdg 014-2019(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-south-eastern area, including the regions of Abruzzo, Molise, Apulia and Basilicata;
- the central-south-western 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.
Regarding the rates for natural gas distribution and metering and other gas rate options in force for the year 2016, these were set by the Authority through Resolution 645/2015 / R / gas. (Updating of tariffs for gas distribution services and metering for 2016 and changes to the RTDG) and the TUDG and RTDG.
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 23 December 2015 (Rate regulations for electricity transmission, distribution and metering, for the regulatory period 2016-2023), which replaced the previous Authority resolution Arg/elt no. 199/2011 and subsequent amendments and additions (Official directives for the provision of electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions on economic conditions for the provision of connection services), in force until 31 December 2015. With resolution 654/2015/R/eel the Authority set the rate regulation for electricity transmission, distribution and metering services for the regulatory period 2016-2012, approving the Integrated provisions for electricity transmission and distribution services (the so-called Tit), the Integrated provisions for electricity metering services (Time) and the Integrated provisions of economic conditions for connection services (Tic), effective as of 1 January 2016.

The mandatory rate for distribution services covers the costs of transporting electricity along distribution networks. It is applied to all final customers, with the exception of low voltage households for whom resolution no. 582/2015 / R / eel initiated a reform that will go into effect 1 January 2018. 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 rate for distribution services is updated annually by the Authority through appropriate measures.

2.05 EQUITY INVESTMENTS

2.05.01 List of consolidated companies

Subsidiaries

Name	Registered office	Share capital	% 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%
AcegasAps Service Srl	Padova	180,000		100.00%	100.00%
Amga Calore & Impianti Srl	Udine	119,000		100.00%	100.00%
Amga Energia & Servizi Srl	Udine	600,000		100.00%	100.00%
ASA Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Biogas 2015 Srl	Bologna	1,000,000		75.00%	75.00%
Aresgas AD	Sofia (Bulgaria)	22.572.241 Lev		99.98%	99.98%
Black Sea Gas Company E. o.o.d	Varna (Bulgaria)	5.000 Lev		99.98%	99.98%
Feronia Srl	Finale Emilia (MO)	2,430,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Gran Sasso Srl	Pratola Peligna (AQ)	148,000		100.00%	100.00%
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		72.01%	72.01%
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%
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	13,484,242	49.59%		49.59%
Medea Spa	Sassari	4,500,000	100.00%		100.00%
SiGas d.o.o	Pozega (Serbia)	263.962.537 Rsd		95.78%	95.78%
Sinergie Spa	Padova	11,168,284		100.00%	100.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Scarl	Padova	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

Jointly Controlled Companies

Name	Registered office	Share capital	% 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

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
Q.Thermo Srl	Firenze	10,000		39.50%	39.50%
Set Spa	Milano	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 Company's share capital is composed of € 67,577,681 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 euros	Acantho SpA	AcegasApsAmga SpA	AcegasAps Service Srl	Amga Calore & Impianti Srl	Amga Energia & Servizi Srl	Asa ScpA	Biogas 2015 Srl	Aresgas AD	Black Sea Gas Company Eood	Feronia Srl
ASSETS										
Non-current assets	57,867	1,004,863	369	4,480	102	4,503	3,764	75,687	548	4,351
Working capital	33,387	219,586	17,052	9,860	40,224	14,896	2,736	2,223	1,216	5,465
Total assets	**91,254**	**1,224,449**	**17,421**	**14,340**	**40,326**	**19,399**	**6,500**	**77,910**	**1,764**	**9,816**
LIABILITIES										
Share capital	23,574	284,677	180	119	600	1,820	1,000	11,541	3	2,430
Reserves	2,704	149,252	374	2,982	4,398	622	5,144	10,596	600	(585)
Net Profit /(Loss)	2,516	36,551	1,316	245	6,588		(1,462)	360	159	(2,318)
Provisions	57	21,196	3	54	177	15,335		367	-	6,446
Post-employment benefits	613	23,122	-	510	601	129	35	-	-	
Debt	61,790	709,651	15,548	10,430	27,962	1,493	1,783	55,046	1,002	3,843
Total liabilities	**91,254**	**1,224,449**	**17,421**	**14,340**	**40,326**	**19,399**	**6,500**	**77,910**	**1,764**	**9,816**
INCOME STATEMENT										
Value of the production	52,969	404,915	30,263	10,195	85,093	4,746	2,765	13,912	2,780	250
Production costs	(47,904)	(345,592)	(28,246)	(9,786)	(75,573)	(5,399)	(4,178)	(12,662)	(2,599)	(2,461)
Financial (expense) / Income	(1,284)	(7,966)	(30)	(52)	108	673		(835)	(4)	40
Income tax for the year	(1,265)	(14,806)	(671)	(112)	(3,040)	(20)	(49)	(55)	(18)	(147)
Net Profit /(Loss)	**2,516**	**36,551**	**1,316**	**245**	**6,588**	**-**	**(1,462)**	**360**	**159**	**(2,318)**

thousand euros	Frullo Energia Ambiente Srl	Gran Sasso Srl	Herambiente SpA	Herambiente Servizi Industriali Srl	Hera Comm Srl	Hera Comm Marche Srl	Hera Luce Srl	Hera Servizi Energia Srl	Hera Trading Srl	Hestambiente Srl
ASSETS										
Non-current assets	72,853	10	916,044	1,167	91,834	10,731	17,846	5,927	4,718	106,110
Working capital	12,985	6,483	225,453	23,376	899,343	34,081	42,920	31,902	479,443	17,946
Total assets	**85,838**	**6,493**	**1,141,497**	**24,543**	**991,177**	**44,812**	**60,766**	**37,829**	**484,161**	**124,056**
LIABILITIES										
Share capital	17,139	148	271,600	1,748	53,537	1,977	1,000	1,110	22,600	1,010
Reserves	23,485	324	40,427	452	23,334	6,139	5,049	8,824	4,748	15,967
Net Profit /(Loss)	2,114	190	10,838	678	83,540	6,113	4,003	1,358	16,645	4,525
Provisions	7,839		101,446	1,158	2,874	305	19,128	144		6,869
Post-employment benefits	1,783		9,864	489	5,182	347	753	444	452	1,308
Debt	33,478	5,831	707,322	20,018	822,710	29,931	30,833	25,949	439,716	94,377
Total liabilities	**85,838**	**6,493**	**1,141,497**	**24,543**	**991,177**	**44,812**	**60,766**	**37,829**	**484,161**	**124,056**
INCOME STATEMENT										
Value of the production	29,569	8,076	430,594	42,839	1,780,373	74,665	47,716	32,748	1,672,266	51,784
Production costs	(25,820)	(7,731)	(396,940)	(41,872)	(1,679,435)	(65,629)	(42,844)	(30,717)	(1,647,255)	-42,426
Financial (expense) / Income	(953)	(40)	(20,441)	(4)	21,836	(1)	990	(16)	(86)	-2,550
Income tax for the year	(682)	(116)	(2,375)	(285)	(39,234)	(2,922)	(1,859)	(657)	(8,280)	-2,283
Net Profit /(Loss)	**2,114**	**189**	**10,838**	**678**	**83,540**	**6,113**	**4,003**	**1,358**	**16,645**	**4,525**

Company	Inrete Distribuzione Energia Spa	Marche Multiservizi SpA	Medea SpA	Sigas d.o.o	Sinergie SpA	Sviluppo Ambiente Toscana Srl	Tri-Generazione Srl	Uniflotte Srl	Waste Recycling Spa
ASSETS									
Non-current assets	1,051,516	140,696	13,268	886	64,535	1,584	4,406	72,707	19,013
Working capital	221,243	64,656	2,913	168	33,182	707	1,227	14,194	18,418
Total assets	**1,272,759**	**205,352**	**16,181**	**1,054**	**97,717**	**2,291**	**5,633**	**86,901**	**37,431**
LIABILITIES									
Share capital	9,809	13,484	4,500	2,284	11,168	10	100	2,254	1,100
Reserves	462,653	29,623	5	(1,237)	34,550	56	81	4,723	9,061
Net Profit /(Loss)	13,280	12,398	885	(86)	(13,124)	(131)	79	5,232	3,574
Provisions	87,233	48,669	78		-		-	2	1,857
Post-employment benefits	12,376	8,278	182		1,402		3	2,928	1,192
Debt	687,408	92,900	10,531	93	63,721	2,356	5,370	71,762	20,647
Total liabilities	**1,272,759**	**205,352**	**16,181**	**1,054**	**97,717**	**2,291**	**5,633**	**86,901**	**37,431**
INCOME STATEMENT									
Value of the production	193,132	134,330	7,559	121	44,687		2,262	49,632	37,333
Production costs	(161,513)	(116,933)	(5,907)	(205)	(56,833)	(46)	(1,961)	(40,162)	(31,949)
Financial (expense) / Income	(10,928)	713	(232)	(2)	(833)	(85)	(176)	(1,984)	(59)
Income tax for the year	(7,411)	(5,712)	(535)		(145)		(46)	(2,254)	(1,751)
Net Profit /(Loss)	**13,280**	**12,398**	**885**	**(86)**	**(13,124)**	**(131)**	**79**	**5,232**	**3,574**

Summary of key figures of the financial statements of joint ventures pursuant to Article. 2429, last paragraph, of the C.C.

Company	Enomondo Srl	EstEnergy SpA
ASSETS		
Non-current assets	40,944	2,903
Working capital	11,715	57,720
Total assets	**52,659**	**60,623**
LIABILITIES		
Share capital	14,000	1,718
Reserves	10,698	11,413
Net Profit /(Loss)	1,862	10,374
Provisions	1,149	160
Post-employment benefits	53	109
Debt	24,897	36,849
Total liabilities	**52,659**	**60,623**
INCOME STATEMENT		
Value of the production	18,464	125,199
Production costs	(15,057)	(110,744)
Financial (expense) / Income	(767)	320
Income tax for the year	(778)	(4,401)
Net Profit /(Loss)	**1,862**	**10,374**

Summary of key figures of the financial statements of associated companies pursuant to Article. 2429, last paragraph, of the C.C.

Company	Aimag SpA	Q.Thermo Srl	Set SpA	Sgr Servizi SpA	So.sel SpA	Tamarete Energia Srl
ASSETS						
Non-current assets	202,163	3,148	159,973	2,226	4,096	78,849
Working capital	70,252	824	35,040	78,065	9,711	12,658
Total assets	**272,415**	**3,972**	**195,013**	**80,291**	**13,807**	**91,507**
LIABILITIES						
Share capital	78,028	10	120	5,982	240	3,600
Reserves	50,183	3,755	72,217	24,863	3,111	1,242
Net Profit /(Loss)	8,867	(327)	1,013	13,301	293	223
Provisions	25,329			16	20	1,390
Post-employment benefits	3,504		245	904	3,029	
Debt	106,504	534	121,418	35,225	7,114	85,052
Total liabilities	**272,415**	**3,972**	**195,013**	**80,291**	**13,807**	**91,507**
INCOME STATEMENT						
Value of the production	89,082		93,521	152,578	15,941	19,278
Production costs	(79,208)	(390)	(90,000)	(132,695)	(15,221)	(15,418)
Financial (expense) / Income	3,076		(3,433)	85	(3)	(3,428)
Extraordinary income / (expense)	(644)					
Income tax for the year	(3,439)	63	925	(6,667)	(424)	(209)
Net Profit /(Loss)	**8,867**	**(327)**	**1,013**	**13,301**	**293**	**223**

2.06 OUTLINE OF ARTICLE149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

thousand euros	31 Dec 16
Services provided to certify the financial statements	539
Provision of other services for the issue of an attestation	255
Other services rendered	11
Total	**805**

2.07 DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENT PURSUANT TO ARTICLE 154 OF LEGISLATIVE DECREE NO. 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 2016.

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 Managing Director

Stefano Venier

The Manager in charge of the corporate accounting statements

Luca Moroni

Bologna, 21 March 2017

2.08 REPORT BY THE INDEPENDENT AUDITOR

Deloitte.

Deloitte & Touche S.p.A.
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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Hera S.p.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hera Group, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of these 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 n° 38/05.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Hera Group as at December 31, 2016, and of its financial performance and 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 n° 38/05.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Hera S.p.A., with the consolidated financial statements of the Hera Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of the Hera Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

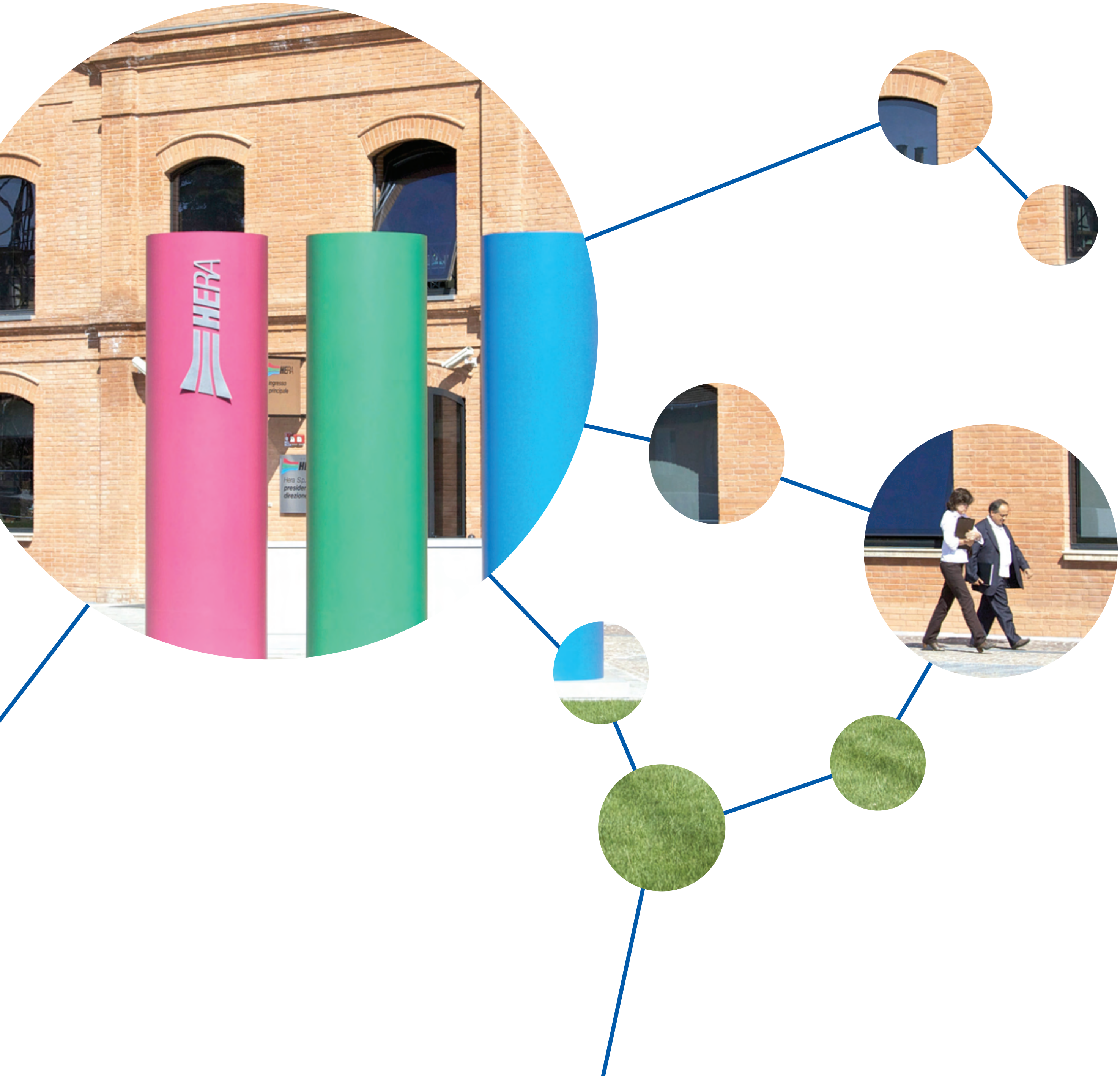
Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
April 5, 2017

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

CHAPTER 4

REMUNERATION REPORT



REPORT ON REMUNERATION

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 123-ter of Legislative Decree (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 14 May 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 Manager of Operations or spouses not legally separated and the minor children of such persons.

This report, approved by the Board of Directors on the recommendation of the Remuneration Committee as of 21 March 2017, establishes and illustrates the following:

- in Section I, the policy adopted by Hera for the remuneration of top management, the directors and General Manager of Operations, setting pout the general objectives pursued, the bodies involved and the procedures adopted for defining and implementing its policy;
- In Section II, the compensation paid out to members of administrative and control bodies and to the General Manager of Operations in the 2016 financial year.

To facilitate the understanding and reading of this report, we provide a brief glossary of some of the most common terms here below:

Bsc (Balanced scorecard) indicates the incentive system adopted by the Group, based on the achievement of predefined individual and corporate objectives, and is associated to the short-term variable component of remuneration.

Group indicates all the companies included in the scope of consolidation of Hera Spa.

Plan for deferred remuneration incentives aimed at management retention
indicates the incentive system adopted by the Group, based on the achievement of predefined objectives by a selected number of managers, and is associated to the short-term variable component of deferred remuneration.

GYS (Gross yearly salary) Indicates the gross annual fixed component of remuneration for individuals in an employee relationship with one of the Group companies.

DYS (Direct yearly salary) GYS+ accrued annual installment from the deferred variable component earned by individuals in an employee relationship with one of the Group companies.

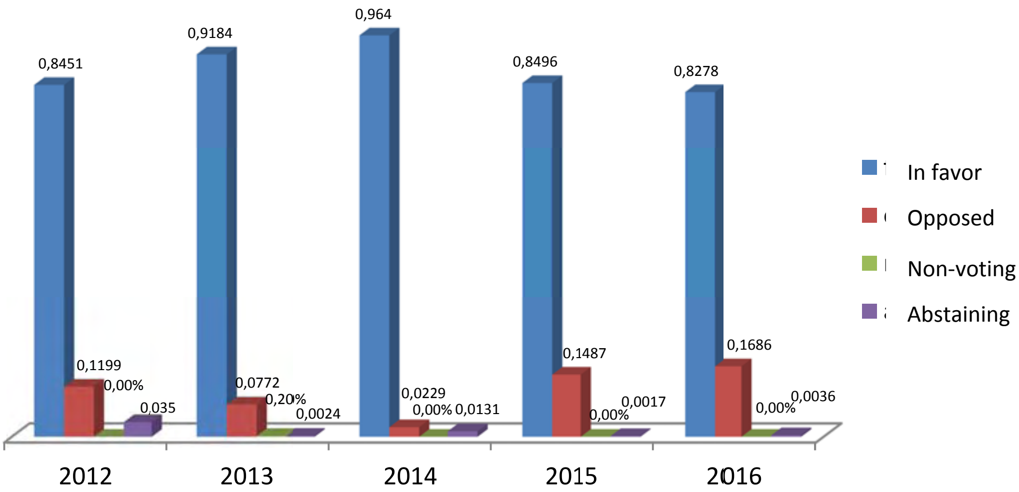
OYS (Overall yearly salary) GYS+ accrued annual installment earned by individuals in an employee relationship with one of the Group companies.

OYS target GYS+ maximum variable annual component that individuals in an employee relationship with one of the Group companies may theoretically earn.

Company top management indicates the Group most important figures: the Executive Director and the CEO.

RESULTS OF THE MEETING VOTE REGARDING THE REMUNERATION REPORT

The shareholders meeting held on 28 April 2016 approved the first section of the remuneration report, pursuant to art.123-ter, paragraph 6, Tuf, with a percentage of voters in favor totaling 82.78% of the shares with voting rights.



SECTION I

1 Introduction

The first section of this report outlines the principles and basic characteristics of the remuneration policy as applied to the top figures of the Hera Group, including the General Director of Operations.

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 creating 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 2016.

Pursuant to paragraph 6 of art. 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 14 May 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 Spa, appointed at the Shareholders' Meeting of 23 April 2014, as well as the General Manager of Operations.

BOARD OF DIRECTORS	
Name	**Role**
Tomaso Tommasi di Vignano	Executive Chairman
Stefano Venier	CEO
Giovanni Basile	Vice President (independent)
Mara Bernardini	Director (independent)
Forte Clò	Director (independent)
Giorgia Gagliardi	Director (independent)
Massimo Giusti	Director (independent)
Riccardo Illy	Director (independent)
Stefano Manara	Director (independent)
Danilo Manfredi	Director (independent)
Luca Mandrioli	Director (independent)
Tiziana Primori	Director (independent)
Cesare Pillon	Director – independent(as perTUF since 20 April 2016)
Bruno Tani	Director (independent)
BOARD OF STATUTORY AUDITORS	
Name	**Role**
Sergio Santi	Chairman
Antonio Gaiani	Standing auditor
Marianna Girolomini	Standing auditor
Valeria Bortolotti	Alternate auditor
Violetta Frasnedi	Alternate auditor
MANAGEMENT WITH STRATEGIC RESPONSABILITIES	
Name	**Role**
Roberto Barilli	Operations General Department Hera Spa

3 Governance Model

3.01 Remuneration policy definition and approval process

Here below is a summary of the bodies and individuals involved in the preparation and approval of the report on Hera Spa remuneration policy, and the bodies or individuals responsible for the proper implementation of this policy:

Entity or person responsible	Responsibility/ Activity
Shareholders' meeting	non-binding approval of the First Section of the Report on Remuneration
Board of Directors	Following the recommendation of the Remuneration Committee, defines, examines and approves a remuneration policy for directors and management with strategic responsibilities to be presented to the Shareholders' meeting for approval
Remuneration Committee	formulates proposals to present to the Board of Directors for compensating the Executive Chairman, Vice President, CEO and General Manager and for adopting general remuneration criteria for managers.
Executive Chairman	proposes policies for Group managers to the Remuneration Committee
Board of Statutory Auditors	Expresses opinions regarding the proper application of current regulations governing remuneration
Human Resources General Manager	Supports the Remuneration Committee, specifically with technical aspects. Oversees the proper implementation of compensation 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 Executive Director, 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.

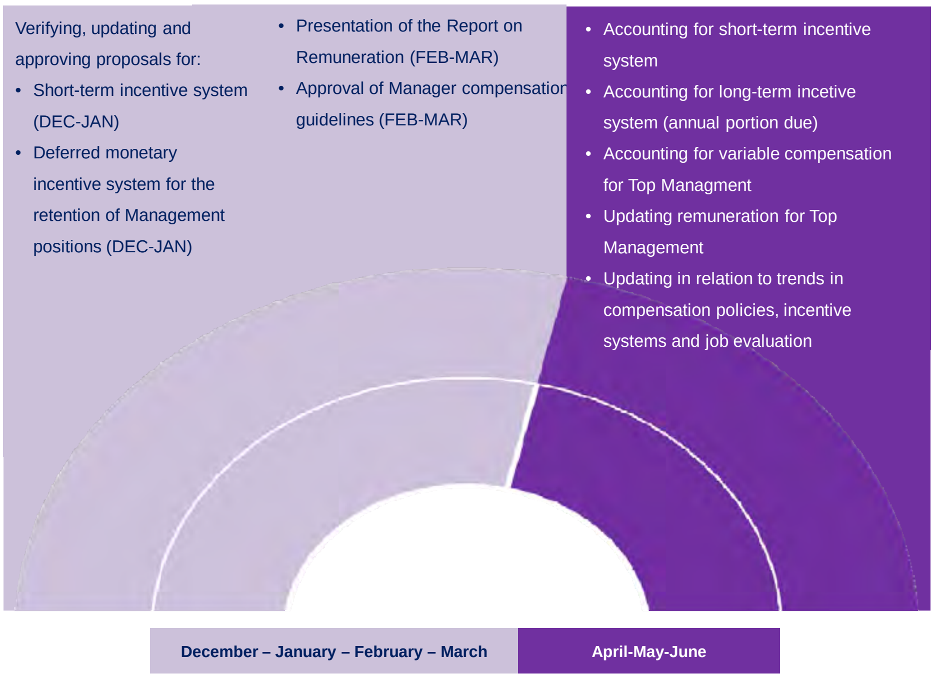
In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.

This Committee, initially set up at the meeting of the Board of Directors on 4 November 2002 and most recently renewed, in its latest format, on 28 April 2014, comprises the following non-executive directors: Giovanni Basile (independent) acting as Chairman, Mara Bernardini (independent), Luca Mandrioli (independent) and Cesare Pillon (independent since april 2016, pursuant to art. 148 paragraph 3 of Tuf). Note that the Chairman Giovanni Basile as well as the members Luca Mandorlini have experience in accounting and finance, deemed suitable by the Board of Directors at the time of their appointment. The executive director and the Group CEO may attend the Committee meetings upon express invitation of the Chairman of the Committee.

The Remuneration Committee met 2 times during 2016, and both meetings were attended by all members of the committee. The meetings of the Remuneration Committee lasted, on average, of one hour and thirty minutes.

3.02.01 Cycle of activities of the Remuneration Committee

The Committee's activities are carried out in keeping with an annual program involving the following phases:



3.02.02 Accomplished and programmed activities

During the meetings held in the 2016 financial year, all regularly recorded in the minutes, the following subjects were discussed:

- * Balanced Scorecard system 2016 for the Group Directors, Executives and Managers.
- management retention and associated application modes;
- Variations in the 2015 final balance, corporate objectives component.
- Accounting for 2015 variable remuneration for company heads
- Salary guidelines for 2016.

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.

Within this context of responsible rewards, the guiding principles adopted for defining the remuneration policy for the top management are:

- constant reference to 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;
- focus on internal consistency between the level of remuneration offered and the complexity of the role performed;
- the use and constant updating of the methodology for evaluating offices, with the objective of guaranteeing standardized remuneration comparisons and analyses that are consistent with the development of the Group's organizational framework over time.

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 riskier free-market activities. Overall, the risk profile is very conservative.

The remuneration currently offered is directed 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.

In order to underline congruence with the risk profile, the current remuneration policy involves a annual incentive plan (variable remuneration) based on a balanced scorecard system, with the objective of balancing the various perspectives of company stakeholders (reference shareholders, the market, institutional investors, customers, employees, the territory, etc.) with regard to the creation of value, sustainable performance and development as well as dividend policy;

In relation to the significant growth of the Group in terms of business results, corporate and territorial size and the investment made over the years to ensure the presence of valuable resources in key roles for the development and sustainability of the company's strategy, we have outlined a deferred monetary incentive plan for retaining management and this represents the most suitable retention tool in accordance with the distinctive features 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 correlation between variation in results and variation in remuneration.

4.03 The Group leadership model

With a view to responsible rewarding, with the aim to further strengthen the connection between compensation, performance and management behavior, the Group leadership model has been used for years as a reference for remuneration policies.

The model was developed after an initial phase of market benchmarks and careful internal listening phase beginning from the interpretation of the strategic challenges by the top and executive management and involving employees through dedicated focus groups to identify key skills.

The model thus mainly integrates the perspective vision to achieve future goals and prepare for the new competitive environment; the focus is therefore on behaviors striving for excellence, focusing on which skills should be developed in the future.

The leadership model comprises four key elements: complexity management (decision-making and flexibility), pursue of excellence (striving for excellence and identification with the company), focus on service (customer focus, and focus on services), exemplary leadership (development of employees, change leadership, leadership team).

The essence of the model lies in the ability to handle balances dynamically, generating added value and balancing the different needs:

- balancing profitability requirements with the highest quality of service;
- balancing specialization requirements in each business area with the common objective;

- balancing a need for continuity and compliance with the need for innovation and proactivity;
- balancing the need to collaborate as a group with the importance of internal differentiation.

The assessments of behaviors in keeping with the leadership model is an integral part of the remuneration policy of the Group's managers and is also a part of short-term individual goals included in the BSC.

By virtue of the reading of the current competitive environment and the new challenges the Group will be called on to face, in 2016 a revision and update process was initiated focusing on the leadership model and the expertise it involves.

5 Balancing remuneration elements and components

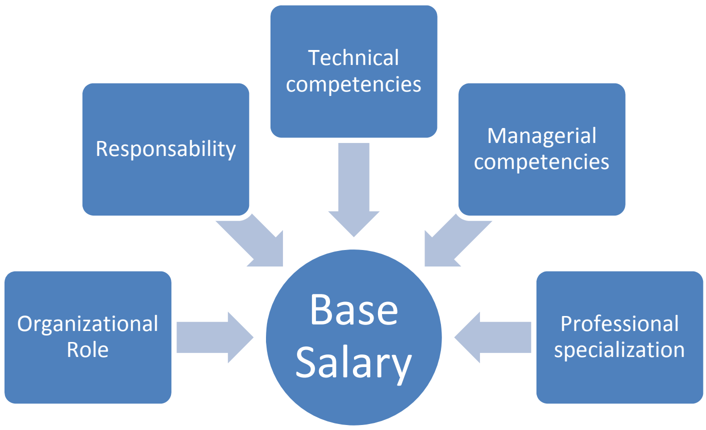
The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable components, taking the specific risk profile of the company into account.

The fundamental components of remuneration for Hera Group Directors are:

- Fixed remuneration
- short-term variable remuneration
- Deferred variable remuneration for management retention
- non-monetary benefits

5.01 Fixed remuneration

The fixed component of remuneration 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.



For every manager, the benchmark salary level is determined on the basis of the importance of the organizational position held, and is benchmarked with the selected external markets. These markets are taken from the salary surveys the Group participates in and are entrusted to specialized companies in the sector. On the whole, the remuneration level selected as benchmark is located in the medium band for the market (first quartile/median). These market benchmarks, combined with performance evaluation, form the basis of individual remuneration reviews.

5.02 Short-term variable remuneration - The BSC system

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 53 Directors and 102 Executives. A similar evaluation form is planned for the Executive Director and the CEO.

Incentive and objective definition process

The short-term incentive system includes 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;
- economic objectives of the individual Budget Units, evaluated through economic-financial type indicators;
- discretionary evaluation, based on the extent of the adoption of the types of behavior 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.

Performance measurement

A target is defined for each objective. The amount of the reward 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 2016, to four parameters:

- EBITDA
- Net Profit
- Net Financial Position (PFN)
- Customer Satisfaction Index (ICS)

The weighing percentage to be applied to each individual result is defined according to the performance profile achieved by the company within a range between 40% and 120%.

The maximum bonus, expressed in percentage terms of gross annual fixed remuneration of directors/managers, varies according to the results of the incentive system and the office held by the manager, specifically:

- Directors
  a variable payment equal to 30% of the total gross fixed fees.
- Managers
  two different levels of variable maximum compensation, equal to 20% and 26% respectively of the total gross fixed fees.

The table below illustrates the mechanism for measuring accrued bonuses:

component	description		example calculation
A	Annual gross compensation (€)	€	100,000
B	Target bonus (100% Ral)		25%
C	Target bonus (€) = A x B	€	25,000
D	Individual objectives achieved (%)		90%
E	Corporate performance weighting factor (%)		106%
F	Amount of bonus granted (€) = C x D x E	€	23,850

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.

5.03 Deferred variable remuneration for management retention

The Board of Directors on March 22, 2016 approved the implementation of a retention plan for a small number of executives taking into account the importance of their organizational position, the evaluation of performance achieved in the context of the development process and their age.

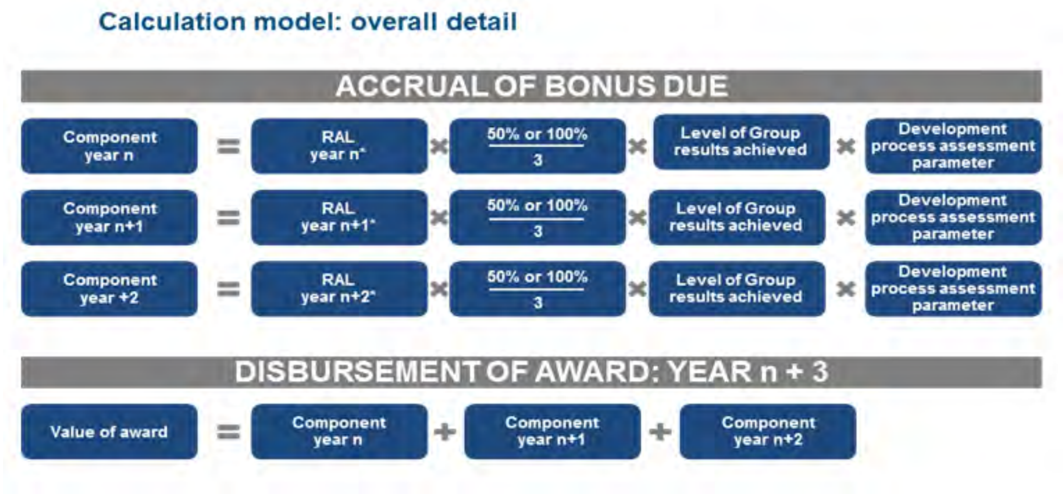
The Board of Directors also considered appropriate to provide an annual evaluation device to assess the access and the renewal / non-renewal of the allocated money plan.

The incentive assigned for 2016 accrues over the course of 2016 – 2017 – 2018 and will be distributed in 2019. The value of the incentive amounts to 50% or 100% of the GYS over a three-year period, or amounts to 17% or 33% of the GYS of the year.

The decision of the Board of Directors was made taking into account the following elements:

- since the establishment of Hera, the Group has grown significantly in terms of company and territorial size as well as final results;
- from the perspective of its executive management, the Group has reached a composition resulting from a careful balance between the inclusion of new forms of expertise from the market and specific expertise already present;
- The Group currently enjoys a strong reputation and visibility in the market and is therefore appropriate to address highly selected retention efforts to those executive resources in key positions, with high performance levels and high market risk.

Here below are listed, respectively, the calculation model for the accrual of the annual compensation and the calculation model for determining the premium to be paid after the end of the three-year period.



5.04 Non-monetary benefits

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.

Additionally, a company car will be available for use by executive figures holding specific organizational positions.

Finally, in keeping with the implementation of the Group's welfare plan, all the Group's executives are allowed to access a Flexible Benefit plan that in 2016 provided for the allocation of a quota of 200 € every six months.

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 Spa 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 Mara Bernardini, Forte Clò, Giorgia Gagliardi, Massimo Giusti, Riccardo Illy, Stefano Manara, Luca Mandrioli, Danilo Manfredi, Cesare Pillon, Tiziana Primori, and Bruno Tani.

With regard to Non-Executive Directors, following their appointment, the Shareholders' Meeting on 23 April 2014 established that they would receive a gross annual payment of Euro40,000, 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 committees (Executive Committee, Remuneration Committee, Control and Risks Committee and Related Parties Transactions Committee) decided to award these Directors a total sum of Euro20,000 gross per year.

The same Board of Directors decided, on 14 May 2014, to award the Vice Chairman a fixed annual sum of Euro 85,000 for the duration of his office, which includes the indemnity due as a director and any other fees for offices held in Group companies.

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 responsibility 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

On 14 May 2014, the Board of Directors resolved that the Chairman and CEO will be paid a fixed compensation in the amount of Euro 350 thousand gross each for the entire length of their terms, to include all services/offices held in the Hera Group's subsidiary and associate companies as well.

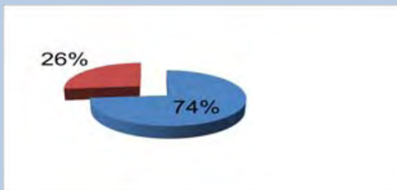
The Executive director, CEO and General Manager of Operations come under the scope of the remuneration policies defined for the top management of the company, whose methodology is based, as stated previously, on the weighting methods for the positions, market comparisons and an incentive scheme based on the BSC system.

In terms of the variable component of the remuneration, for the 2016 financial year the Board of Directors confirmed for the Executive Director and CEO a variable compensation linked to the achievement of Group performance objectives, outlined as follows:

a. if 100% of the established targets are achieved, a variable compensation in the amount of 30% of the total gross fixed compensation will be paid (a bonus the level of which had already been reduced for the 2012 financial year);
b. if performance exceeds 100% of the established targets, the bonus amount will be increased a maximum of 20%, thus generating a maximum variable compensation equal to 36% of the total gross fixed compensation.

The degree of achievement of these objectives, likewise determines the rate of weighting that is applied to the achievement of individual results by directors and executives covered by the BSC system.

As part of the retention tools for the executive management (with high market risk), a deferred variable compensation has been introduced for the CEO, associated to the achievement of the Group's financial results for the years 2016, 2017 and 2018. The maximum economic value for the three-year period will be equal to 100% of the GYS with distribution expected at the end of the 2018 financial year as soon as the budget will be approved by the Shareholders' General Meeting, and provided that by that date is still effectively in service in the Group Companies.

<table>
<tr><th>Position</th><th>Compensation</th><th>€</th><th>makeup of compensation package</th></tr>
<tr><td rowspan="3">Executive Chairman</td><td>RAL</td><td>350,000</td><td rowspan="3">
</td></tr>
<tr><td>RGA Target maximum</td><td>476,000</td></tr>
<tr><td>RDA</td><td>476,000</td></tr>
<tr><td rowspan="3">CEO</td><td>RAL</td><td>350,000</td><td rowspan="3">
</td></tr>
<tr><td>RGA Target maximum</td><td>476,000</td></tr>
<tr><td>RDA</td><td>591,500</td></tr>
</table>

Annual gross compensation short-term target variable – max long-term target variable - max (annual portion) a variable payment equal to 25% of the total gross fixed fees on reaching 100% of the targets is established for the General Manager of Operations. Individual performance is subsequently weighted through a company results profile, which takes into account the performance recorded by the Group with reference to the current year. The weighting involves a maximum increase of individual results in the amount of 20%, thus generating a maximum variable compensation equal to 30% of the total gross fixed compensation.

In relation to non-monetary benefits, in addition to the insurance policies outlined previously in point 6.01, the company car is available for use.

7 Compensation

7.01 Resignation, lay-off or termination of the employment relationship

Following the renewal of the administrative board that will take place during the Shareholders' meeting that is scheduled for April 27 2017, Executive Directors, in case of their removal from office(except for cases of just cause), 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 c.c. in the amount of 18 monthly payments.

Previously the compensation allowances for executive directors could reach a maximum amount calculated in proportion to the amount the individual would have received in the form of remuneration until the end of his or her mandate. In April 2016, thus, the compensation would have amounted to the remuneration to be paid out in the remaining 12 month of the term.

7.02 Claw-back provision

To date, the system of remuneration for executive directors does not provide for ex-post correction mechanisms in the form of claw-back clauses.

Such clauses will be introduced after the renewal of the Board which will take place during the Shareholders' Meeting that is scheduled for 27 April 2017.

The obligation to return variable components of the remuneration paid out (or withhold deferred amounts) determined on the basis of data that later proved to be incorrect, will be effective from the date of the appointment for the duration of the mandate and the request for restitution may be activated, carried out the relevant inquiries, within the period of three years after having been issued, with reference to the relevant year.

SECTION II

Introduction

This second section of the 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 and Risks and Controls Committees well as the Executive Committee, the directors involved are awarded a total salary of Euro 20,000 gross per year to be added to the remuneration established by the Shareholders' Meeting of Euro 40,000.

The value of the bonus received in 2016 by each figure is also indicated, in relation to the degree of achievement of the targets set in the previous year.

1 Description of the compensation paid to Directors and General Managers

This section contains the details of payments made during 2016, with reference, as far as the variable part is concerned, to the accrual criterion.

The following aspects are highlighted:

Executive Director

The fixed compensation for Mr. Tomaso Tommasi di Vignano is composed exclusively of wages associated with his relationship as director. The aforementioned compensation also includes all services and offices held in the Group's subsidiary and associate companies. Note that during 2016 he received a bonus for results achieved the previous year, equal to Euro107,100, following the achievement of an overall performance index of 102%.

CEO

The fixed compensation paid to Mr. Stefano Venier is composed exclusively of gross annual remuneration as a Group executive and also includes all services/offices held in the Hera Group's subsidiary and associate companies. Note that during 2016 he received a bonus with regard to the results of the previous year, equal to Euro107,100, following the achievement of an overall performance index of 102%.

Vice Chairman

Mr. Giovanni Basile received a fixed payment of Euro 85 thousand as the fixed annual gross salary, established as compensation for the office of Vice Chairman.

Non-executive Directors

For the office of non-Executive Director of the company Mara Bernardini, Forte Clò, Giorgia Gagliardi, Massimo Giusti, Riccardo Illy, Stefano Manara, Luca Mandrioli, Danilo Manfredi, Cesare Pillon, Tiziana Primori e Bruno Tani received a fixed payment for the office of Director and a further payment for their involvement in Committees or in Boards of Directors of subsidiaries or associated companies, as set out in the Group remuneration policy.

General Manager

The General Manager of Operations, Roberto Barilli, received compensation of Euro340,423 in the form of gross annual remuneration. Note that during 2016 he received a bonus for the results of the previous year, equal to Euro 86,347, following the achievement of an individual performance index of 100% and a Group performance index of 102%.

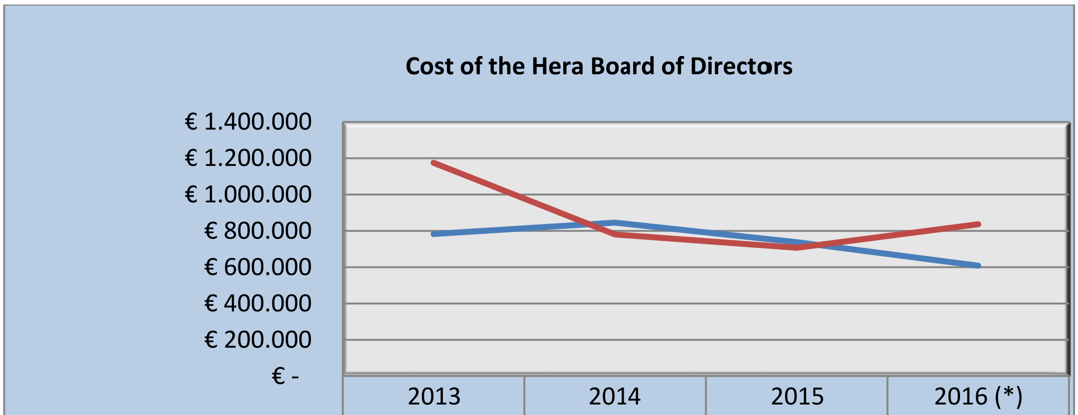
Statutory Auditors

The members of the Board of Statutory Auditors received fixed compensation for the office of Auditor determined by the Shareholders' Meeting.

Compensation received in Group companies

Remuneration for the Executive Directors, Directors, General Manager and Managers for positions held within Group company structures and/or committees, are redirected in their entirety to Hera SpA. The total redirected to the Parent Company for the year 2016 was approximately 608,321 Euros.

The cost of the Board of Directors of Hera Spa for the year 2016 was Euro 836,679, net of remuneration amounting to Euro 608,321 (for a gross total amount of Euro 1,445,000) received by Hera for the participation of directors / managers in administrative bodies of its affiliates.



	2013	2014	2015	2016 (*)
Total redirected to the Parent Company	€ 782.302	€ 845.223	€ 737.688	€ 608.321
Real cost of the Hera Board of Directors	€ 1.174.956	€ 780.069	€ 707.312	€ 836.679

The actual cost of the Board of Directors for the year 2016 was affected by a decrease in remuneration received by Hera Spa for the participation of directors / managers in administrative bodies of its affiliates, following operations of rationalization of the Group's companies.

Bologna, 21 March 2017

The Chairman of the Board of Directors:
(dott. 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 during 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	Executive Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31-Dec-16									
I) Compensation in the company preparing the financial statements				350,000		107,100		6,275	1,694	465,069		
(II) Compensation from subsidiaries and associated companies												
(III) Total				350,000		107,100		6,275	1,694	465,069		
Notes												

Name and surname	Office	Period during 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	CEO	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31-Dec-16									
I) Compensation in the company preparing the financial statements				350,000		107,100		16,770	3,215	477,085		
(II) Compensation from subsidiaries and associated companies												
(III) Total				350,000		107,100		16,770	3,215	477,085		
Notes												

Name and surname	Office	Period during 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					
Giovanni Basile	Vice Chairman	01-Jan-16 31-Dec-16	Annual Financial Report approval as of 31-Dec-16									
I) Compensation in the company preparing the financial statements				85,000				3,988		88,988		
(II) Compensation from subsidiaries and associated companies												
(III) Total				85,000				3,988		88,988		
Notes												

Name and surname	Office	Period during 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					
Mara Bernardini	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31-Dec-16									
I) Compensation in the company preparing the financial statements				40,000	20,000			524		60,524		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			524		60,524		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period during 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					
Forte Clò	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000				1,288		41,288		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				1,288		61,288		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during 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					
Giorgia Gagliardi	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000				234		40,234		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				234		60,234		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during 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					
Massimo Giusti	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			473		60,473		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			473		60,473		
Notes					I) as a member of the Control and Risk Committee							

Name and surname	Office	Period during 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					
Riccardo Illy	Director	01-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			1,383		61,383		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			1,383		61,383		
Notes					I) as a member of the Executive Committee							

Name and surname	Office	Period during 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					
Danilo Manfredi	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
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 Risk Committee							

Name and surname	Office	Period during 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					
Tiziana Primori	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000				626		40,626		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				626		60,626		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during 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					
Luca Mandrioli	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			447		60,447		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			447		60,447		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period during 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					
Cesare Pillon	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000	20,000					60,000		
(II) Compensation from subsidiaries and associated companies (CEO . of AcegasApsAmga Spa) in office until 20 April 2016				61,111		51,000		5,178	2,131	119,420		
(III) Total				101,111	20,000	51,000		5,178	2,131	179,420		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period during 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					
Bruno Tani	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000				1,609		41,609		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				1,609		61,609		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during 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 Manara	Director	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			447		60,447		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			447		60,447		
Notes					I) as a member of the Control and Risk Committee							

Control body

Name and surname	Office	Period during 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					
Sergio Santi	Chairman of the Board of Statutory Auditors	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31-Dec-16									
I) Compensation in the company preparing the financial statements				120,000				3,108		123,108		
(II) Compensation from subsidiaries and associated companies				118,756						118,756		
(III) Total				238,756				3,108		241,864		
Notes												

Name and surname	Office	Period during 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					
Marianna Girolomini	Standing Auditor	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31- Dec-2016									
I) Compensation in the company preparing the financial statements				80,000				367		80,367		
(II) Compensation from subsidiaries and associated companies				79,761						79,761		
(III) Total				159,761				367		160,128		
Notes												

Name and surname	Office	Period during 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					
Antonio Gaiani	Standing Auditor	1-Jan-16 31-Dec-16	Annual Financial Report approval as of 31-Dec-16									
I) Compensation in the company preparing the financial statements				80,000				380		80,380		
(II) Compensation from subsidiaries and associated companies				64,837						64,837		
(III) Total				144,837				380		145,217		
Notes												

General Managers

Name and surname	Office	Period during 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					
Roberto Barilli	General Manager of Operations	1-Jan-16 31-Dec-16										
I) Compensation in the company preparing the financial statements				340,423		86,347		16,894	3,485	447,149		
(II) Compensation from subsidiaries and associated companies												
(III) Total				340,423		86,347		16,894	3,485	447,149		
Notes												

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
TomasoTommasi di Vignano	Executive Director		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	107,100						
		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			107,100						

Name and surname	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Stefano Venier	CEO		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	107,100						
		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			107,100						

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	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	86,347						
		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			86,347						

Name and surname	Offices in Hera Spa	Subsidiary companies	No. shares held at the end of the preceding financial year	No. shares purchased	No. shares sold	No. shares held at the end of the preceding financial year
Tomaso Tommasi di Vignano (1)	Executive Director	Hera Spa	31,764	-	-	31,764
Stefano Venier	CEO	Hera Spa	-	-	-	-
Giovanni Basile	Vice Chairman	Hera Spa	-	-	-	-
Mara Bernardini	Director	Hera Spa	18,424	21,576	-	40,000
Forte Clò	Director	Hera Spa	-	-	-	-
Giorgia Gagliardi	Director	Hera Spa	-	-	-	-
Massimo Giusti	Director	Hera Spa	-	-	-	-
Riccardo Illy	Director	Hera Spa	-	-	-	-
Stefano Manara	Director	Hera Spa	-	-	-	-
Luca Mandrioli	Director	Hera Spa	-	-	-	-
Danilo Manfredi	Director	Hera Spa	-	-	-	-
Cesare Pillon	Director	Hera Spa	-	-	-	-
Tiziana Primori	Director	Hera Spa	-	-	-	-
Bruno Tani	Director	Hera Spa	138,970	31,030	-	170,000
Sergio Santi(2)	Chairman of the Board of Statutory Auditors	Hera Spa	29,752	11,000	-	40,752
Antonio Gaiani	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Marianna Girolomini	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Roberto Barilli	General Manager of Operations	Hera Spa	-	-	-	-

(1) indirect possession through spouse (2) of the 40,752 shares held, 1,652 of which are held through subsidiaries, trust companies or third parties.

RESOLUTION PROPOSAL

Dear fellow shareholders,

the meeting is required to express your vote on the “first section” of the remuneration report, concerning your company's policy on remuneration and procedures for adopting and implementing this policy. This report has been prepared in accordance with applicable laws and regulations and the Corporate Governance Code for listed companies, which Hera complies with.

If you share the contents it outlines, we advise you to vote in favor on the "first section" of the remuneration report by adopting the following resolution:

“ Hera Spa's shareholders’ meeting, in compliance with what is set forth in Article. 123-ter of Tuf, as well as in compliance with the provisions of Article. 84-quater of Consob Issuers Regulation:

- having acknowledged the policies adopted by the Group on the subject of remuneration;

- having read the first section of the remuneration report;

resolves

to approve the first section of the “Report on Remuneration” of the Hera Group”

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