Consolidate half-year financial report

as at 30 june 2016

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Abbreviated consolidated financial statements

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GOVERNANCE AND CONTROL BODIES

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice-chairman	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-chairman	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 Spa

CORPORATE STRUCTURE

The current 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 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 activities.

Parent company Hera Spa: effective operations management

Herambiente: leading the environmental sector

Herambiente Spa, 75% of which is owned by Hera Spa and 25% by the Eisler infrastructural fund and Apg, 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 to an industrial customer base.

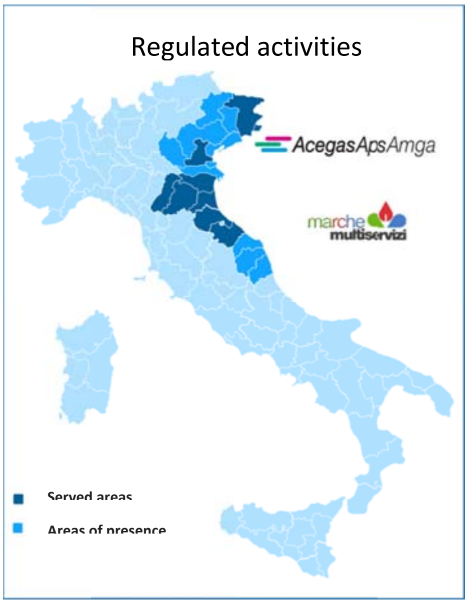
Hera Comm: 2.2 million energy customers

Hera Comm Srl, 100% controlled by Hera Spa, with 2.2 million customers, represents the Group on national energy markets.

Hera Trading: purchasing energy commodities

Hera Trading Srl, 100% controlled by Hera Spa, deals with trading and procurement of wholesale energy commodities with a flexible rationale of supply on the 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 both multi-utility companies operating respectively in the Marche and the Triveneto regions, which have maintained their own corporate structure even after having been 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.

Hera Spa

Herambiente S.p.A.	75%
*Hestambiente	70%
Fea Srl	51%
Herambiente Servizi Industriali Srl	100%
Enomondo Srl	50%
Asa Scpa	51%
Feronia Srl	70%
Waste Recycling Spa	100%

Hera Comm Srl	100%
So.Sel. Spa	26%
Adriatica Acque Srl	22.32%
SGR Servizi Spa	29.61%
Hera Comm Marche Srl	57.38%
Hera Servizi Energia Srl	57.89%
Amga Energia & Servizi Srl	100%
Amga Calore & Impianti Srl	100%

AcegasApsAmga Spa	100%
Hera Trading Srl	100%
Marche Multiservizi Spa	49.59%

Other companies

INRETE Distribuzione Energia Spa	100%	Hera Luce Srl	100%
**Sviluppo Ambiente Toscana	95%	Uniflotte Srl	97%
Aimag Spa	25%	Galsi Spa	11.77%
Medea Spa	100%	Tamarete Energia Srl	40%
Set Spa	39%	Energo Doo	34%
Acantho Spa	77.36%	S2A Scarl	23.81%
Calenia Energia Spa	15%	Aloe Spa	10%
Ghirlandina Solare Srl	33%		

** Over 30% held by AcegasApsAmga Spa.*

*** In addition to 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 (a result of the merger of Rilagas EAD into BSTC AD, effective as of 07.07.2016). Shares held in SIGAS doo by AcegasApsAmga are expected to be divested in 2016, and Insigna Srl is expected to be merged into AcegasApsAmga Spa.

The following operations are also expected:

- *merger of Fucino Gas Srl into Hera Comm Marche Srl;*
- *merger of Biogas 2015 Srl into HerAmbiente Spa;*
- *liquidation of ESIL Scarl.*

MISSION

*"Hera's goal is to be 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 by respecting the local environment"***.**

"For Hera to be the best means to represent a reason for 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 areas,*** *because economic, social and environmental health represent the promise of a sustainable future; and* ***suppliers,*** *key elements in the value chain and partners for growth".*

CHAPTER 1

REPORT ON OPERATIONS

1.01 OVERVIEW OF GROUP MANAGEMENT AND PERFORMANCE

(€/mln)	**June 2016**		June 2015		Abs. Change	% Change
Revenues	**2,152.7**		2,213.0		-60.3	-2.7%
EBITDA	**470.1**	21.8%	459.1	20.7%	+11.0	+2.4%
EBIT	**257.4**	12.0%	245.0	11.1%	+12.4	+5.1%
Net profit	**128.2**	6.0%	115.4	5.2%	+12.8	+11.1%

1.01.01 OPERATING RESULTS AND INVESTMENTS

Constant results maintained

The results of the first six months of 2016 show growth in all performance indicators, even when faced with an increasingly challenging context as defined by various competitive and regulatory factors. The Hera Group has proved able to manage this scenario and operate in a balanced and dynamic way; indeed, a comparison with the previous year shows EBITDA rising by 2.4%, EBIT by 5.1% and net profits by 11.1%.

The main corporate and business operations that led to changes in the Group's corporate structure during the first half of 2016 were:

- On 23 December 2015 Herambiente acquired 100% of shareholding in Waste Recycling Spa, which is involved in special waste treatment and recovery in the province of Pisa and in turn holds shares in Rew Trasporti Srl and Neweco Srl.

- As of 1 December 2015 Herambiente acquired effective control of a number of business branches from Geo Nova Spa, in particular taking over the dangerous and non-dangerous waste storage plant in San Vito al Tagliamento (Pordenone) and the active landfills for non-dangerous waste located in Loria (Treviso) and Sommacampagna (Verona).

- On 29 December 2015 Hera Spa transferred 90% of the company Hera Energie Rinnovabili to third parties; subsequently renamed Aloe Spa, it is no longer part of the Group's consolidated scope.

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

- On 30 December 2015, AcegasApsAmga Spa divested shares held in Trieste Onoranze e Trasporti Funebri.

- On 8 April 2016 Hera Comm Srl was definitively awarded the tender announced by the Municipality of Giulianova for the acquisition of 100% of the share capital of Julia Servizi Più, a gas and electricity sales company operating in the area surrounding Teramo.

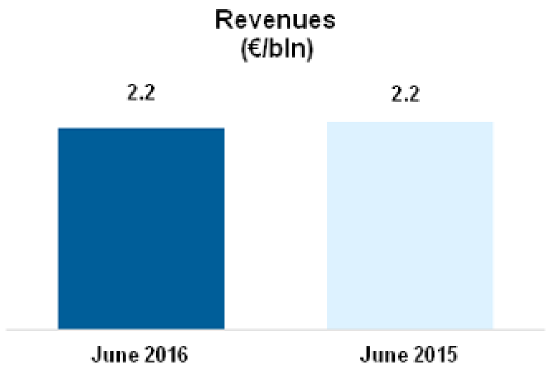
This consolidated income statement reflects the application of accounting principle IFRIC12 "Service concession arrangements". The effect of applying this principle, which leaves the results unchanged, is that investments made in goods granted under concession, only including network services, are acknowledged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

The table below shows the economic results for the first semesters of 2016 and 2015:

Constant and rising increases

Income statement (€/mln)	Jun 2016	% Inc.	Jun 2015	% Inc.	Abs. change	% change
Revenues	2,152.7		2,213.0		-60.3	-2.7%
Other operating revenues	162.0	7.5%	155.9	7.0%	+6.1	+3.9%
Raw materials	(998.0)	-46.4%	(1,103.9)	-49.9%	-105.9	-9.6%
Service costs	(570.3)	-26.5%	(530.7)	-24.0%	+39.6	+7.5%
Other operating costs	(20.8)	-1.0%	(26.9)	-1.2%	-6.1	-22.7%
Personnel costs	(266.7)	-12.4%	(260.7)	-11.8%	+6.0	+2.3%
Capitalised costs	11.2	0.5%	12.4	0.6%	-1.2	-9.7%
EBITDA	**470.1**	**21.8%**	**459.1**	**20.7%**	**+11.0**	**+2.4%**
Amort. & Prov.	(212.7)	-9.9%	(214.0)	-9.7%	-1.3	-0.6%
EBIT	**257.4**	**12.0%**	**245.0**	**11.1%**	**+12.4**	**+5.1%**
Financial operations	(58.0)	-2.7%	(61.3)	-2.8%	-3.3	-5.4%
Pre-tax profit	**199.4**	**9.3%**	**183.7**	**8.3%**	**+15.7**	**+8.5%**
Taxes	(71.2)	-3.3%	(68.3)	-3.1%	+2.9	+4.2%
Net profit of the year	**128.2**	**6.0%**	**115.4**	**5.2%**	**+12.8**	**+11.1%**
Attributable to:						
Shareholders of the Parent Compan	**121.0**	**5.6%**	**107.3**	**4.8%**	**+13.7**	**+12.8%**
Non-controlling interests	7.2	0.3%	8.1	0.4%	-0.9	-11.4%

Revenues at € 2.2 billion



In the first half of 2016, revenues amounted to € 2,152.7 million, down € 60.3 million or 2.7% compared to the € 2,213.0 million seen in the same period in 2015. Various factors are responsible for this decrease: in gas services, volumes sold fell by roughly € 9 million owing to the milder winter seen in 2016; revenues from electricity and gas sales and trading were down by roughly € 157 million following a fall in the price of raw materials; lastly, in regulated gas, electricity and water cycle services, the drop of roughly € 16.5 million is mainly due to a change in the rate of return on invested capital and a new definition of restrictions on revenues in the water service; these negative effects on regulated revenues were partially compensated, in electricity services, by the recovery provided for by resolution 654/15/R/eel consisting in roughly € 13.8 million; for further details see the paragraphs entitled "analysis of the electricity area" and "regulatory framework and regulated revenues". The following figures show growth: revenues for greater volumes of electricity sold, coming to roughly € 17 million; a greater portion of pass-through revenue related to non-network distribution, coming to roughly € 13 million; greater revenues from energy production in thermoelectric plants, coming to roughly € 10 million; revenues from the environment area, owing to both an increase in waste disposed of and the new incentive mechanism for sales of electricity produced from renewable sources (which has replaced green certificates with a subsidised tariff), coming to roughly € 61 million overall.

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

Other operating revenues grew compared to June 2015 by € 6.1 million, or 3.9%; this growth is due to higher revenues ensuing from IFRIC 12 (€ 1.7 million) and a larger contribution coming from sorted waste (€ 1.7 million), while the remainder can largely be ascribed to a contribution coming from energy savings certificates.

The cost of raw and other materials dropped by € 105.9 million compared to the first half of 2015, with a change of 9.6%; as with revenues, this fall is due to lesser volumes of gas purchased and lesser trading activity, as well as an overall decrease in the price of raw materials and a different mechanism used for incentives in sales of electricity produced from renewable sources (as mentioned above).

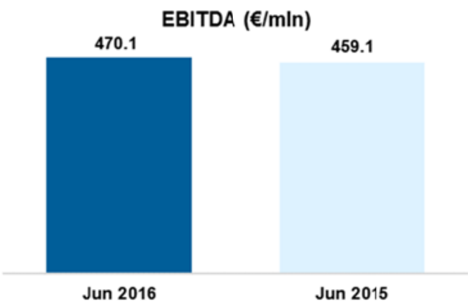
Other operating costs grew by € 33.5 million overall (€ 39.6 million in greater costs for services, and € 6.1 million in lesser operating expenses), which is mainly attributable to changes in the scope of consolidation (€ 13.1 million), a rise in the cost of electricity and gas transmission and distribution, largely attributable to the pass-through revenues mentioned above (€ 14.1 million) and the greater costs of disposal for the rise in volumes treated (€ 9.2 million). These effects are partially compensated by lesser IFRIC 12 costs and lesser costs for subcontracted works.

The cost of personnel rose by € 6.0 million or 2.3%, going from € 260.7 million in the first half of 2015 to € 266.7 million in the same period of 2016. This increase is mainly due to the salary raises provided for by the National labour agreement. The entrance of resources from companies in the Environment area and Julia Servizi Più is partially compensated by a reduction in the average presence of resources.

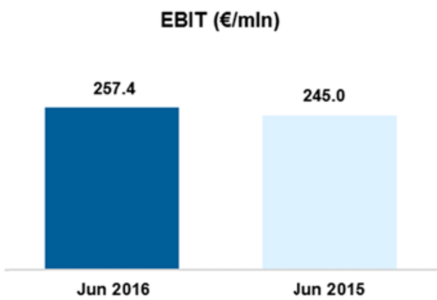
Capitalised costs were € 1.2 million or 9.7% lower at 30 June 2016 than in the previous year.

EBITDA at € 470.1 million (+2.4%)

EBITDA passed from € 459.1 million in the first half of 2015 to € 470.1 million in June 2016, recording a growth of € 11.0 million, or 2.4%. This result is particularly significant considering that the first half of the year suffered from lesser revenues in gas, electricity and water distribution totalling € 16.5 million (respectively: € 5.5 in gas, € 1.4 in electricity and € 9.6 in water) following the reduction in return on invested capital in regulated sectors and inflation. The growth in electricity amounting to € 26.7 million compensates the drop in other business areas, thanks to both the recoveries resulting from the method used in defining tariffs and greater EBITDA resulting from power plants.



Amortisation, depreciation and provisions dropped overall by € 1.3 million or 0.6%, going from € 214.0 million in the first half of 2015, to € 212.7 million in the same period in 2016. The decrease in amortisation of landfills and WTE plants, along with the drop in provisions for third party assets in the gas area due to the duration of the concession in the Forlì-Cesena region, more than compensated the higher amortisation for new investments and the change in scope of Herambiente Group companies and Julia Servizi Più. The provision for doubtful debts rose by € 1.2 million, in particular in sales companies.



EBIT at € 257.4 million (+5.1%)

EBIT at 30 June 2016 amounted to € 257.4 million, up € 12.4 million or 5.1% over the € 245.0 seen in the same period in 2015.

The results of financial management at the end of the first six months of 2016 came to € 58.0 million, improving by € 3.3 million or 5.4% compared to the same period in 2015. This good performance is due to both lesser average debt and greater efficiency in rates obtained thanks to the reimbursement of a few loans, in addition to an optimisation of cash and cash equivalents.

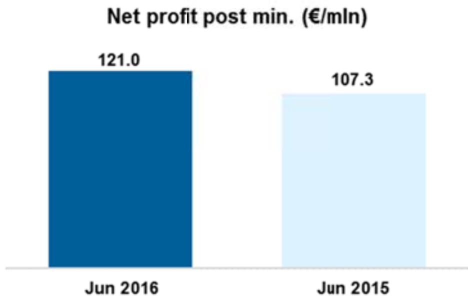
In light of the above, pre-tax profits grew by € 15.7 million, going from € 183.7 million in the first six months of 2015 to € 199.4 million in the same period of 2016.

Income taxes pertaining to the first half of 2016, which came to € 71.2 million, define a tax rate of 35.7%, an improvement compared to the 37.2% in the same period of the previous year. The reason for this decrease can largely be ascribed to the benefits deriving from the application of the "patent box" and tax credits for research and development, in addition to tax concessions for maxi amortisations. Also note that in the first half of 2016 lesser taxes related to previous years for a total of € 1.5 million were recorded, mainly resulting from an interpretation that is more consistent with fiscal norms relating to IAS/IFRS.

Net profits therefore rose by 11.1%, equivalent to € 12,8 million, going from € 115.4 million in the first six months of 2015 to € 128.2 million in the same period in 2016.

Earnings post minorities at € 121.0 million (+12.8%)

Group net profits amounted to € 121.0 million, rising by € 13.7 million over the first six months of 2015, thanks among other things to a reduction of minority interests mainly derived from the complete acquisition of Akron and Romagna Compost in the second half of 2015.



1.01.02 ANALYSIS OF FINANCIAL STRUCTURE AND INVESTEMENTS

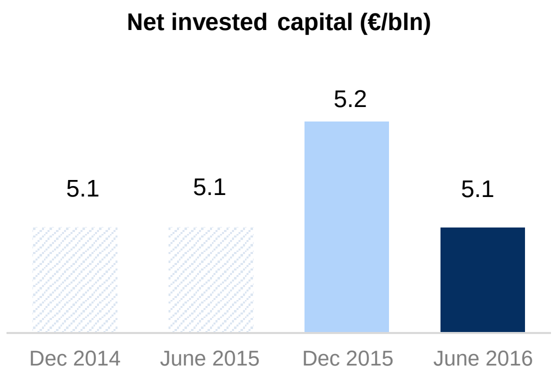
The Group's magnitude increases

The table below shows changes in the Group's net invested capital and sources of financing for the period ended 30 June 2016:

Invested capital and sources of financing (€/mln)	30 Jun 2016	Inc. %	31 Dec 2015	Inc. %	Abs. change	% change
Net non-current assets	5,506.5	108.0%	5,511.3	106.9%	(4.8)	(0.1%)
Net working capital	116.4	2.3%	157.0	3.0%	(40.6)	(25.9%)
(Provisions)	(525.1)	-10.3%	(513.5)	-10.0%	(11.6)	+2.3%
Net invested capital	**5,097.8**	100.0%	5,154.8	100.0%	(57.0)	(1.1%)
Equity	(2,473.4)	48.5%	(2,503.1)	48.6%	+29.7	(1.2%)
Long-term borrowings	(2,719.5)	53.3%	(2,743.6)	53.2%	+24.1	(0.9%)
Net(cash)/short term borrowings	95.1	-1.9%	91.9	-1.8%	+3.2	+3.5%
Net borrowings	(2,624.4)	51.5%	(2,651.7)	51.4%	+27.3	(1.0%)
Total sources of financing	**(5,097.8)**	-100.0%	(5,154.8)	100.0%	+57.0	(1.1%)

Net invested capital: € 5.1 billion

At 30 June 2016, net invested capital dropped compared to 31 December 2015. The change is related to the good performance of net working capital that, in addition to a drop due to seasonal factors in the core businesses, recorded a further reduction due to the good performance of trade receivables.



Net investments rise to € 152.2 million

Group investments came to € 152.2 million in the first six months of 2016, with a further € 5.0 million in capital grants, of which € 3.0 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 amounted to € 157.2 million. Net investments rose by € 12.7 million, going from € 139.5 in June 2015 to € 152.2 million in June 2016.

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

Total investments (€/m ln)	Jun 2016	Jun 2015	Abs. Change	% Change
Gas business	39.8	32.2	+7.6	+23.6%
Electricity business	11.8	10.5	+1.3	+12.4%
Water cycle business	61.1	59.6	+1.5	+2.5%
Waste management business	17.5	14.0	+3.5	+25.0%
Other services business	5.5	6.4	-0.9	-14.1%
Headquarters	21.6	22.2	-0.6	-2.7%
Total operating investments	**157.2**	144.8	+12.4	+8.6%
Total financial investments	0.0	0.0	+0.0	+0.0%
Total gross investments	**157.2**	144.8	+12.4	+8.6%
Capital contributions	5.0	5.3	-0.3	-5.7%
of which FoNI (New investment Fund)	*3.0*	*3.3*	*-0.3*	-9.1%
Total net investments	**152.2**	139.5	+12.7	+9.1%

Strong commitment continues in operating investments in plants and infrastructures

Capital expenditure totalled € 157.2 million, up 8.6% over the first six months of 2015, and mainly concerned interventions on plants, networks and infrastructures. In addition, updating activities were performed as required by new regulations, mainly concerning gas distribution with a large-scale metre substitution and the purification and sewerage area.

Investments at headquarters in buildings, IT systems and vehicle fleet

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

At the Group's 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 fell by € 0.6 million compared to the same period in the previous year.

Provisions came to € 525.1 million

At June 2016, provisions amounted to € 525.1 million, growing compared to December 2015 thanks to provisions for the period, which covered usage expenses and the effects of the adjustment of the TFR fund, calculated according to actuarial criteria.

€ 2.5 billion in equity

Equity decreased, passing from € 2,503.1 million at 31 December 2015 to € 2,473.4 million at 30 June 2016, following a dividend payment totalling roughly € 144.0 million, to which corresponds a contribution given solely by the first six months of the year amounting to € 128.1 million.

Reconciliation between separate and consolidated financial statements

	Net profit	Equity
Balances as per Parent's Company's separate financial statements	147.5	2,265.0
Excess of equity over the carrying amounts of Investments in consolidated companies	(21.1)	(19.5)
Consolidation adjustments :		
- Measurement with the equity method of investments reported at cost in the separate financial statements	(3.0)	38.7
- Difference between purchase price and book value of corresponding portion of equity	(2.6)	73.0
- Elimination of intercompany transactions	0.2	(23.8)
Total	**121.0**	**2,333.4**
Non-controlling interests	7.2	140.0
Balances as per consolidated financial statements	**128.2**	**2,473.4**

1.01.03 ANALYSIS OF NET CASH (NET BORROWINGS)

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

A solid financial position

(€/mln)		30 Jun 2016	31 Dec 2015
a	**Cash and cash equivalents**	**248.3**	541.5
b	**Other current financial receivables**	**36.7**	34.7
	Current financial liabilities	(89.5)	(129.2)
	Current portion of bank debt	(87.4)	(284.9)
	Other current financial liabilities	(11.2)	(68.2)
	Finance lease payables due within 12 months	(1.8)	(2.0)
c	**Current financial debt**	**(189.9)**	(484.3)
d=a+b+c	**Net current financial debt**	**95.1**	91.9
	Non-current bank debt and bonds issued	(2,823.2)	(2,845.4)
	Other non-issued financial debt	(5.4)	(5.8)
	Lease payments due after 12 months	(15.9)	(17.6)
e	**Non-current financial debt**	**(2,844.5)**	(2,868.8)
f=d+e	**Net financial position - CONSOB Communication No 15519 of 28/07/2006**	**(2,749.4)**	(2,776.9)
g	**Non-current financial receivables**	**125.0**	125.2
h=f+g	**Net non-current financial debt**	**(2,624.4)**	(2,651.7)

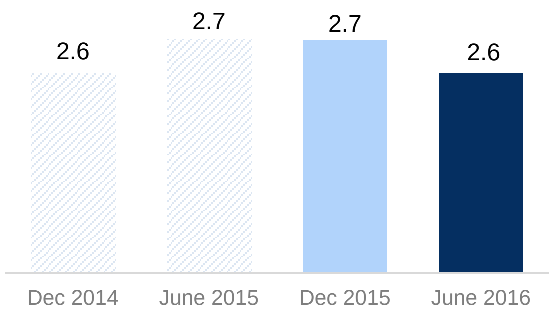
Current borrowings consist mainly in shares of bank loans reaching maturity for roughly € 87.4 million, accrued interest for roughly € 55 million and usage of current credit lines for roughly € 34 million. The amount of bank loans reaching maturity has fallen since 31 December 2015, as a consequence of the reimbursement of a € 195.4 million bond in February 2016. The amount related to non-current bank debt and bonds is prevalently made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (78% of the total) with repayment at maturity.

As a whole, borrowings show an average term to maturity of over 8 years, with 73% maturing after more than 5 years.

Net financial debt rises to € 2.62 billion

Net financial debt went down from € 2,651.7 in 2015 to € 2,624.4 at 30 June 2016. This heat is mainly due to the good performance of working capital.

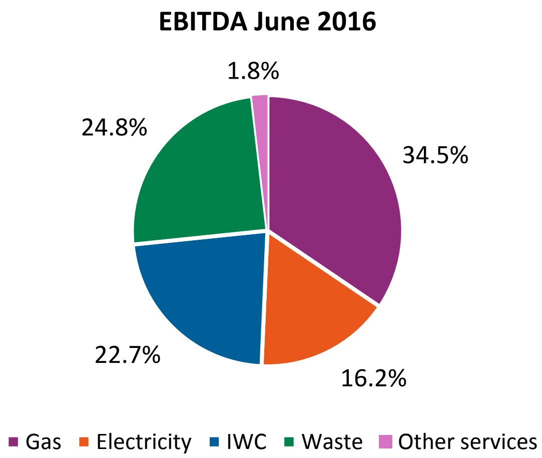
Net financial debt (bl/€)



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.

Contribution coming from the various areas to Group EBITDA highlights a balanced mix, coherent with the Group's multi-business strategy



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

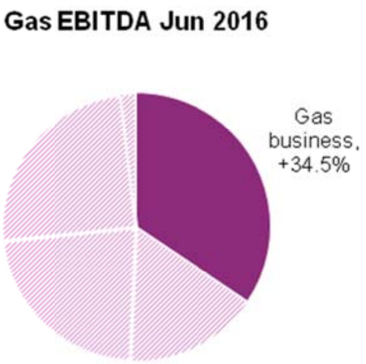
The following analyses of each single business area take into account all increased revenues and costs, with no impact on EBITDA, related to the application of IFRIC 12, as shown in the Group's consolidated income statement. The business areas affected by IFRIC 12 are: natural gas distribution services,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

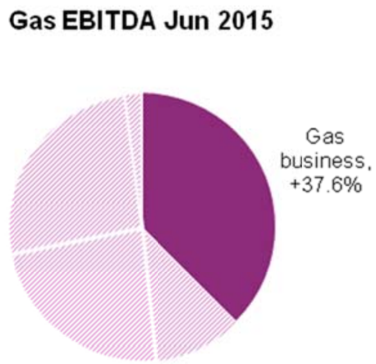
1.02.01 GAS

Gas: a drop in EBITDA

The first half of 2016 saw a general reduction in the gas area compared to the same period in the previous year. These results must be considered within a regulatory context that defined 2016 as the first year in which resolution 583/2015/R/com of 2 December 2015 took effect. This resolution modified the methods used in calculating the rate of return for invested capital for infrastructure services in the gas sector, with the aim of introducing more stability into the regulatory framework. This resolution's negative impact on revenues and EBITDA amounted to € 5.5 million over the first six months of the year.

Contribution to overall EBITDA decreases





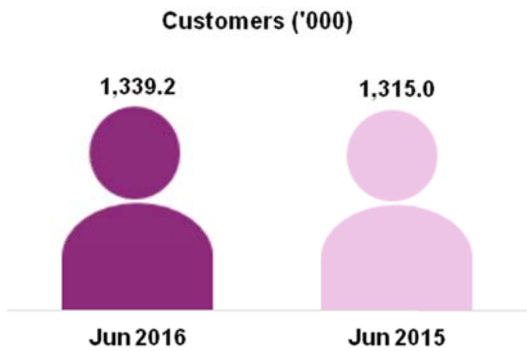
The following table shows the changes occurred in terms of EBITDA:

Gas area EBITDA falls by 6.0%

(€/mln)	Jun 2016	Jun 2015	s. Change	% Change
Business EBITDA	**162.0**	**172.5**	**-10.5**	**-6.0%**
Group EBITDA	**470.1**	459.1	+11.0	+2.4%
Percentage weight	34.5%	37.6%	-3.1 p.p.	

1.3 million gas customers

Total gas customers rose by 1.8% over 30 June 2015, owing to both the commercial and customer loyalty initiatives set in place to contrast competition, and a wider customer base, in central Italy in particular with the acquisition of Julia Servizi Più, which occurred in June 2016 and contributed with roughly 13 thousand customers to the overall number.



Increase in trading volumes: +7.7%

Volumes sold down -2.5%, on account of milder temperatures

Volumes of gas sold rose by 119.1 million m^3 or 6.5%, going from 1,843.9 million m^3 in the first half of 2015 to 1,963.0 m^3 in the first six months of 2016. This change is exclusively due to a 150.2 million m^3 increase in volumes of trading (representing +7.7% of total volumes). The ensuing 31.1 m^3 reduction in volumes sold to final customers was due above all to the milder temperatures seen in winter 2016 (roughly 39.2 million m^3) and was mitigated by the contribution of Julia Servizi Più, (with roughly 8.1 million m^3).

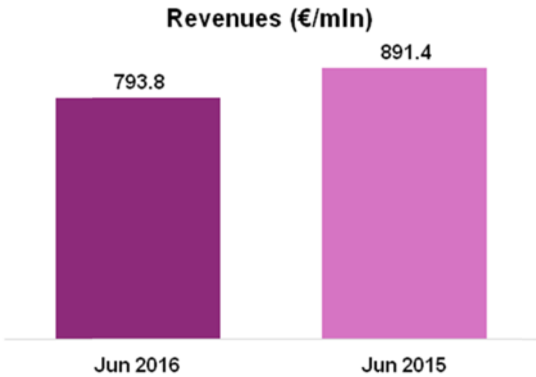
The following table summarises the income statement for the gas area:

Gas: overall EBITDA falls

Income statement (€/mln)	Jun 2016	% Inc.	Jun 2015	% Inc.	Abs. Change	% Change
Revenues	**793.8**		891.4		-97.6	-10.9%
Operating costs	**(568.7)**	-71.6%	(655.1)	-73.5%	-86.4	-13.2%
Personnel costs	**(67.1)**	-8.5%	(68.1)	-7.6%	-1.0	-1.5%
Capitalised costs	**4.1**	0.5%	4.2	0.5%	-0.1	-2.4%
EBITDA	**162.0**	20.4%	172.5	19.3%	-10.5	-6.0%

Gas revenues at € 793.8 million

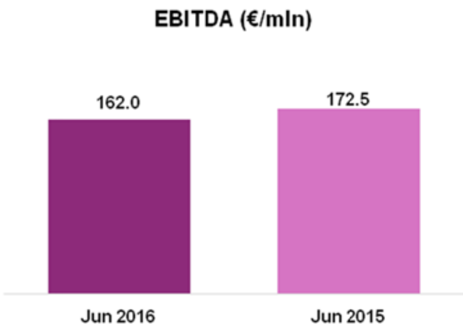
Revenues went from € 891.4 million in the first half of 2015 to € 793.8 million in 2016, decreasing by € 97.6 million or 10.9%. The main reasons for this include: a fall in the price of raw materials that impacted sales by roughly € 63 million and trading by € 19 million; a decrease in volumes of natural gas sold coming to roughly € 9 million; lower regulated revenues totalling roughly € 6.4 million, largely owing to the reduction in the rate of return corresponding to € 5.5 million.



This fall in revenues was reflected proportionately in a decrease in operating costs, which went from € 655.1 million in the first half of 2015 to € 568.7 million in 2016, thus recording an overall drop of € 86.4 million compared to the first six months of 2015.

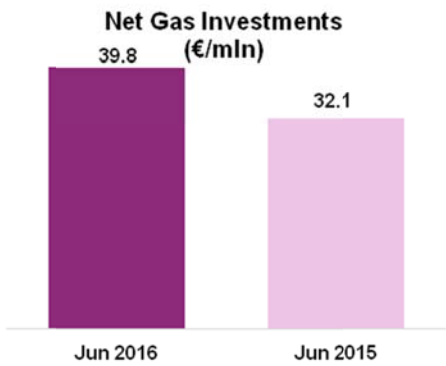
Gas EBITDA: € 162.0 million

EBITDA was down by € 10.5 million or 6.0%, passing from € 172.5 million in the first half of 2015 to € 162.0 million in 2016, due to lesser margins in trading and lesser revenues from regulated services, in which the reduced rate of return had a € 5.5 million impact.



Net investments in the gas area: € 39.8 million

In the first half of 2016, investments in the gas area amounted to € 39.8 million, up € 7.7 million over the same period in the previous year. In gas distribution, a € 2.8 million increase was recorded, mainly caused by activities in regulatory upgrading pursuant to resolution 554/15 (priorly resolution 631/13) consisting in a large-scale metre substitution which also involved lower-class devices (G4-G6), in addition to higher non-routine maintenance on networks and plants. In the first half of 2016 a slight drop was seen in requests for new connections compared to the previous year, an activity which continues to feel the effects of the overall economic situation.



Investments increased by € 4.8 million in remote heating and heat management, of which € 3.2 million in remote heating mainly involving the revamping of Bologna's Barca cogeneration plant, and € 1.6 million in heat management, especially in the company Sinergie, for the combined effect of advance work on various 2016 interventions and a delay in a few works recorded in the first half of 2015. A slight increase was seen in new remote heating connections compared to the previous year.

Investments grow

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

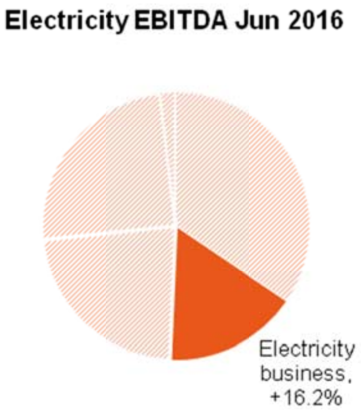
Gas (€/mln)	Jun 2016	Jun 2015	Abs. Change	% Change
Networks and plants	29.9	27.1	+2.8	+10.3%
RH/Heat management	9.9	5.1	+4.8	+94.1%
Total Gas Gross	**39.8**	32.2	+7.6	+23.6%
Capital contributions	0.0	0.1	-0.1	-100.0%
Total Gas Net	**39.8**	32.1	+7.7	+24.0%

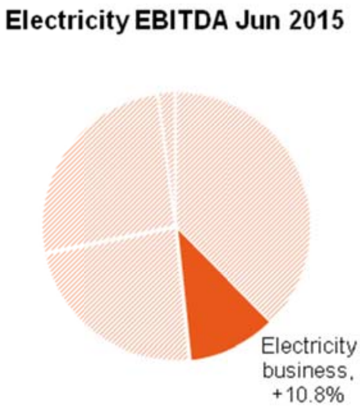
1.02.02 ELECTRICITY

Electricity: increase in EBITDA

In the first half of 2016, the Electricity Area grew in both absolute terms and as a percentage of Group EBITDA. These results are to be considered within a regulatory context that defined 2016 as the first year in which resolution 583/2015/R/com of 02/12/2015 was implemented, which modified the method used in calculating the rate of return on invested capital for infrastructure services in the electricity sector. The negative impact of this resolution on revenues and EBITDA, owing solely to the rate of return, came to € 1.4 million for the first six months of the year. Revenues for the first half of 2016 furthermore include the effect of a temporal alignment between the tariffary components of return and amortisation of investments in light of resolution 654/15/R/eel.

Contribution to overall EBITDA: +5.4%





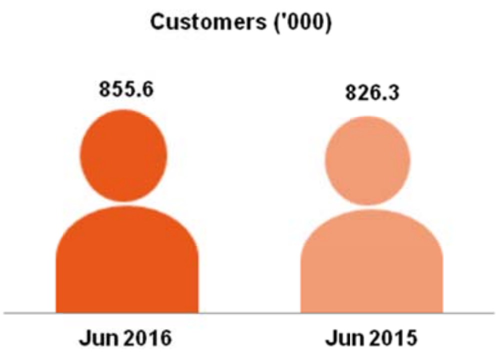
The following table shows the changes occurred in terms of EBITDA:

Electricity area EBITDA grows by 53.9%

(€/mln)	Jun 2016	Jun 2015	Abs. Change	% Change
Business EBITDA	**76.3**	**49.6**	**+26.7**	**+53.9%**
Group EBITDA	**470.1**	459.1	+11.0	+2.4%
Percentage weight	16.2%	10.8%	+5.4 p.p.	

Electricity customers reach 855.6 thousand

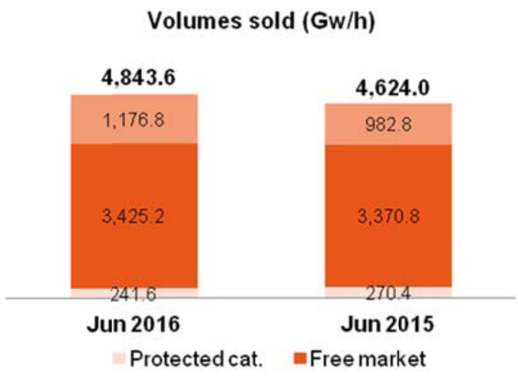
The number of electricity customers recorded a 3.5% (29.3 thousand) increase, mainly due to growth in the free market, which came to 9.1% confirming the growth trend seen in recent years, mainly due to a reinforcement of commercial activities.



Volumes sold increase by 4.7%

Volumes of electricity sold went from 4,624.0 GWh in the first half of 2015 to 4,843.6 GWh in 2016, with an overall increase of 4.7%.

The increase in volumes sold can be traced above all to a reinforcement of commercial activities and an increase of volumes sold to last resort customers.



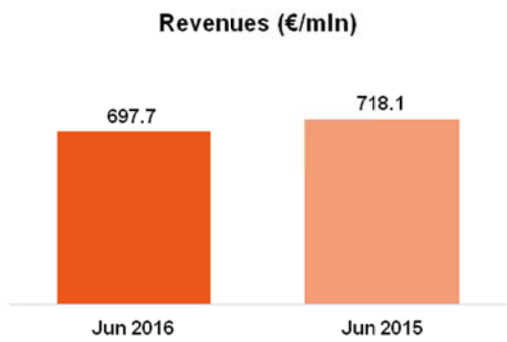
The following table summarises the income statement for the area:

Electricity: EBITDA up by 53.9%

Income statement (€/mln)	Jun 2016	% Inc.	Jun 2015	% Inc.	Abs. Change	% Change
Revenues	**697.7**		718.1		-20.4	-2.8%
Operating costs	**(598.6)**	-85.8%	(649.4)	-90.4%	-50.8	-7.8%
Personnel costs	**(26.8)**	-3.8%	(22.8)	-3.2%	+4.0	+17.5%
Capitalised costs	**3.9**	0.6%	3.7	0.5%	+0.2	+5.4%
EBITDA	**76.3**	10.9%	49.6	6.9%	+26.7	+53.9%

Revenues from electricity come to € 697.7 million

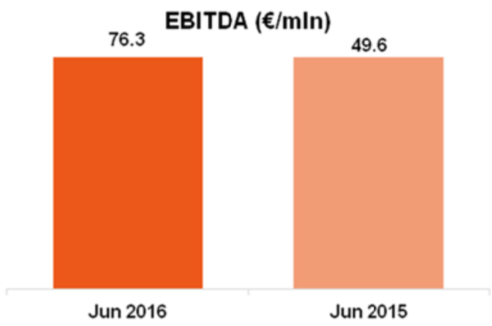
Revenues dropped by 2.8%, going from € 718.1 million in the first half of 2015 to € 697.7 million in 2016, thus showing an overall reduction of € 20.4 million. The main reasons for this decrease are: a fall in the price of energy (Pun, Nationwide Price) coming to 24% on average compared to the previous year, that caused € 27 million in lesser sales revenues and € 48 million in lesser trading revenues; lesser regulated revenues in distribution amounting to € 1.4 million, owing to the reduction in the rate of return. These effects were partially contained by the € 17 million of greater volumes sold, owing to higher commercial activities, with both greater regulated revenues for the recovery of the time lag mentioned above and greater revenues for energy production in thermoelectric plants.



Operating costs fell by € 50.8 million or 7.8%; this figure is proportionally higher than the decrease in revenues for the lower cost of raw materials.

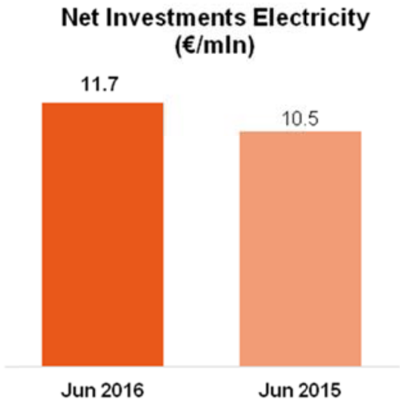
Electricity EBITDA at € 76.3 million

At the end of the first half of 2016, EBITDA rose by € 26.7 million or 53.9%, going from € 49.6 million at 30 June 2015 to € 76.3 million in 2016 due to higher margins on sales activities, higher margins in electricity production and a recovery of regulated revenues. These effects were partially reduced by € 1.4 million in lesser revenues in the regulated distribution service, owing to the fall in the rate of return.



Net investments in the electricity area: € 11.7 million

Investments made in the electricity area came to € 11.7 in the first half of 2016, rising by € 1.2 million over the € 10.5 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.
Compared to the same period in the previous year, € 1.4 million in higher non-routine maintenance took place, mainly involving interventions on the Cogen plant in Imola, as well as a slight € 0.1 million drop in industrial cogeneration for Energy Service activities.
New connections in this area increased with respect to the previous year.



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

Eletricity (€/mln)	**Jun 2016**	Jun 2015	Abs. Change	% Change
Networks and plants	11.2	9.8	+1.4	+14.3%
Industrial cogeneration	0.5	0.6	-0.1	-16.7%
Total Electricty Gross	**11.8**	10.5	+1.3	+12.4%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Electricity Net	**11.7**	10.5	+1.2	+11.4%

1.02.03 INTEGRATED WATER CYCLE

Integrated Water Cycle: slight drop

Over the first half of 2016, the integrated water cycle area recorded a slight drop compared to the same period in 2015, both as a contribution to Group EBITDA and as the absolute value of this single business area. 2016 is the first year in which the tariff method defined by the AEEGSI for 2016-2019 (resolution 664/2015) takes effect, largely involving in a reduction in the rate of return. The resolution's negative impact on revenues and EBITDA, resulting from the rate of return and the restriction on revenues, amounts to € 9.6 million for the first six months of 2016.

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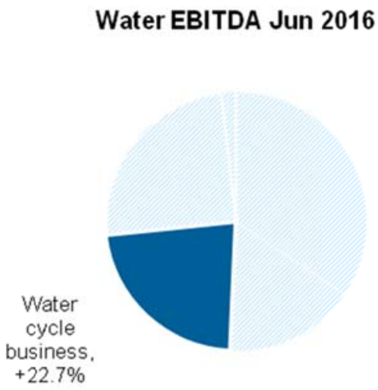
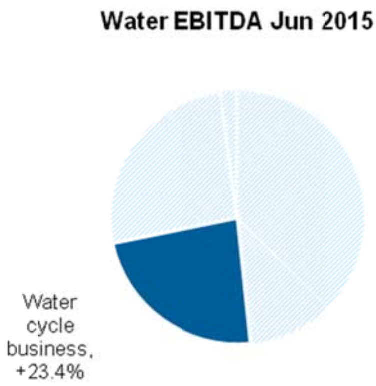
Contribution to EBITDA: -0.7%





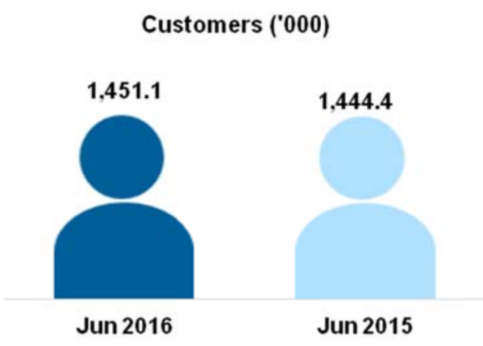
The following table shows the changes occurred in terms of EBITDA:

Water cycle area EBITDA falls by 0.9%

(€/mln)	Jun 2016	Jun 2015	Abs. Change	% Change
Business EBITDA	**106.6**	107.6	(1.0)	(0.9%)
Group EBITDA	**470.1**	459.1	+11.0	+2.4%
Percentage weight	22.7%	23.4%	-0.7 p.p.	

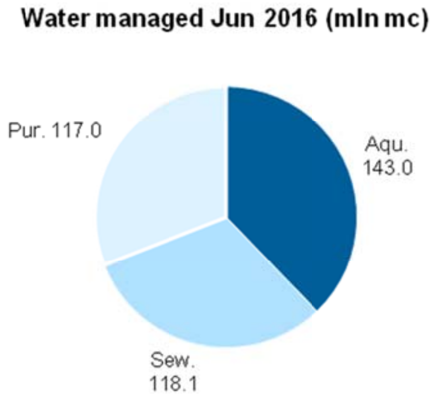
1.5 million customers in the water cycle

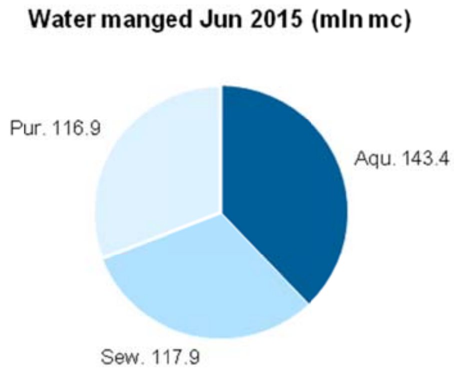
The number of water customers settled at 1.5 million, increasing by 6.7 thousand (+0.5%) compared to the first six months of 2015, confirming the trend of organic growth seen across the areas served by the Group. The Emilia Romagna area managed by Hera Spa is responsible for 70% of this growth, while 26% pertains to the areas served by AcegasApsAmga and for the remainder to the areas served by Marche Multiservizi Group, thanks to a slight recovery in the number of new connections.



The main quantitative indicators of the area are as follows:

143.0 million m3 of water managed in the aqueduct





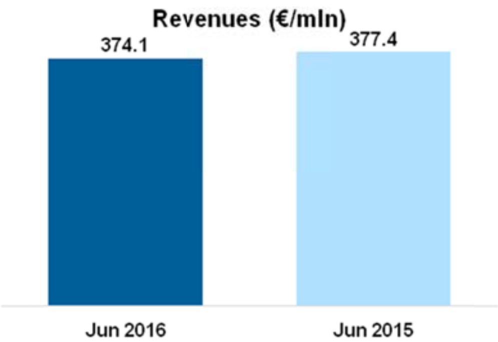
Volumes dispensed through the aqueduct were essentially in line with the first six months of 2015. Volumes dispensed, following AEEGSI resolution 664/2015, are an indicator of activities in the geographical areas served by the Group and are subject to equalisation pursuant to regulations that call for a regulated revenue to be recognised independently of volumes distributed.

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

Integrated Water Cycle: slight drop in EBITDA

Income statement (€/mln)	Jun 2016	% Inc.	Jun 2015	% Inc.	Abs. Change	% Change
Revenues	**374.1**	**-**	377.4	-	(3.3)	(0.9%)
Operating costs	**(193.3)**	-51.7%	(196.6)	-52.1%	(3.3)	(1.7%)
Personnel costs	**(75.2)**	-20.1%	(74.8)	-19.8%	+0.4	+0.5%
Capitalised costs	**1.1**	0.3%	1.6	0.4%	(0.5)	(30.5%)
EBITDA	**106.6**	28.5%	107.6	28.5%	(1.0)	(0.9%)

Revenues from the integrated water cycle reach € 374.1 million

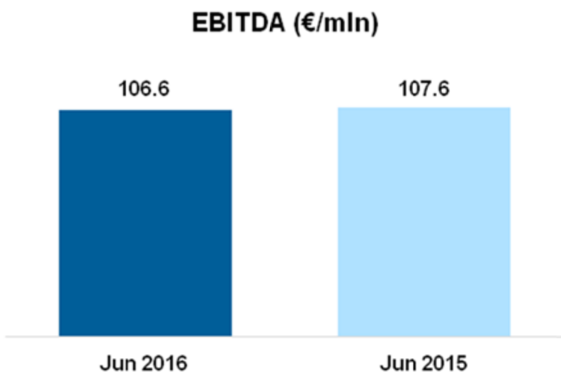


Revenues for the first six months of 2016 showed a slight decrease, down 0.9% with respect to the same period in 2015, going from € 377.4 million in 2015 to € 374.1 million in 2016. The main reasons for this include € 9.6 million in lower revenues for distribution, owing to the reduction in the rate of return and the reformulation of the restriction on revenues, only partially compensated by higher revenues covering costs acknowledged by the Authority, € 3.1 million in higher revenues for subcontracted works, as well as higher revenues coming from connections and the application of accounting principle IFRIC 12.

Operating costs fell by € 3.3 million or 1.7%, largely on account of the lower cost of electricity for plants, lower operating costs and lesser expenses employed for structures, in spite of a higher amount of subcontracted works and higher costs for the application of accounting principle IFRIC 12.

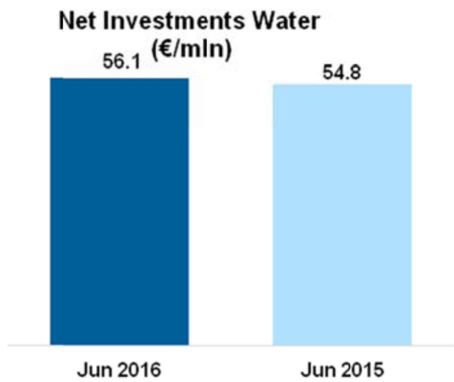
EBITDA at € 106.6 million

EBITDA saw a slight decrease of € 1.0 million, or 0.9%, passing from € 107.6 million in the first six months of 2015 to € 106.6 million in 2016. This is due to € 9.6 million in lesser revenues for dispensing caused by the decrease in the rate of return and the newly defined restriction on revenues, largely compensated by lower operating and structural costs, subcontracting activities and higher revenues from new connections.



Investments in the Integrated Water Cycle: € 56.1 million

Investments in the Integrated Water Cycle Area amounted to € 56.1 million, with a € 1.3 million increase over the previous year. Including capital grants, investments in this area came to € 61.1 million. The interventions mainly concerned extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades which largely involved purification and sewerage.
Investments totalled € 30.4 million in the aqueduct, € 17.6 million in sewerage and € 13.1 million in purification.



Among the more significant works, note: in the aqueduct, water system interconnections and network and plant upgrading, including a particularly complex and substantial upgrading of water networks in the historical centre of Bologna and an upgrading of interconnections in the Modena water system; in sewerage, continued progress in works for the Rimini Seawater Protection Plan, 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 by € 0.5 million over the previous year, remaining rather low nonetheless, due to the enduring crisis in the construction sector.

Capital grants amounting to € 5.0 million included € 3.0 million pertaining to the tariff component of the New Investments Fund (FoNI), and increased compared to the first half of 2015 by € 0.2 million.

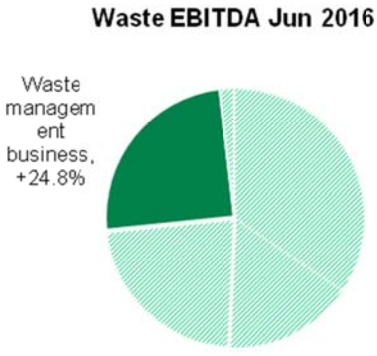
Details of operating investments in the Integrated Water Cycle are as follows:

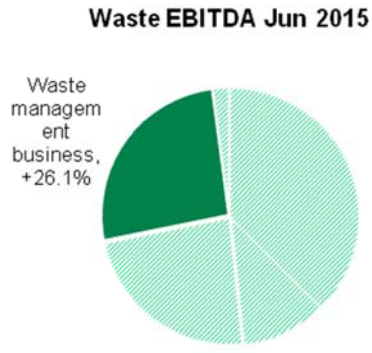
Net investments increase: +€ 1.3 million

Water Cycle Business (€/mln)	**Jun 2016**	Jun 2015	Abs. Change	% Change
Aqueduct	30.4	28.5	+1.9	+6.7%
Purification	13.1	14.2	-1.1	-7.7%
Sewage	17.6	16.9	+0.7	+4.1%
Total Water Cycle Gross	**61.1**	59.6	+1.5	+2.5%
Capital contributions	5.0	4.8	+0.2	+4.2%
of which FoNI (New Investment Fund)	*3.0*	*3.3*	-0.3	-9.1%
Total Water Cycle Net	**56.1**	54.8	+1.3	+2.4%

1.02.04 WASTE MANAGEMENT

In the first half of 2016, the waste management area's contribution to Group EBITDA came to 24.8%, with a sector EBITDA that decreased by 2.8% compared to the same period in 2015.





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

Waste management area: decrease in EBITDA

(€/mln)	Jun 2016	Jun 2015	Abs. Change	% Change
Business EBITDA	**116.5**	**119.8**	**-3.3**	**-2.8%**
Group EBITDA	**470.1**	459.1	+11.0	+2.4%
Percentage weight	24.8%	26.1%	-1.3 p.p.	

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

Commercial waste: +20.1%

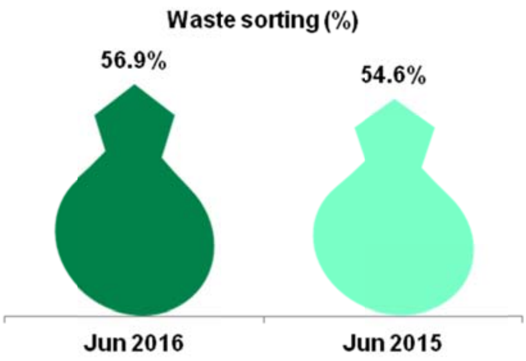
Quantitative data (thousand of tonnes)	Jun 2016	Jun 2015	Abs. Change	% Change
Urban waste	1,007.6	1,018.8	-11.2	-1.1%
Commercial waste	1,178.1	981.2	+196.9	+20.1%
Wasted marketed	**2,185.8**	**1,999.9**	**+185.9**	**+9.3%**
Plant by-products	1,276.3	1,251.4	+24.9	+2.0%
Waste treated by type	**3,462.1**	**3,251.4**	**+210.7**	**+6.5%**

An analysis of the volumes treated shows a 9.3% increase in waste marketed, mainly due to a rise in commercial waste coming to 20.1%. This growth is accounted for above all by the late-2015 acquisitions of Waste Recycling and the Geonova plants, which gave a significant impetus to management of industrial waste.

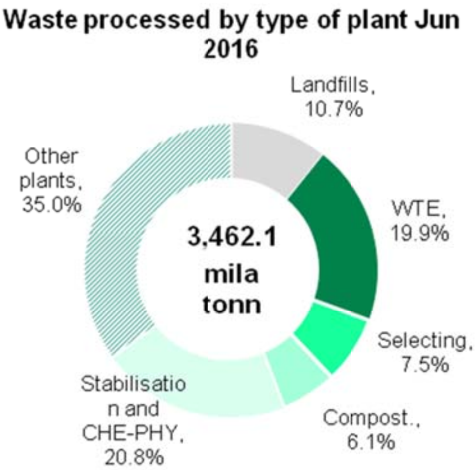
Urban waste showed a minor decrease compared to the first half of 2015, coming to 1.1%. This change can largely be attributed to strand waste, which fell by 13.2 thousand tonnes compared to the previous half-year. Excluding this change, urban waste would show a slight growth, coming to 0.2%.

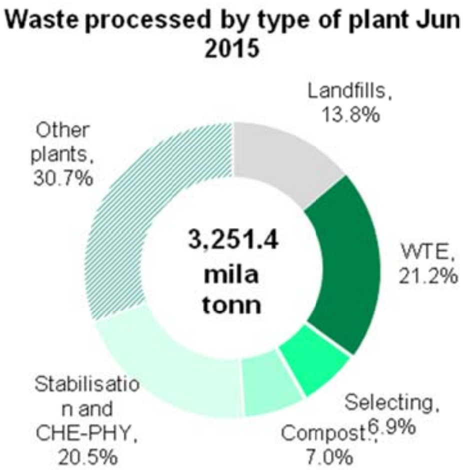
+2.3% in sorted waste

Sorted urban waste recorded further progress, rising from 54.6% to 56.9% primarily thanks to new projects intended to expand this area. High percentages of overall recovery led to greater environmental benefits. In the first six months of 2016, sorted waste grew by almost one percent in areas served by Hera Spa, by almost two percent in areas served by Marche Multiservizi and confirmed, in 2016 as well, the marked growth trend, with over three percent, seen in areas located in the Triveneto region.



A sharp fall in landfill usage





Quantitative data (thousand of tonnes)	Jun 2016	Jun 2015	Abs. Change	% Change
Landfills	370.5	449.2	-78.7	-17.5%
Waste-to-energy plants	687.4	688.3	-0.9	-0.1%
Selecting plant and other	258.8	224.3	+34.5	+15.4%
Composting and stabilisation plants	211.3	226.5	-15.2	-6.7%
Stabilisation and chemical-physical plants	721.4	665.1	+56.3	+8.5%
Other plants	1,212.7	998.0	+214.7	+21.5%
Waste treated by plant	**3,462.1**	**3,251.4**	**+210.7**	**+6.5%**

The Hera Group operates in the entire waste cycle, with 83 urban and special waste treatment and disposal plants, the most important of which are: 10 waste to energy plants, 11 composters /digesters and 8 selecting plants.

Waste treatment increased by 6.5% over the first six months of 2015. This growth is mainly explained by the higher volumes managed by selecting plants, primarily due to the acquisition of Waste Recycling, and an increase in waste treated in plants belonging to third parties, a consequence of both the increased consolidated scope dating to late 2015 and a higher level of waste brokerage. This increase in volume is partially mitigated by a fall in landfill usage, as had already been seen throughout 2015.

Note that during the second half of 2015, significant corporate and organisational changes occurred within the waste management area. The entire share capital of Akron, 57.5% held by Herambiente, was acquired; before this acquisition, the company in question dealt with sorted waste material selection, with a dedicated chain of plants. Later, activities in waste disposal carried out for the municipalities of Padua and Trieste were transferred to Herambiente, creating the company Hestambiente, in order to continue towards higher levels of integration, efficiency and a full control of WTE across the Group. Furthermore, a merger occurred between Romagna Compost and Herambiente Recuperi, as did acquisitions of Biogas 2015, a branch of Geo Nova including a few of its plants, and of the Waste Recycling Group.

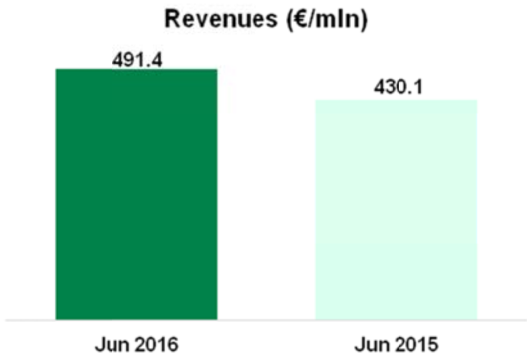
The table below summarises the income statement for the waste management area:

Waste management: a slight decrease in EBITDA

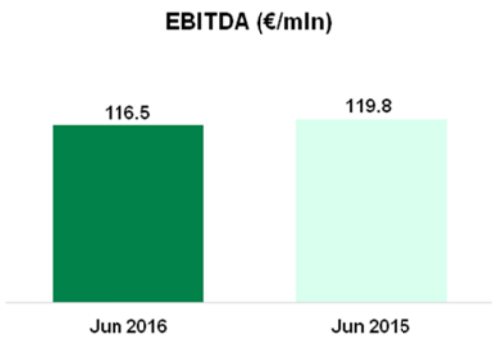
Income statement (€/mln)	Jun 2016	% Inc.	Jun 2015	% Inc.	Abs. Change	% Change
Revenues	**491.4**		430.1		+61.3	+14.3%
Operating costs	**(288.4)**	-58.7%	(226.9)	-52.7%	+61.5	+27.1%
Personnel costs	**(88.0)**	-17.9%	(85.8)	-19.9%	+2.2	+2.6%
Capitalised costs	**1.5**	0.3%	2.3	0.5%	-0.8	-34.1%
EBITDA	**116.5**	23.7%	119.8	27.9%	-3.3	-2.8%

Waste management revenues come to € 491.4 million

Revenues rose in the first half of 2016 by 14.3% or € 61.3 million, passing from € 430.1 million in 2015 to € 491.4 million in 2016. This growth is due to an increase in volumes treated, the new incentive mechanism for sales of electricity produced from renewable sources (in which a subsidised sales tariff substitutes recognising the value of green certificates as a reduction of costs), with a positive effect on revenues amounting to € 34 million, compensating for the lesser revenues for electricity production following a reduction in the CIP6/CEC unit price and the decrease in green certificate recognition for some plants.



Operating costs in this area during the first half of 2016 increased by € 61.5 million, in line with the rise in waste treated and the new mechanism of incentives for electricity production (as mentioned above).



Waste management EBITDA at € 116.5 million

EBITDA went from € 119.8 million in the first half of 2015 to € 116.5 million in 2016, thus showing a fall of € 3.3 million, or 2.8%, largely due to the lower price of both electricity production and energy certificates.

Net investments in the waste management area involving plant maintenance and upgrading amounted to € 17.5 million, up € 3.9 million over 2015.

Investments in the waste management area: € 17.5 million

The figures seen in the composting/digester subsector were essentially in line with the previous year. Investments in the Ozzano (refining line completed) and Sant'Agata (activities tied to the biomethane project) composters increased in the first half of 2016, compensated by lesser interventions on the Rimini and Voltana plants, which had undergone dedicated interventions in 2015.

The appreciable increase in investments for landfills, coming to € 5.0 million, can primarily be traced to the creation of the 9th sector of the Ravenna landfill and works on the Tre Monti landfill, including the installation of a new motor and a biogas intake network, as well as works on landslide repair and road access.

In the WTE subsector, the € 2.6 decrease compared to the previous year was mainly due to the more extensive works on plants in Padua and Trieste implemented in 2015, in addition to a fall in maintenance works on the Forlì and Ravenna plants.

Investments in the Special Waste Plants subsector were basically in line with the previous year. A slight decrease, coming to € 0.2 million, was seen in maintenance works on the Ravenna plants owing to interventions completed in 2015 (sludge dehydration and improvements to cooling towers).

In selection and transhipment plants, the € 0.9 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 and the biological treatment plant.

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

Waste Management (€/mln)	**Jun 2016**	Jun 2015	Abs. Change	% Change
Composting/Digestors	1.4	1.4	+0.0	+0.0%
Landfills	7.9	2.9	+5.0	+172.4%
WTE	2.3	4.9	-2.6	-53.1%
RS Plants	0.8	1.0	-0.2	-20.0%
Ecological areas and gathering equipme	3.0	2.8	+0.2	+7.1%
Transshipment, selection and other plan	1.9	1.0	+0.9	+90.0%
Total Waste Management Gross	**17.5**	14.0	+3.5	+25.0%
Capital contributions	0.0	0.4	-0.4	-100.0%
Total Waste Management Net	**17.5**	13.6	+3.9	+28.7%

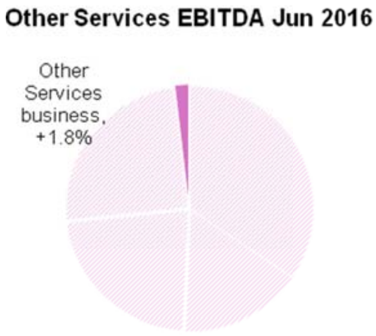
1.02.05 OTHER SERVICES

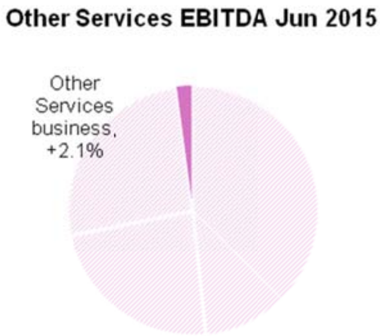
The other services area brings together all minor services managed by the Group, including public lighting, telecommunications and cemetery services.

Other services: decrease in EBITDA

During the first six months of 2016, the results of the other services area saw a 9.4% decrease compared to the previous year, with EBITDA going from € 9.6 million in the first half of 2015 to € 8.7 million in the same period in 2016.

Slight drop in contribution to Group EBITDA





The changes occurred in EBITDA are as follows:

Other services EBITDA falls by € 0.9 million

(€/mln)	Jun 2016	Jun 2015	Abs. Change	% Change
Business EBITDA	**8.7**	**9.6**	**-0.9**	**-9.4%**
Group EBITDA	**470.1**	459.1	+11.0	+2.4%
Percentage weight	1.8%	2.1%	-0.3 p.p.	

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

519.7 thousand lighting points

Quantative data	Jun 2016	Jun 2015	Abs. Change	% Change
Public lighting				
Lighting points (thousands)	**519.7**	521.4	(1.7)	(0.3%)
Municipalities served	**148.0**	157.0	(9.0)	(5.7%)

An analysis of the data regarding public lighting shows an overall decrease of 1.7 thousand lighting points and a loss of 9 municipalities served. The Hera Group acquired roughly 22 thousand lighting points in 8 new municipalities, above all in Lazio and Lombardy. Along with the higher number of service requests in municipalities already managed, this allowed the loss of approximately 24 thousand lighting points and 17 municipalities served to be contained.

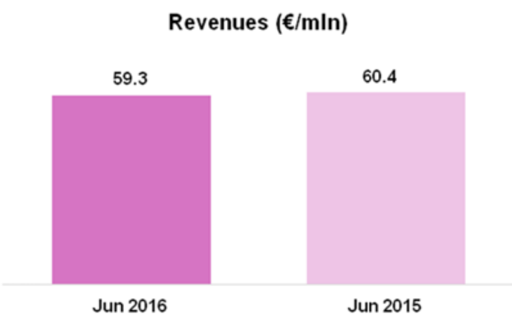
Other services: revenues fall

A summary of the income statement for the other services area is provided below:

Income statement (€/mln)	Jun 2016	% Inc.	Jun 2015	% Inc.	Abs. Change	% Change
Revenues	**59.3**		60.4		-1.1	-1.8%
Operating costs	**(41.6)**	-70.2%	(42.0)	-69.6%	-0.4	-1.0%
Personnel costs	**(9.7)**	-16.3%	(9.3)	-15.4%	+0.4	+4.3%
Capitalised costs	**0.7**	1.2%	0.5	0.9%	+0.2	+38.9%
EBITDA	**8.7**	14.6%	9.6	15.9%	-0.9	-9.4%

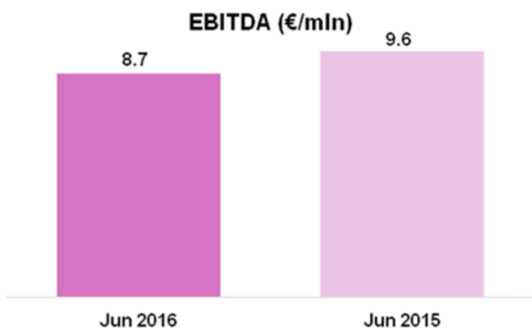
Revenues for Other Services at € 59.3 million

Revenues for the area fell compared to the previous year, mainly on account of the transfer in late 2015 of the company Trieste Onoranze e Trasporti Funebri, held by AcegasApsAmga. Not including this change, revenues in the other services area would be essentially identical to the previous year.



EBITDA falls by € 0.9 million

EBITDA shows a € 0.9 million decrease compared to June 2015. Half of this change is accounted for by a lower amount of EBITDA in public lighting in areas in North-Eastern Italy, where the business is currently being rationalised in order to meet the new challenges of the market and where lesser non-recurring activities were requested by municipalities. The remainder is due to both a fall in cemetery services and lower EBITDA in the telecommunications business.

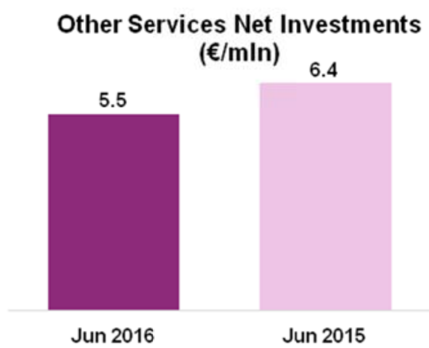


Net investments: € 5.5 million

Investments in the other services area amounted to € 5.5 million, falling by € 0.9 million compared to the first half of 2015.

In telecommunications, investments coming to € 4.5 million were made in networks and TLC and IDC (Internet Data Centre) services, with a € 0.2 million rise compared to 2015.

Investments totalling € 1.0 million in public lighting services mainly went to maintaining, enhancing and modernising lampposts, with an overall decrease of € 1.1 million that included both the company Hera Luce and the company Insigna in AcegasApsAmga's operating area.



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

Other Services (€/mln)	**Jun 2016**	Jun 2015	Abs. Change	% Change
TLC	4.5	4.3	+0.2	+4.7%
Public Lighting and Street Lights	1.0	2.1	-1.1	-52.4%
Total Other Services Gross	**5.5**	6.4	-0.9	-14.1%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Other Services Net	**5.5**	6.4	-0.9	-14.1%

1.03 SIGNIFICANT EVENTS OCCURRED DURING THE FIRST HALF

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 purchase, by Hera Comm Srl, of 100% of the share capital of Julia Servizi Più Srl, a company operating in the sector of gas sales with approximately 13,000 customers in the area surrounding Giulianova (TE).

Hera Group Integrated Welfare System

On 11 April 2016, an outline for an agreement on the integrated welfare system of the Hera Group was signed with the appropriate national union organisations. The Welfare Plan will be operative as of the month of July 2016. The package includes goods and services made available by employees, that are part of the following six large categories: Health and Medical Care; Insurance and Social Security; Support for Education / Children; Personal services; Wellbeing and Income maintenance; Hera Support.

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.

Significant facts occurred after the reporting period

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.

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

On 18 July 2016 and 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.

On the same date and with the same effective date, Hera Comm Srl transferred all of the shares held in Julia Servizi Più Srl to Hera Comm Marche Srl.

Fucino Gas Srl / Hera Comm Marche Srl

On 18 July 2016 and effective as of 1 August 2016, Hera Comm Srl transferred to Hera Comm Marche Srl its entire stake in Fucino Gas Srl, a company active in the purchase and sale of methane gas and other fuels.

It is expected, within the end of 2016, to be merged into Hera Comm Marche Srl.

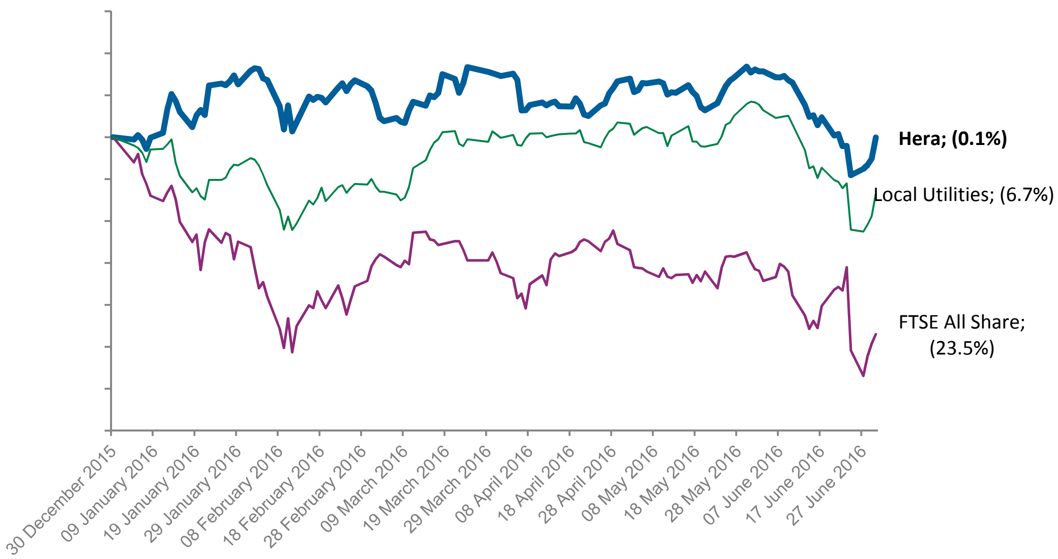
1.04 SHARE PERFORMANCE AND INVESTOR RELATIONS

A macro-scenario marked by greater perceived risk, with Brexit and uncertainties in the banking sector. The Italian market ranks worst in Europe.

Over the first six months of 2016, European stock markets witnessed a higher degree of instability and risk aversion shown by financial operators, owing to a progressive deterioration in the macroeconomic context. The apprehension that marked the first quarter – caused by the global economic slowdown, the higher interest rates introduced in the USA by the Federal Reserve and the fall in raw materials – was aggravated by the tension surrounding the referendum on the future of the United Kingdom's membership in the European Union. The unexpected outcome of the latter, on 23 June, set off a disorderly capital flight from Europe's markets, with heavy consequences above all in the financial sector. Only bond markets continued to show low instability, thanks to the protection provided by the European Central Bank and the purchases involved in Quantitative Easing. Piazza Affari recorded the worst performance among European indices on account of its higher exposure to the banking sector, which felt the effects of newly introduced bail-in regulations, but also from growing concerns for its large percentage of non-performing loans.

2.442 € the price of Hera stock at the end of H1 2016. Hera outperforms the market and its own sector

Within this context, Hera stock amply outperformed both the Italian stock exchange index and its own sector, showing more resilience and less volatility. This fact emerged clearly even during the day on which results of the British referendum were released, with Hera boasting a performance surpassing that of its peers by +3.4%, and +8.9% above the FTSE Mib index. At 30 June 2016 its listings closed, after dividend payment, at an official price of € 2.442 per share, on a par with the beginning of the year. The stock's evolution showed a beta coefficient significantly lower than both the market and that of its peers, settling around 0.4. The stock's relatively low volatility underscores the Group's economic-financial stability and the growth prospects seen in its five-year business plan, communicated to the market during the first part of the year.



In line with the indications set out in its latest business plan, on 20 June Hera paid a dividend of 9 cents per share, the fourteenth in a series of uninterrupted growth since being listed.

Dividends per share paid in line with expectations

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**
DPS (€)	0.04	0.05	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	**0.09**

Total shareholders' return over IPO: +178,8%

Thanks to the combination of continuously remunerating shareholders with dividends and raising the price of the stock, the total shareholders' return accumulated since listing has constantly remained positive, even in the most difficult moments of the financial crisis, reaching, at the end of the period in question, +178.8%.
The Hera Group's market capitalisation, at the end of the same period, came to € 3.6 billion, figuring once again as the highest in the sector and more sizeable than some stocks that are part of the FTSE Mib, the main Italian stock exchange index.

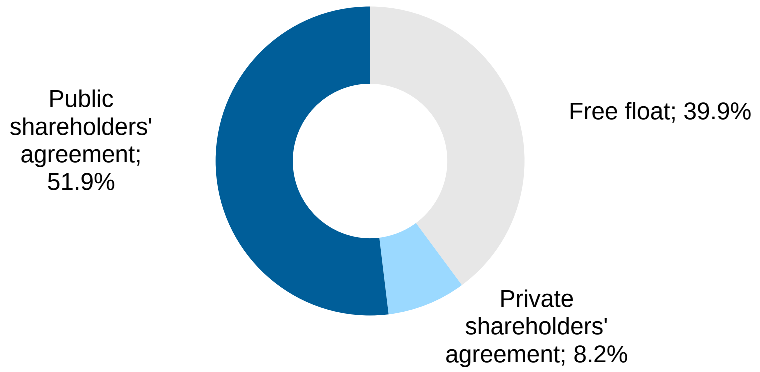
2.81 €:

the average target price set by analysts

No change occurred 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 the first half of 2016, Hera is able to reconfirm a clear majority of positive reports, with almost all recommendations defined as "Buy/Outperform" and the consensus target price set at € 2.81.

Breakdown of Group shareholders at 30/06/2016

51.9% of share capital held by members of the Stockholders' Agreement made up of public shareholders



At 30 June, the corporate structure shows its usual balance, with 51.9% of shares belonging to 117 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.
After the end of the period currently being discussed, 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 thirty 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 € 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.

The placement of 1.1% of public shareholders' share capital attracted a demand 4 times greater than the offer

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 € 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 similar large Italian companies. At the end of the period under review, Hera held 17.7 million treasury shares.

Dialogue with the market: a major intangible asset

In the first half of the year, 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 quarter. The intensity and commitment that the Group puts into communicating with investors has helped reinforce its market reputation, which is now an intangible asset that provides a clear advantage for Hera's stock and its stakeholders.

1.05 REFERENCE SCENARIO AND STRATEGIC APPROACH

The reference scenario and the competitive context

Italy's primary public utility service sector is highly fragmented, consisting still today of a large number of local public enterprises. At present, with the expiry of grants for gas distribution, waste gathering and street sweeping services, and the introduction of new grants defined on a larger geographical basis (province-wide), a period of competitive tenders is approaching that will cause serious difficulties for many small enterprises and lead to a reduction in the number of operators (of which there are currently over 200 in the gas distribution sector, and over 450 in waste gathering and sweeping services).

In this context, the Hera Group is able to propose a model for development that can meet upcoming changes thanks to its ability to make the most of scale economies, and bring together and develop the high level of proficiency that marks local enterprises. The "Hera model" was in fact conceived as a widely diversified ownership framework, regulated by a simple governance, which provided the basis for an industrial and managerial approach to transforming a multitude of "local" enterprises into a single, integrated system, aimed at reaching a higher degree of efficiency and service quality. These results were pursued 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.

A reproducible model underlying competitiveness

This business model has proven its efficiency in both internal and external growth, constantly attracting other municipalised multi-utility enterprises from bordering geographical areas. In 13 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 national market positions, quadrupling its EBITDA and, more generally, improving all KPI in socio-environmental sustainability. The model currently adopted by the Group can be seen as a point of reference for the transformation of the sector, an issue which is currently on the Government's agenda and under examination by the regulated services Authority.

A balanced development of the activity portfolio

The Group's growth strategy, pursued with continuity over the years, has maintained a perfect balance between regulated and free market activities in its core businesses. Growth in regulated activities has been achieved both through organic development and by improving the efficiency of, while integrating, the municipalised enterprises acquired. An expanded customer base and plant system has been reached by gaining new market shares and acquiring "mono-business" companies operating in these sectors. This balanced portfolio mix has ensured an effective expansion of the Group as well as a high degree of risk diversification.

A risk-adverse strategy

Exposure to market risks and competition has been contained through a carefully considered management of the Group's risk profile and return on activities. This is what lied behind the choice to expand activities in waste treatment, which are inadequate across the entire country and necessary for the sustainability of the services offered, and to focus on commercial development. A further decision in line with this risk-adverse strategy concerns gas procurement with short-term contracts, instead of turning to long-term supply contracts, which provide more guarantees but are also more exposed to the risks involved in demand and price fluctuation.

Future prospects of the sector

In Italy, the sector's evolution towards a less fragmentary structure is now supported by a legislative framework that encourages operators to consolidate. In addition to tenders issued for some services whose grants have already expired, this will come about thanks to the introduction of new laws and a reformulation of currently existing ones (i.e. decrees intended to implement the "Madia" law) concerning local public services and public administration, aimed at providing incentives for rationalising or transferring shares held in primary public utility services of general economic interest. This new legislation represents a break with the past, introducing a series of measures whose goal is to encourage smaller municipalised enterprises to consolidate, an objective shared by the recent revision of the tariff systems established by the Authority for Electricity, Gas and the Water Cycle (hereinafter AEEGSI), providing incentives for enterprises that strive towards a higher level of efficiency.

The new business plan to 2019

This complex context defines the reference scenario for the new business plan to 2019, presented on 11 January 2016, that calls for continued growth in EBITDA, reaching over € 1 billion by the end of the period in question. This goal will be sustained by the Group's time-tested development model, which is propelled by two complementary "motors": organic and external growth.

Organic growth

The first motor, i.e. organic growth, will pursue a form of management geared towards searching for efficiencies, developing the plant base and the customer portfolio, and extracting synergies from companies acquired in recent years. These levers will be able to more than compensate for both the impact of tariff revisions in regulated services as nationally defined by the AEEGSI, and the reduction in incentives for energy management from renewable sources.

The second motor of growth, involving external lines, will make the most of tenders awarded for gas distribution in localities served (based on the level of efficiency already reached and a majority presence in most of the areas subject to tender), as well as the integration of four multi-utilities in regions in which the Group currently operates. The use of this second motor is expected to contribute, as has been the case in the past, to a rise in EBITDA. With its new business plan, the Group intends to support the development of this sector in Italy, counting on the knowhow it has accumulated in the past with M&As, and relying on its own model of governance, open to the entry of new municipalised multi-utilities and their public shareholders.

Building on the previous business plan, four strategic levers will be activated as regards the company's organisation and each of its businesses: growth, efficiency, innovation and excellence. This orientation, which has already proven its validity over the last two years, is at the root of all main strategic projects envisaged for the next four years.

Growth

Growth will be fostered by investments expected to total over € 2.2 billion, accumulated over the duration of the plan. 78% of these investments will be directed towards regulated assets, maintaining solid asset ratios, thanks to the full coverage guaranteed by cash flow generation coming from operational activities. At the same time, the Group's current presence in free markets will also be reinforced, in particular by developing the number of customers in energy sales activities and boosting activities in waste treatment, by way of an increasingly eco-compatible management.

Objectives for growth in the environment sector are expected to remain in line with market trends seen in the recent past, with a contribution coming from the acquisitions finalised in late 2015 of Geo Nova and Waste Recycling, confirming the rationale of regional expansion and the preference given to plants that are complementary to those currently possessed by the Group.

In the energy sector, Hera can rely on a customer base with approximately 2.2 million contracts, and aims at a greater presence in the retail sector, clearly marked by a more stable and resilient consumption. The objective set for the duration of the Plan is to increase electricity customers, prolonging the trend seen in recent years and continuing to benefit from flexible energy commodity procurement sources. The expansion of this market will be accompanied by continued improvement in service quality, development of new commercial offers and cross selling opportunities for current customers. In this business area, Hera will attempt to contain the effects of the increase in competition, making the most of its present critical mass and market position.

Innovation

The Group will continue to dedicate close attention to efficiency and synergy extraction, with a view to not only creating value for its shareholders, but also protecting its own competitiveness on the market. The Group's multi-utility model, which already guarantees a 'cost-to-serve' among the best in the sector, represents a competitive advantage in the search for efficiency, because it allows new organisation and process solutions to increase their benefits, with the possibility of specific applications in the various businesses and an improvement in customer satisfaction.

Efficiency

Impetus towards growth will also come from innovation. As confirmation of the importance that Hera gives to this strategic imperative, an Innovation Management branch was created in 2014, specifically intended to act as a receptacle for ideas and new technologies and to propel their implementation across the Group. The Business Plan includes 51 innovative projects that will not only contribute to developing new lines of revenue, but will also be responsible for about 10% of the efficiencies foreseen by the Plan.

Excellence

Hera intends on confirming its customary strategic framework, standing out for its excellence, surpassing the quality and efficiency standards set out by the Authority for regulated services, consolidating its leadership in environmental services and maintaining a level of customer satisfaction among the highest in the sector, all within the context of sustainable growth and continuous development of intangible assets.

These objectives are matched by a dividend foreseen at 9 cents per share through to 2019. This policy can be considered feasible thanks among other things to the expected cash flow that, in addition to guaranteeing full coverage of the investment plan, confirms the Group's solid financial structure.

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

The macroeconomic context

In the first half of 2016, economic growth in the world's major areas confirmed the trend seen in 2015: among advanced economies, recovery was more pronounced in the United States and the United Kingdom and its proportions were more modest in the Eurozone, for which the outcome of the British referendum – in which the proposal to leave the European Union prevailed – created further uncertainties as to the future role of the Union itself and its path towards economic recovery. At present, forecasts of the economic-financial impact caused by the United Kingdom leaving the Eurozone are difficult to formulate, but early estimates point towards a slight downward fluctuation of euro zone GDP in 2016, which may grow more significant over the following years. As regards China, concerns over a full-scale "hard landing" have decreased, but forecasts for China's GDP confirm a reduction in expected growth in the years to come, reaching lower figures than could have been imagined only a few years ago.

As regards the domestic situation, GDP grew in Italy in the first quarter of 2016 by +1% compared to the same period of the previous year. In the same quarter, industrial production – corrected so as to compensate for calendar effects – saw an increase of +1.7% on an annual basis, driven in particular by instrumental and intermediate goods. In a similar way, the balance of trade confirmed its positive trend with an improvement over the first quarter of 2015, in spite of a general reduction in exports and a realignment towards European countries, to the detriment of flows headed towards countries found outside of the EU.

Internal demand proved once again to be a driving factor in recovery over the first quarter, but the consumer confidence index, after having reached the highest level seen in the last five years, is slowly deteriorating. Internal demand was also stimulated by inflation rates, close to zero, even though a weakness in retail prices for a prolonged period of time could eventually translate into a structural risk for both Italy and the euro zone.

As regards employment, in the early months of the year the 40% tax break for hires with permanent job contracts confirmed the rising trend already seen during 2015, with the unemployment rate descending in March 2016 to 11.5% (with youth unemployment at 36.9%).

The most recent projections released by the International Monetary Fund and the Organization for Economic Cooperation and Development set growth in Italy in 2016 at approximately +1%, an estimate that however does not yet take into account the possible effects of the UK referendum.

The context in terms of competition

The competitive context within which Italian utilities operated in the first half of 2016 is substantially in line with the previous year, marked by a growing level of competitiveness in various free market sectors. As regards regulated services, the first tender announcements for gas distribution services were published (so-called Gas Tenders). The Tenders will have a highly significant impact on the competitive structure of the sector, with a general rationalisation of the number of active operators and a more efficient definition of the geographical limits pertaining to each single area.

Again concerning rationalisation, the Government has repeatedly stated its desire to pursue this goal in the more general domain of Local Public Services, to which we will return in the section dedicated to the regulatory context.

1.07 REGULATORY FRAMEWORK AND REGULATED REVENUES

Relevant legislation

Among the legislative measures introduced in the first half of 2016 with the greatest consequences for the HERA Group, particular attention must certainly be given to the new "Public Procurement Code" ("Codice Appalti").

The new Public Procurement Code approved

On 19 April 2016, the Gazzetta Ufficiale published the new "Public Procurement Code", entering into force on the date of publication and implementing Directives 2014/23/EU, 2014/24/EU and 2014/25/EU, which regulate concession contract awarding, public procurement and tender procedures for supplying parties operating in certain specific sectors, as well as formulating a reorganisation of current regulations concerning public contracts related to works, services and supplies.

The previous Procurement Code (legislative decree 163/2006 and following amendments) was revoked with immediate effect as of the date of publication of the new text in the Gazzetta Ufficiale, while the respective Implementation regulations (n. 207/2010) will remain in force until the new implementing acts have been adopted, and will therefore also have to contain references to the regulations they will substitute, thus respecting the observations made by the State Council that had requested a gradual application.

Current legal provisions concerning the sector of public works and works on cultural heritage remain in force, in particular the role played by the Person responsible for procedures, project planning and verification, contract outlines and special contractual terms for tenders for works, the qualification system and the requisites for those implementing the works and engineering companies and inspection of said parties, accounting and testing procedures.

Among the new features, note that instead of a single text containing Implementation regulations, a considerable number of deeds (approximately 50) have been foreseen consisting in general guidelines that can easily be updated, proposed by the National Anti-Corruption Authority (ANAC) and adopted via decrees drafted by Ministries (generally issued by the Ministry for Infrastructures) or the President of the Council, as advised by the respective parliamentary commissions.
A steering committee will be created that will oversee the phase of implementation of the new Public Procurement Code, coordinating the way in which its norms and guidelines, are adopted by the responsible parties, along with their coherence and uniformity, in order to verify their consequences and ensure their implementation and legal correctness.
The criterion preferentially used in choosing the contracting party has been defined as the most economically advantageous offer, an option that becomes obligatory in sectors in which the use of labour is fundamental.
With the introduction of the new awarding mechanism, the systems with which contracting authorities are qualified become crucial: higher levels of qualification of the contracting authority will be matched by a greater possibility of awarding public works, maintenance and services with notable magnitude and complexity.
Further new elements include the principle of transparency in stakeholder participation and the tool of public debate, now obligatory for large infrastructural works with a significant impact on the natural, urban and local environment.
The "preliminary project" has been replaced by a new technical and economical feasibility project to be drafted on the basis of local surveys, taking into account the most advantageous proposals and solutions in terms of costs and public benefits.
Company rating is also introduced, on the basis of indicators able to specify the behavioural "history" of each operator according to elements such as respect for deadlines and costs in fulfilling contracts, or the absence of disputes while participating in tender procedures or implementing contracts.

Lastly, in cases involving Public/Private Partnership, the contract between parties is defined in such a way that investments made and costs sustained by the economic operator can be recovered, corresponding to the works and services concretely made available.

"Madia Decree": procedures aimed at adopting the delegated decrees continue

Among the other legislative measures introduced in 2016 with the greatest impact on business sectors in which the Hera Group operates, the public administration reform provided for by the so-called "Madia Decree", approved in 2015 and from which the respective delegated decrees are to be derived, is particularly significant. The first half of 2016 saw the continuation of the procedure of consulting with the institutional bodies responsible for adopting these decrees. Concerning the decrees intended to simplify the sector of publicly controlled companies and rationalise regulations on local public services of general economic interest, the definitive texts are expected to be adopted within the month of August 2016.

Gas, Electricity and Integrated Water Service Regulations

During the first half of 2016, new regulations with a more modest scope also appeared. The most significant resolutions published by the Authority for electricity, gas and the water system (hereinafter: the Authority) concerned functional unbundling in electricity services, postponing by six months the deadline for separating the brands responsible for free market sales and protected categories, and the water service, with the introduction of a detailed regulation concerning metering activities. In the same period, two consultation documents also appeared in which the Authority confirmed its will to modify the criteria with which tariffs for investments made by energy distribution operators are recognised. Consultation topics include both investments in gas distribution and those that electricity distributors will have to sustain in order to introduce second generation electronic metres.

Postponement of the application of debranding between free market and protected categories

With resolution 327/2016/R/eel, the Authority postponed to 1 January 2017 the deadline for debranding, required from enterprises involved in sales of electricity to protected categories. The comprehensive text for functional unbundling (TIUF) in fact foresaw that, within 30 June 2016, businesses whose sales also extended to protected categories were obliged to separate the brand, along with any other distinctive element that could create confusion between sales to free market clients and sales involving protected categories. The Authority, taking into consideration *inter alia* the uncertainties involved in the legislative procedure concerning the "Competition Decree" (that calls for protected category tariffs to be abolished as of 2018), recognised that regulations calling for separate communications and brand policies can create burdens for sales companies that outweigh the benefits expected from a pro-competition point of view. This consideration would be all the more valid if, in its definitive version, the "Competition Decree" were to contain measures permitting protected category services to be overcome in such a way (such as services assigned via public competition) as to no longer justify certain forms of debranding.

New metering regulations in the water service

As regards the water sector, note must go to resolution 218/2016/R/idr, with which the Authority has regulated metering services, with an extensive revision of the regulations in this area. The scope of this intervention has been exclusively limited to household users, deferring to future regulations all aspects concerning industrial users authorised to drain wastewater into public sewers, as well as regulations on process measurement (i.e., the entire set of measuring activities aimed at an efficient management of plants and the network). The most significant new measures introduced by the provision concern obligatory aspects of metre reading, including precise indications as to the frequency of attempts, the requirement of providing users with free methods of communicating user readings, and communicating average annual consumption as part of the bill.

Consultation on tariff recognition for investments in gas distribution

With consultation document (DCO) 205/2016/R/gas the Authority initiated a consultation process aimed at defining new criteria for acknowledging the costs incurred by investments in natural gas distribution networks implemented as of 2017 and included in tariffs in 2018. According to the content of this document, the regulator is inclined to adopt more selective criteria in appraising investments, abandoning the current rationale of "bottom of the list" acknowledgement and moving towards a methodology that promotes efficiency in tariff acknowledgement.

To this purpose, the Authority has identified two new alternative appraisal methodologies – investment appraisal at standard costs, and an extension of the price-cap principle to include the portion of income restrictions related covering capital costs – as to both of which an opinion will be asked from operators.

Appraisal according to standard costs is a methodology that consists in defining the value of investments by way of a reference price list. The price list would be first defined nationally and then differentiated locally according to price modulation coefficients that depend on the geographical area and the population density of the area in which investments are made.

As an alternative to standard costs, a second proposal involves applying the price cap to unitary components, thus covering remuneration for investments and the respective amount of amortisation. With this mechanism, the amount of capital costs recognised in tariffs would be progressively reduced compared to the amount measured in a given year, by way of the application of the efficiency recovery rate (X-factor).

The Authority has lastly proposed a mixed method, in which for each minimum territorial area (ATEM) the choice between the standard cost method and the price cap would depend on the level of methane supply reached in the area itself.

Consultation on tariff recognition of costs for installation of new electricity metres

During the first half of 2016, with DCO 267/16/R/eel, the Authority also provided indications as to the criteria to be used in acknowledging costs incurred by electricity distributors for substituting currently used electronic metres with second generation (2G) models.

In order to acknowledge the costs involved in installing 2G metres, the Authority proposed three alternative methods. The first envisages acknowledging a standard cost per unit (for each type of metre) coupled with a symmetrical profit sharing mechanism, which would allow the service's distributors and its clients to share the difference between the lesser/greater costs sustained by distributors compared to the standard amount.

The Authority's definition of a standard cost, however, having been arrived at within an unbalanced informational context, might not be correct. To avoid the possibility that companies take advantage of an unduly elevated standard cost, the Authority has therefore proposed adopting IQI (Information Quality Incentive) coordinates in which acknowledged revenues, in addition o depending on the percentage of cost sharing, also depend on the degree to which actual costs correspond to the costs foreseen by the company itself.

As an alternative to these two methods, the Authority has also proposed a third, highly innovative with respect to currently used systems. Along these lines, in order to control the overall expenses and therefore the entire way in which tariffs are defined and evolve, it has proposed that all costs (operating costs, amortisations and return on capital) be recognised in tariffs.

Gas distribution: tariff framework

2016 is the third year of the fourth regulatory period (2014-2019) of the gas distribution and metering tariff system, governed by resolution 367/2014.

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 in 2016, 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 AEEGSI 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), and is remunerated by applying a rate of return on invested capital (WACC) fixed for the three-year period 2016-18 by the "comprehensive WACC text" resolved with resolution 583/15/R/com at 6.1%

for distribution and 6.6% for metering; furthermore, the amortisation calculated on the basis of the regulatory useful lives will be acknowledged in tariffs;

- operating costs (differentiated according to the size of the enterprise and customer density) are updated by the FOI inflationary indicator published by ISTAT, which had a negative effect on the update from 2015, coming 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.

Based on these principles, AEEGSI resolution 147/2015 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 within February 2017, and will take into account all investments recorded in 2015. The consolidated scope of the Hera Group, as regards gas distribution, in addition to HERA Spa, also includes Marche Multiservizi Spa and AcegasApsAmga Spa.

As a result of that which has been described above, in the first half of the 2016 fiscal year revenues for distribution and metering equalled, for the Hera Group, € 123.6 million, for 1.644 million m^3 of volumes distributed, with a corresponding revenue per unit of 7.52 € cent/m^3. This revenue already includes an anticipation of the definitive reference tariffs and a reasonable estimate of the effects of tariff equalisation. Compared to the corresponding period in 2015, a € 6.4 million decrease in revenues was seen. This result was mainly due to the rate of return on capital invested in distribution and metering, which was updated to a lower figure than the one seen in 2015, respectively 6.9% and 7.2%.

Gas distribution and metering - Regulated revenue	Jun 2016	Jun 2015	% change
Consolidated Hera Group			
- Revenue (€/mln)	123.6	130.0	-4.9%
- Volumes (mln m3)	1,644	1,697	-3.1%
- Average revenue per unit (€cent/m3)	7.52	7.66	-1.8%

Electricity distribution: tariff framework

2016 is the first year of the fifth regulatory period, introduced by resolution 654/2015/R/eel. With this resolution, the Authority approved the comprehensive texts for the new regulatory period for electricity transmission, distribution and metering. The provision extended the duration of the period to eight years, subdividing however 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, that redefines acknowledged costs according to the national average, as defined by 2014 carrying values, with a balanced division between customers and servers of the gain in productivity seen in the previous regulatory period (profit sharing). Updates in operating costs for years following 2016 will make use of the price-cap method, applying a yearly production improvement rate of 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 innovations compared to the previous methodology:

- useful lives for tariffary recovery of investments in electricity lines and connections have been lengthened;
- the regulatory lag in new investment tariff return has been narrowed from two years to one, thanks to the approval of a reference tariff for 2016, the first year of NPR1, based on investments incurred in 2015;

- a corresponding abolition of the 1% increase in the rate of return on invested capital, extended to investments made in the three-year period 2012-14 as well, compensated by the introduction of a flat-rate increase in net fixed assets, to ensure financial balance for distributors.

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%, in line with the new regulation introduced by TIWACC (resolution 583/2015/R/com), with a 0.8% drop compared to the rate of 6.4% seen in 2015.

For services in electricity metering, a resolution is expected to appear within the current year that will complete and rationalise previous regulations, taking into account among other things the functional requisites of second generation metres.

Within the framework described above, the Authority has, with resolution 233/2016/R/eel, approved the temporary reference tariffs for distribution in 2016 (including provisional data for 2015 investments communicated to the Authority in late 2015) for the companies of the Hera Group operating in electricity distribution, HERA Spa and AcegasApsAmga Spa. Furthermore, the provisional reference tariff for measurement is expected to be approved within July 2016, as are, within February 2017, the definitive reference tariffs for 2016 for both distribution and metering.

In the context described hereto, Group revenues for electricity transmission, distribution and metering for the first half of 2016 came to € 55.9 million, with a € 12.4 million increase over the first half of 2015, with volumes distributed showing a slight drop.

The revenues for the first half of 2016 include the effect of a temporal adjustment among the tariffary components of return for and amortisation of investments and their underlying costs. This adjustment was made possible by resolution 654/15/R/eel, which became effective as of 1 January 2016.

Electricity distribution and metering - Regulated revenue	Jun 2016	Jun 2015	% change
Consolidated Hera Group			
- Revenue (€/mln)	55.9	43.5	28.5%
- Volumes (Mln kWh)	1,447	1,472	-1.7%
- Average revenue per unit (€cent/kWh)	3.86	2.96	30.7%

Revenues refer to a distribution and metering services RAB estimated at roughly € 360 million, almost entirely ascribable to Group-owned assets.

Water cycle: tariff framework

A comparison with data for the first half of 2015 allows the following figures to emerge for 2016.

Water cycle - Revenue from tariff	Jun 2016	Jun 2015	% change
Consolidated Hera Group			
- Revenue (€/mln)	283.6	292.4	-3.0%
- Volumes (mln m3)	143	143	-0.3%
- Average revenue per unit (€cent/m3)	198.38	203.92	-2.7%

Revenues from tariffs fell compared to 2015 by 3.0%, mainly as an effect of the reduced WACC established by the new tariffary method (MTI-2).

Urban waste: tariffary framework

In June 2016 the service of urban waste management was offered in 188 municipalities, 34% of which chose to entrust Tari verification and collection to the Hera Group.
A comparison of similar data from across the consolidated Hera Group allows the following data to emerge.

Urban waste - Revenue from tariff	Jun 2016	Jun 2015	% change
Consolidated Hera Group			
- Revenue (€/mln)	262.4	262.3	0.0%
- Users reached (000)	3,310	3,316	-0.2%
- Average revenue per unit (euro/user)	79.28	79.11	0.2%

Regulated revenues for urban waste services rose, mainly as an effect of the 2016 tariffary adjustment, which includes new projects for developing separated urban waste, and net of the CARC component, that for the company AcegasApsAmga Spa is excluded from tariffary revenues in 2016, contrarily to the data considered for 2015.

1.08 TRADING AND PROCUREMENT POLICY

Recovery in gas consumption: +1.3%

As regards gas, in the first six months of the year overall consumption rose by 1.3% over the same period in 2015, with an increase in terms of volume coming to over 450 Gm^3. The driving element of recovery, compared to 2015, was gas consumption involved in electricity production: in the first half of 2016, thermoelectric consumption rose by 10.6% on the same period in 2015 which in terms of volume corresponds to an increase of roughly 980 Gm^3. Industry is showing signs of a slow recovery, with gas consumption up 2.7% over the first half of 2015. As regards household consumption, instead, climactic factors brought about a decrease that in the first half of 2016 led to a fall of roughly 605 Gm^3 compared to the same period in the previous year (-3.3%).

An optimised portfolio

Climatic factors in the first half of the year naturally had a negative impact on Group sales.
Trading operations in the first half of the year 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 sale agreements at the Virtual Exchange Point (VEP) in Baumgarten, on the Title Transfer Facility (TTF) and on Net Connect Germany (German NCG). The conditions for these transactions were generally favourable and allowed objectives in terms of expected results to be met.

As of April, Hera Trading initiated gas procurement activities aimed at both filling the storage capacity purchased by auction, with roughly 0.35 billion m^3, and providing gas for the Hera Comm free market for the 2016/17 thermal year, with roughly 0.5 billion m^3, sourcing it directly from the spot market; this activity, as at 30 June, is still ongoing.

Negotiation of modulated gas for roughly 1.5 billion m3

During the month of April, as in the previous year, negotiations began for modulated gas intended for the protected market REMI delivery points of the Group's sales companies. The total amount in question reached roughly 1.6 billion m^3 for the 2016/17 thermal year, as per the supply conditions resolved by the Aeegsi beginning in October 2013. This negotiation allowed particularly favourable terms to emerge in terms of both prices and payments conditions.

Electricity consumption falls by -0.9%

Demand for electricity in the first half of 2016 dropped compared to the same period of the previous year, showing a decrease of 0.9%.
As regards electricity production, the first half of the year recorded an increase in both thermoelectric production and wind power, which rose by 2.6% (+1.8 TWh) and 13.2% (+1.2 TWh) respectively. This increase was offset by a lower photovoltaic production, which recorded a notable decrease of -18.0% (-0.45 TWh) and a lesser contribution coming from hydroelectric energy, at 2.2 TWh (–9.3%).
Electricity market prices dropped significantly in the first half of 2016: the average PUN wavered between 46 €/MWh in January and 32 €/MWh in May, while in the same period in 2015 the PUN remained between 47 and 55 €/MWh. This trend can largely be attributed to the reduction in prices for natural gas.

Electricity market reform

Over the first half of the year, a progressive increase in dispatching expenses was seen, brought about by the higher costs incurred by Terna on the DSM (Dispatching Service Market) to procure the resources necessary for safe dispatching on the national power system. To find a solution for the increasing costs of dispatching, the AEEGSI has issued preliminary statements consisting in Consultation documents concerning a "Revision of regulations on current unbalances" (DCO 316/2016/R/EEL) and a "Initial phase of the reform of the dispatching services market" (DCO 298/2016/R/EEL).

The negative scenario which is having a serious impact on companies involved in production from conventional sources, as regards the Hera Group - bearing in mind its limited installed thermoelectric

Price risk management

capacity compared to the end market served - is strongly mitigated by commercial activity involving final customers.

Electricity trading performance

As regards activities in electricity trading and Green Certificates, the first six months saw improved performances in terms of both margins and the average value of import capacity held compared to the equivalent period in 2015. Particular attention went to the management/optimisation of Hera Comm's purchase portfolio by way of operations on the Stock exchange and on Over the Counter (OTC) platforms.

Managing commodity and exchange risk proved once again to be particularly effective, even in a context marked by the notable volatility of oil prices and the euro-dollar exchange rate.

REMIT applicatoin

Over the first half of the year a further phase of implementation of the Regulation concerning wholesale energy market integrity and transparency (REMIT) was initiated, introducing as of 7 April 2016 reporting requirements for both standard commodity contracts concluded bilaterally and non-standard commodity contracts. As of 7 October 2015, instead, reporting requirements have been in force for standard commodity contracts executed on regulated markets (Organized Market Places).

1.09 COMMERCIAL POLICY AND CUSTOMER CARE

The Group's customer base grew by 1.3% in the first half of 2016 compared same period in the previous year.

Electricity customers increased by 3.5%, mainly due to an intense and coordinated commercial activity carried out across all areas served by the Group.

Gas customers went up by roughly 12 thousand individuals (+0.9%): this result is an effect of the entrance, within the Hera Group, of Julia Servizi Più, a company operating in Abruzzo in electricity and gas sales. Water service customers increased very slightly, by roughly 0.4%, a figure which reflects the ongoing crisis in the real estate sector.

Contracts	30 June 2016	30 June 2015	Delta pdf n.	delta pdf %
Gas	1,339.2	1,327.3	11.9	0.9%
Electricity	855.2	826.3	28.9	3.5%
Water	1,451.1	1,445.7	5.4	0.4%
District heating	11.7	11.6	0.1	1.2%

data expressed in thousands

The volume of contacts managed through Group channels saw, in the first half of 2016, a 5.6% increase over 2015, thus reaching an overall amount of roughly 2,550,000 contacts. The channels involved in this rise include protocol (+14%), SMS (+13%), Call Centre (+5.7%), IVR (+5.4%) and the web (+5%); the contacts handled by customer assistance desks remained unchanged.

The call centre once again ranked in 2016 as the most widely used contact channel (44%), followed by IVR (17%), customer help desks (14%), the web (11,5%), SMS (8%) and correspondence (5,5%).

The rise in contacts at the Hera Call Centre led, in the first few months of 2016, to a slight drop in the percentage of calls answered, thus bringing the progressive amount in the first half of the year to 94.5%. One must however note the strong recovery seen in May and June, when the amount of service reached 96%-97%. The same is true for waiting times (including IVR) that, as a half-year average, saw a +15% increase over 2015 but in recent months were back in line with the same period in 2015.

The results achieved by the Hera Customer Assistance desks were once again quite good, closing the first half of 2016 with an average waiting time of under 10 minutes.

The good performances achieved by contact channels contributed to a further improvement of the quality perceived by end customers. According to the Customer Satisfaction review, in fact, the rating reached by customer help desks was 83 (up +2 compared to the first half of 2015), with the Families Centre also reaching 83 (+3 compared to the first half of 2015) and the Businesses Call Centre at 78 (+3 compared to the first half of 2015).

Important initiatives aimed at improving services for end customers were introduced in the first half of 2016, including a free telephone number for contacts from mobile phones and a renovation of the system used to manage customer help-desk waiting lines.

The main indicators of Hera's customer assistance desks and call centres are as follows:

Average waiting time - contact center (sec.)	H1 14	H1 15	H1 16
Residential customers	46	31	42
Business customers	32	27	39

Average waiting time - help desks (min, sec)	H1 14	H1 15	H1 16
Average	11	9	9

1.10 FINANCIAL POLICIES AND RATINGS

A slowdown in emerging economies

Expansion continues in the United States and other advanced countries, while emerging economies remain a factor of risk for world growth. Concern over an abrupt slowdown in China has subsided, but the country's economy continues to deteriorate. The fall in the price of oil has not as yet translated into a reinforcement of global activity, and the IMF and the OECD have modified downwards their forecasts for growth in international commerce and the expansionary stance of monetary policies in advanced countries has intensified.

In the early months of this year, concerns over global growth triggered notable price decreases on international financial markets, which have since been reabsorbed to some degree. The performance of bank stock has been particularly poor throughout Europe, especially in Germany and Italy, with markets now paying closer attention to credit quality, partly owing to operators' uncertainty about the future direction of banking regulation.

Growth continues in the euro area, although the risks associated with trends in foreign demand and uncertainties in the geopolitical situation have increased. The inflation rate stands at zero, reflecting among other things an ample slack in the labour market.

The ECB's expansive monetary policy

In March, the ECB's Governing Council introduced a substantial package of expansionary measures, over and above what observers had expected, consisting of an increase in the size and composition of securities purchases, a further reduction of official rates and new measures to refinance banks at exceptionally favourable conditions.

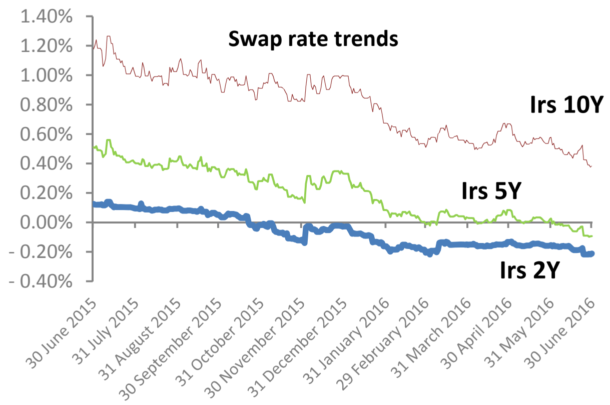
Once the new measures were announced, monetary and financial conditions became more expansionary: yields on public and private sector securities diminished; risk premiums were reduced; share prices picked up; and the euro appreciated.

The measures adopted by the ECB's Governing Council should support economic activity through several channels: helping the flow of credit to the economy and lowering its cost; ensuring certainty as to the availability and cost of bank funding; cutting the cost of capital for businesses; bolstering the value of households' real and financial wealth; and stimulating the real estate market. Support for economic activity and employment is a necessary prerequisite for bringing inflation back to levels consistent with price stability.

Interest rates at historical lows

The ECB's program of Quantitative Easing has significantly contributed to reducing swap rates (now negative on those with a time to maturity of up to five years) and narrowing spreads, to the point of becoming a favourable combination for corporate issuers who, in the month of March, increased the amount of new offers on the primary market, thus refinancing their own debt at particularly advantageous rates.

The strong drop in the yield curve in euro continued after the outcome of the referendum on the United Kingdom's future in the European Union ("Brexit").



Market curves and 10-year BTP-Bund spread

The spread between ten-year BTPs and the German bund (as a reference parameter for the cost of borrowing), after having fallen below 110 basis points in March, rose at times to levels of 145 basis points, as an effect of the turbulence on financial markets, burdened by the risk of a slowdown in the rate of global growth.

The surprise created by "Brexit" had repercussions on the spread as well, which, after having shot up to over 190 basis points, was immediately checked by the ECB and the main central banks that took action on the markets, bringing it back under 140 basis points.

On 1 July the spread returned below 130 basis points after the European Commission authorised Italy to use government guarantees to support the country's banking sector.

Limited credit offer

A gradual recovery in lending continued to be seen, aided by the expansionary spur of monetary policy measures; the persistently high volume of non-performing loans is however restricting banks' profitability, and the numerous regulatory restrictions set a limit to the bank system's credit disbursement policies.

A model of active, risk-adverse management

Given this economic and financial scenario, the Group has devised a financial management plan 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 market opportunities.

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 4 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 the availability of 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	30 June 2016			31 Dec 2015		
(mln/euro)	from 1 to 3 months	from 3 months 1 year	from 1 to 2 years	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years
Bonds	14	84	84	242	84	84
Debts and other financial liabilities	94	94	58	134	97	75
Trade payables	907	0	0	1,121	0	0
Total	**1,015**	**178**	**142**	**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 30 June 2016 the Group had € 248.3 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.
The amount of debt that matures within the year has fallen to 5.4% 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.

Average term to maturity: 8 years

The amount of long-term debt comes to roughly 94.6% of total financial debt, of which roughly 79% consists in bonds with repayment at maturity. The average term to maturity is over 8 years, of which 73% maturing beyond 5 years.

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

Debt repayment outlays (mln/euro)	30 June 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019	31 Dec 2020	Over 5 years	Total
Bonds	0	0	0	500	0	2,035	**2,535**
Bank debt / due to others	134	71	52	53	49	368	**727**
Total	**134**	**71**	**52**	**553**	**49**	**2,403**	**3,263**

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 30 June 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 below investment grade or the termination of the publication of the rating.

Interest rate risk

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 17% of total borrowings. The remaining 83% of debt is at fixed rates, resulting from a stipulation of offset swaps dating to 28 May 2015, with which two € 500 million bonds maturing in 2019 and 2021, that in March were at floating rates as an effect of hedging derivatives, were brought to fixed rates.

Offset swaps to optimise the average cost of debt

This operation allowed the rates to be set at 2.09% and 1.81% respectively, decidedly lower than the original rates of 4.5% and 3.25%.

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.

83% of debt at fixed rates

Gross borrowings (*)	30 June 2016			31 Dec 2015		
(mln/euro)	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
fixed rate	2,610.5	2,633.2	83%	2,799	2,826	83%
floating rate	562.8	540.0	17%	593	567	17%
Total	**3,173**	**3,173**	**100%**	**3,392**	**3,392**	**100%**

** Total 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

Hera Spa has been given a long-term 'Baa1 Outlook Stabile' rating by Moody's and a 'BBB Outlook Stabile' rating by Standard & Poor's (S&P).

Ratings confirm the strong points built up by the Group over time

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.

The rating previously issued by Standard & Poor's was confirmed, owing to S&P's expectancy that the Group can meet targets in credit worthiness and that its solvency is not completely dependent on the conditions of sovereign risk.

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 rating.

1.11 TECHNOLOGICAL INNOVATION AND PROJECT DEVELOPMENT

Development and technological innovation

In keeping with the Group's priorities, in the first half of 2016 activities continued in relation to the circular economy, the recovery of materials, energy efficiency and smart city services.

In 2016 activity continued on the work plan for launching a new plant to produce bio methane from organic waste derived from recycling in the Bologna area and delivered to the Sant'Agata plant.

Circular economy and materials recovery

The new plant, with a capacity of 100,000 tons/year of food-waste-derived organic waste, will produce bio methane to be fed into the gas distribution network and which can be used for heating, cooking or to run public and private transportation.

As of the first half of 2016:

- the tender evaluation process for the supply and installation of an anaerobic digestion system for waste was concluded, while the tender evaluation process for the supply and installation of the second main component of the system consisting of a biogas purification system (upgrading) is still in progress;
- following the approval of the new SNAM network code, a request was made to connect to the transport network in order to feed in the bio methane produced by this plant;
- the process for obtaining authorizations is currently in progress.

In relation to the recovery of other organic wastes (sludge from purification processes, cuttings and prunings, etc.), various experiments continued to be carried out aimed at identifying the best technologies for obtaining biofuels.
The objective is to construct new plants capable of transforming waste into resources, maximizing their yield in terms of energy and materials.

A study was also launched to investigate a new system for collecting municipal waste, one that would more effectively meet user needs, to facilitate the operations of transferring and simultaneously measuring waste.
This project will facilitate the introduction of the quantity-based rate, an increase in the amount and quality of waste separation and the integrated management of delivery data for the optimization of the collection service.
The concept behind the new collection system involves a prototyping phase, to be concluded within the year, and a subsequent phase of field-testing.

Energy Efficiency

During the first half of the year, two important initiatives in the field of energy efficiency were concluded:

- the campaign to test the advanced devices for automatic heating control (smart thermostats);
- the drafting of an energy-mapping model for the buildings.

During the previous financial year, three types of smart thermostats were identified, following an analysis of the best thermostats available at the international level. A campaign was launched involving about 100 Hera employees who tested the selected devices in their homes.
Thanks to this test, which lasted for the entire winter period, is was possible to identify the ideal thermostat to be included in the Group's commercial products through an analysis of ease of installation and activation, user experience, functionality, savings achieved and operational stability.

Also in the field of energy efficiency, some standardization models for consumption data have been developed, to be integrated with external sources such as cadastral data, static data and, lastly, geo-referencing, so the site can subsequently be located on maps. It was possible, for example, to create an energy map of a given local area to compare the consumption levels of public administration buildings and develop the efficiency-improvement initiatives that are most suitable for each building.

Smart cities

In the first half of 2016, the services for smart cities identified in the previous year continued to be explored in depth, including through demonstrational installations at the Hera Group offices.
The main smart services scheduled to be offered to public administration in the local areas served by the Hera Group are video-analysis (for purposes of security and mobility), control over environmental parameters, public Wi-Fi, smart parking, the integrated management of excavation work and the use of public land and energy maps for the area.
Studies were carried out on the initial architectural options for data integration through an IT collection platform and the processing and correlation of key events (environmental threshold overruns, traffic congestion, emergency situations or issues with public order, road work, ...). The dashboard for monitoring services proved capable of providing value-added information to support public officials in their decision-making processes.
Initial contacts have been made with some local administrations to evaluate the first installations in the field.

Open Innovation

The Hera Group has been particularly focused on Open Innovation initiatives for several years now. The objectives are manifold, including the goal of boosting internal dynamism to keep pace with developments in the external environment, searching for new technologies that can be implemented, developing internal expertise, continuous stimulus and cross-fertilization, and reducing time to market.

In this framework, the Hera Group's first Innovation Day was organized earlier this year. Thirteen particularly innovative Start Ups were selected and invited to visit the offices of Hera Ferrara to describe their business initiatives for the executive body of the Hera Group.

1.12 QUALITY, SAFETY AND ENVIRONMENT

The company's growth and organizational and managerial evolution require constant reviews and updates which, if properly directed, offer additional opportunities for improvement in terms of effectiveness and efficiency without resulting in higher costs. In the first half of 2016 this result was achieved in that Hera Spa was able to maintain all its certifications, while Heracomm's authorization for Emission Trading and certifications 9001, 50001 and 11352 were extended.

A review was initiated on the Integrated Management System according to the new ISO 9001 and 14001/2015 in anticipation of the Group's obtaining certifications in the new standards during 2017.

After having applied to the Commission for Enquiries, Hera Spa received confirmation that it is correct to use the criteria set out in the January 2015 INAIL Manual in relation to reclamation activities.

Regarding environmental issues, monitoring protocols have been prepared to ensure timely feedback on the markers defined in the workplace, with the aim of sharing this feedback with supervisory bodies. Another important result was the completion of the organizational realignment to come into line with one of the standards methods of emergency management throughout Hera Spa, with a reduction in the number of individuals involved in emergency management and a significantly increase in the degree of control over the functioning of emergency management systems (e.g. fire alarm, evacuation procedures, etc.). In order to launch the new company INRETE beginning 1 July without interruptions, the company retained all its certifications (ISO 9001, 14001, OHSAS 18001, 50001), as well as its membership in the Roll of 10B Environmental Managers and the SOA. During the 2016 and 2017 financial years, removal of all products containing asbestos will be completed, with a significant improvement in environmental quality for both workers and the environment in general.

In June, the prototype model for the management of the physical security of company assets was presented to the Risk Committee, and this model will be extended to the whole company during 2016/2017.

As for health and safety in the workplace, the 2015 health report was presented, which does include any significant findings about the health of workers, while a focus group was held on the potential evolution of occupational diseases, in particular bone and joint diseases and, in some limited cases, asbestos exposure.

In the first half of the year, the incidence of accidents at Hera Spa showed no particular shifts as compared to 2015.

With regard to suppliers, a search was launched to identify a method of analysis comprising a series of indicators that would complement and implement existing indicators in order to increase the bases for evaluating supplier performance in terms of contracts and technical specifications.

1.13 INFORMATION SYSTEMS

The Information Systems Department is responsible for guaranteeing the development and efficiency of the Group's business support information systems. It also ensures that the system continuously adapts to 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 the first half of the year, the Group's corporate developments were primarily characterized by projects ensuing from the merger of Genova Spa into Herambiente Spa, the transferal of the activities of HARE into Herambiente Servizi Industriali Srl and the construction of the new company InRete Distribuzione Energia.

Standardisation of systems in other companies

The plan to harmonize the other companies' systems within the Group's platforms is ongoing. The AcegasApsAmg three-year migration plan continues and the activities associated with the first phase of the project to standardize the IT systems of Marche Multiservizi were set into motion.

Regulatory adjustment

Projects associated with the second phase of the unbundling program were completed and activities were set in motion regarding the management of the RAI fee in customer bills. Measures to ensure compliance continued in relation to the migration of processes between sellers and distributors on the platform of Acquirente Unico (Integrated Information System).

Support to business

Several projects have been completed in this area, including the new sales force management system (SFA) for the different channels and different types of customers, the management of new commercial offers including the consumption analysis reports detailed in customer bills, and the new system for managing employees wages. Lastly, the current remote reading option was extended to point-multipoint residential meters.

Reduction of technology risk

As part of the process of ensuring continuous technological innovation and performance improvement of the Group's information systems, several significant application databases were migrated to a specialized, dedicated platform.

Information system safety

The security of IT systems and enterprise data, 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, through a periodic risk analysis on the production systems (vulnerability assessment), through updates of the existing systems and new specialized solutions; in relation to this latter, it should be noted that activities of Virtual Patching continued to be carried out on the Group's systems.
During the first half of the year, audits were conducted for the maintainence of the ISO 9001 certification.

1.14 PERSONNEL STRUCTURE, INDUSTRIAL RELATIONS, DEVELOPMENT AND STAFF TRAINING

Human Resources

Hera Group's employees with open-ended contracts as of 30 June 2016 equal 8,439 (consolidated scope) and are distributed by role as: executive managers (156), middle managers (525), office clerks (4,500), and workers (3,258). This setup ensues from 101 entries and 94 exits and from changes in the company structure of Julia Servizi S.r.l., which introduced 6 new units. Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

Structure

Industrial and operational integration: the Hera model

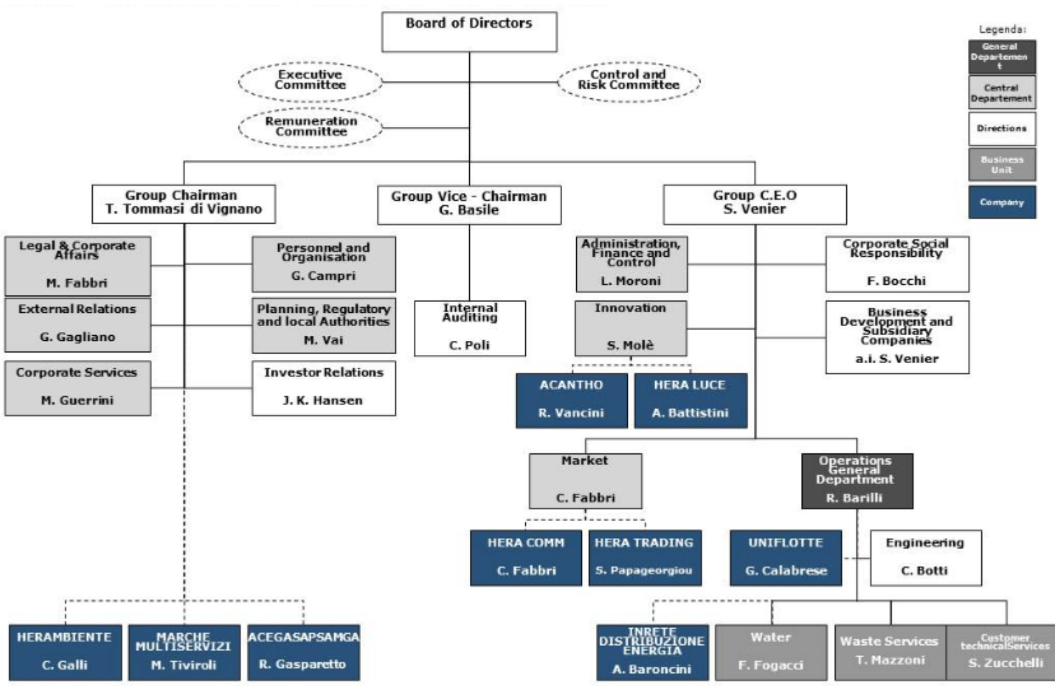
The Hera model stands out in the multi-utility industry for implementing its industrial and operational integration under one leading holding company, which ensures the governance of the group as a whole through a central management unit in charge of setting and control. The management of dedicated business lines is entrusted to each individual General Department and Company under the supervision of the head of Hera S.p.A. and which, in terms of the Energy, Integrated Water and Environmental Services, are coordinated by the General Operations Department.

The utility sector changes constantly and rapidly due to competitive dynamics, to a specialty-oriented regulatory setting, and to other key elements such as water and environmental services legislation, service allocation tenders and regional regulations. Accordingly, growth in such a setting rests on the ability of enterprises to innovate the industrial processes on a regular basis, taking advantage of synergies deriving from an economy of scale and ensuring maximum service efficiency.

Innovation and streamlining of operating processes

Besides consolidating its structural model, in the first six months of 2016 the Group completed the operations necessary to finalize the spin off of natural gas and electricity distribution, continuing to streamline its operating processes and was further committed to technological and process innovation, with the aim of securing the tools needed to pursue the Group's aims.

Below is the Group's organizational macrostructure:



In line with regulatory developments on functional unbundling, logistic changes to spin off the distribution of gas and electricity have been implemented since 1 January 2016.
As far as the Energy Network Department is concerned, the overall management structure was rearranged with a view to streamlining the model. The District Heating Department and the Relevant Production Units function (CHP Imola) were relocated within the Market Central Department, as they were not directly affected by unbundling legislation and were consistent with DHG sector guidelines.
Beginning 1 July 2016, the Energy Network Department converged into Inrete Distribuzione Energia Spa.
As part of the streamlining, it is worth mentioning the reallocation of the Technical Services Department - previously under Central Innovation - into the Technical Customer Department, to back the management role in the delivery of technical customer services group-wide.
Through its structure, processes, resources and systems, the Group aims to balance its business prospects and territorial roots while pursuing maximum effectiveness and efficiency in service delivery.

Uniforming AcegasApsAmga's organisational model

AcegasApsAmga's structural uniforming plan is still ongoing in 2016.
To this purpose, the Technical Customer Management Department was created in charge of coordinating technical activities aimed at managing customers for business units, according to the Group's organizational model.
A company-wide project aiming to improve performance and service in AcegaApsAmga contact structures was completed, promoting an integrated view of the diverse customer management issues. To this end, the structure of Customer Operations was incorporated into the Administration, Finance and Customer Operation Department, thereby acquiring the coordination of invoicing.

Activities related to the management of public lighting, laboratories and cemeteries were concentrated in the Public Lighting and Services Department, and activities of relating with local stakeholders were concentrated in the Planning Control and Local Authorities Relations Department.

Main developments in Herambiente

During the first half of 2016 activities that led to the reorganization of the Market Department were completed. The rationale behind this development was: to increase the effectiveness of customer service through the rearrangement of the business structures' operating model, to facilitate mechanisms for the commercial integration of new areas acquired and to promote the optimization of processes through the introduction of a Lean Organization approach

To this end, the business activities of Herambiente Servizi Industriali were concentrated into two areas: Global Service, and SMEs and micro-waste collection, with specific operating models for each customer segment.

As for the logistics area, the ongoing cost-optimization process according to the principles of Lean Organisation has been joined by a greater degree of market orientation with the establishment of the Operational Customer Management Department, focused on providing proactive response to customer needs.

The Authorizations and Environmental Monitoring function was also created, placed directly under the supervision of Herambiente Spa's CEO, aimed at centralizing the responsibilities and activities associated with the configuration as well as technical and administrative management of environmental permits.

Having taken operational effect 1 July 2016, preparatory activities were completed for renting out the business branch Storage Plant for hazardous and non-hazardous waste located in San Vito al Tagliamento (PN) from Herambiente Spa to Herambiente Servizi Industriali s.r.l.

Main developments in the Market Central Department

As to the Market Central Department, in addition to the above changes to the District Heating Department and to the Relevant Production Units, below are the main changes:

- effective as of 1st July 2016, the reorganization of Amga Calore & Impianti, specifically aimed at focusing the Technical Management towards core operational activities (and associated removal of the customer management activities) and at strengthening the technical-economic optimization of plant performance;

- effective as of 1st January 2016, the new Energy Services Department was established to 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 setting activities.

In the Central Unit area, it is worth mentioning:

Main development in the Central Entities Department

- effective as of May 2016, the reallocation of the Area Managers for the different territories, previously allocated to the Local Authorities Relations Central Department, headed by the Strategic Planning and Regulatory Affairs Department, renamed Planning, Regulatory Affairs and Local Authorities Central Department;
- effective as of March 2016, the Administration, Finance and Control Central Director was appointed Manager in charge of the organizational unit responsible for ensuring compliance with the EMIR regulations on derivatives contracts;
- effective as of 1st January 2016, the reallocation of Uniflotte S.r.l.'s supplier and general accounting within the Department of Administration, Finance and Control, in line with the Group's operating model;
- with reference to the structural changes ensuing from the above spin-offs, the reallocation - effective as of 1st January 2016 - of the Insurance structure, which was previously under the Customer Technical Department and which reported directly to Risk Management and Insurance at the Central Legal and Corporate Affairs Department.

In the Innovation Central Department, it is worth mentioning:

- effective as of April 2016, Hera Luce was reorganized so as to further strengthen activities for managing awarding contracts and optimize staff activities in keeping with the ongoing processes of integration into the main structures;
- effective as of May 2016, Acantho Technical Department was reorganized, specifically in order to foster the development of an integrated vision of business processes according to a network approach and end to end logics as far as the management of customers and network infrastructures and assurance activities.

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:

New committees: Management Review and Business Review

- 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.

Industrial relations

On 11 April 2016 the draft agreement concerning the integrated Welfare system of the Hera Group was signed with the national trade union organizations.

In the Emilia Romagna area, regarding the organizational and corporate evolution of the Hera Group resulting from the current unbundling requirements, the minutes of a meeting with the unions were approved. The meeting in question was aimed at deciding on the joint examination procedure required by the law regarding the transferral of the business unit “Energy Distribution Networks” from Hera SpA to Inrete Distribuzione Energia S.p.A..

In addition to the agreements already signed in the Forlì-Cesena and Ravenna areas, also for the areas of Bologna, Modena and Rimini in the sectors of Aqueduct Networks and Sewage Networks of the Water Department, working hours have been redistributed over 6 days per week, during the summer, with better coverage during the ordinary time slot, thereby reducing on-call overtime.

Also in the area of Emilia Romagna, following all verifications, it was also decided that measures will be taken to optimize the current on-call status models, in particular in the Aqueduct networks sector for the Bologna area.

Finally, agreements have been reached for both the establishment of two new work schedules for Herambiente WTE shifts and for replacing the so-called “biweekly” schedule with the new 36 hours per week schedule for the personnel in charge of Herambiente maintenance activities, with start times staggered by one hour (7:30 or 8:30), in order to ensure better coverage in the afternoon.

In Friuli Venezia Giulia and Veneto, an agreement was signed to replace two territorial agreements for the areas of Udine and Trieste, which involved the recruitment of staff through the national collective bargaining agreement for Gas and Water with a 38 hour working week instead of the 38.5 hour week of the NCBA. Some procedures for reporting and/or joint examination were also completed. In particular, the procedure for transferring five employees employed in the territory of Duino (TS) to another company was carried out, as the municipal council decided to bring the MSW collection service in-house, entrusting it to another company. The preparation of reporting regarding work shift reorganization for both of Hestambiente Srl’s WTE plants was finally completed. In the Marche, an agreement regarding company closures was signed: 4 company closure days were identified to facilitate the use of vacation days. The specific agreements for funded training concerning workplace and commercial safety were also signed.

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 Exemplary Leadership" training sessions - mainly designed for the Group's executives, managers and directors - took place in the first half of 2016 and the AcegasApsAmga and Marche Multiservizi employees were fully integrated in the scheme. The sixth climate survey was carried out in 2015, involving the Group as a whole, while in the first half of 2016 improvement initiatives managed centrally or by individual business units were planned and launched, consistently with the results. As part of the meeting with employees, the results of the climate survey were circulate among the entire corporate population.

In the first half of 2016, approximately 5.000 people were assessed and given relevant feedback. The assessment in question, regarding Performance and Managerial Skills, is carried out by the individual in charge and calibrated according to the larger organizational structure; the individual in charge also provides feedback to the employee being evaluated.

Training

In the first half of 2016, as many as 123,674 hours of training were delivered at Group level: 14.4 hours per capita, equal to approximately 60% of the overall target for 2016. Still at Group level, about 91% of the employees were already involved in at least one training activity. The related economic investment, net of trainee and in-house trainer costs, amounted to € 825,345, of which € 93,500 from training funds. These data show a significant commitment in terms of both finances and resources the Group has made to continuously valorising and developing its human capital, including through the consolidation of HerAcademy, the Group's Corporate University.

As to the HerAcademy programs, particularly noteworthy is the fifth edition of the university orientation initiative and the third edition of the initiative orienting participants to the world of work as well as the successful launch of the first year of a school-work scheme management model, based on a work-and-school skills integration approach. This was started up following the memorandum of understanding with the Emilia-Romagna Regional Education Office, signed on 25th September 2015, which provides for at least 180 training schemes alternating school and work, and for summer internships over the next three years.

Welfare and Diversity

During the first 6 months of 2016, HEXTRA, the new welfare system of the Hera Group, was designed and developed.

Our aim was to develop a single integrated welfare system for all the Group's companies, a system that reflects the corporate culture and values and is able to increase employees' individual and family social and economic well-being.

The initiatives and services offered can be divided into the following macro categories:

- Health and Health Care;
- Insurance and Pensions;
- Education/Children support;
- Personal services;
- Welfare and Income Support;
- Hera Solidale.

The new plan involves the introduction of a **flexible welfare benefit** in an equal amount for all employees that the company uses to provide everyone with the opportunity to choose their own selection from among the various initiatives within these six macro categories. Employees can, for example, obtain a reimbursement for certain medical expenses incurred, supplement their contractual pension fund, purchase goods and services such as a subscription to the cinema/theater, gym membership or extra professional training packages, as well as obtain a reimbursement for their children's educational expenses.

It also provides an **additional pro-capita investment** for employees who have school-aged children, with an additional amount to be used exclusively for educational expenses.

All services will be effective, as of July 4, 2016, on the Easy Welfare portal, an IT platform for the exclusive use of the employees of the Hera Group that comprises the collection of all accessible services and allows employees to deduct the amounts for the services used from their individual allowances.

The positive summer camp experience continued in 2016 for the employees' children who benefited from the service under particularly favourable conditions during the summer weeks, with a 50% contribution to the registration fee for the first week, along with Cral and through agreements with partners from the local areas served by the Hera Group.

CHAPTER 2

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

2.01 FINANCIAL STATEMENTS

2.01.01 INCOME STATEMENT

€/mln	notes	First half 2016	First half 2015
Revenue	*1*	2,152.7	2,213.0
Other operating revenues	*2*	162.0	155.9
Use of raw materials and consumables	*3*	(998.0)	(1,103.9)
Service costs	*4*	(570.3)	(530.7)
Personnel costs	*5*	(266.7)	(260.7)
Amortisation, depreciation,provisions	*6*	(212.7)	(214.0)
Other operating costs	*7*	(20.8)	(26.9)
Capitalised costs	*8*	11.2	12.3
Operating profit		**257.4**	**245.0**
Portion of profits (loss) pertaining to joint ventures and associated companies	*9*	6.5	6.3
Financial income	*10*	68.6	57.3
Financial expense	*10*	(133.1)	(124.9)
Total financial operations		**(58.0)**	**(61.3)**
Pre-tax profit		**199.4**	**183.7**
Taxes	*11*	(71.2)	(68.3)
Net profit for the period		**128.2**	**115.4**
Attributable to:			
Shareholders of the Parent Company		121.0	107.3
Non-controlling interests		7.2	8.1
Earnings per share	*12*		
basic		**0.082**	**0.073**
diluted		**0.082**	**0.073**

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 2.04.01 of these consolidated financial statements

2.01.02 STATEMENT OF COMPREHENSIVE INCOME

€/mln	notes	First half 2016	First half 2015
Profit (loss) for the period		**128.2**	**115.4**
Items reclassifiable to the income statement			
fair value of derivatives, change in the year	*19*	0.3	0.7
Tax effect related to the other reclassifiable items of the comprehensive income statement		(0.1)	(0.2)
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	*26*	(7.9)	7.8
Tax effect related to the other not reclassifiable items of the comprehensive income statement		0.6	(2.1)
Total comprehensive income/ (loss) for the year		**121.1**	**121.6**
Attributable to:			
Shareholders of the Parent Company		114.4	112.7
Non-controlling interests		6.7	8.9

2.01.03 STATEMENT OF FINANCIAL POSITION

€/mln	notes	30 Jun 2016	31 Dec 2015
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	2,000.7	2,031.6
Intangible assets	*14*	2,922.1	2,895.6
Goodw ill	*15*	378.0	378.0
Non-controlling interests	*16*	154.0	157.1
Non-current financial assets	*17*	125.0	125.2
Deferred tax assets	*18*	77.1	73.0
Financial instruments - derivatives	*19*	159.6	108.2
Total non-current assets		**5,816.5**	**5,768.7**
Current assets			
Inventories	*20*	94.5	116.3
Trade receivables	*21*	1,466.3	1,533.0
Current financial assets	*17*	36.7	34.6
Current tax assets	*22*	41.5	29.1
Other current assets	*23*	247.9	226.1
Financial instruments - derivatives	*19*	16.5	6.5
Cash and cash equivalents	*17, 30*	248.3	541.6
Total current assets		**2,151.7**	**2,487.2**
TOTAL ASSETS		**7,968.2**	**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 these consolidated financial statements.

cont.d

€/mln	note	30 Jun 2016	31 Dec 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	*24*		
Share capital		1,471.4	1,474.2
Reserves		741.0	703.7
Profit (loss) for the period		121.0	180.5
Group equity		**2,333.4**	**2,358.4**
Non-controlling interests		140.0	144.7
Total equity		**2,473.4**	**2,503.1**
Non-current liabilities			
Non-current financial liabilities	*25*	2,943.2	2,943.8
Post-employment benefits	*26*	154.6	148.3
Provisions for risks and charges	*27*	370.5	365.3
Deferrred tax liabilities	*18*	25.5	23.8
Financial instruments - derivatives	*19*	60.8	33.4
Total non-current liabilities		**3,554.6**	**3,514.6**
Current liabilities			
Current financial liabilities	*25*	189.9	484.3
Trade payables	*28*	907.3	1,121.3
Current tax liabilities	*22*	102.9	25.7
Other current liabilities	*29*	716.8	584.6
Financial instruments - derivatives	*19*	23.3	22.3
Total current liabilities		**1,940.2**	**2,238.2**
TOTAL LIABILITIES		**5,494.8**	**5,752.8**
TOTAL EQUITY AND LIABILITIES		**7,968.2**	**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 these consolidated financial statements.

2.01.04 CASH FLOW STATEMENT

€/mln	notes	30 Jun 2016	30 Jun 2015
Pre-tax profit		**199.4**	**183.7**
Adjustments to reconcile net profit to the cashflow from operating activities:			
Amortisation and impairment of property, plant and equipment		76.9	79.6
Amortisation and impairment of intangible assets		90.6	86.1
Allocations to provisions		45.2	48.3
Effect of valuation using the equity method		(6.5)	(6.3)
Financial expense / (Income)		64.5	67.6
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)		(11.6)	-
Change in provisions for risks and charges		(13.1)	(9.7)
Change in provisions for employee benefits		(3.3)	(4.9)
Total cash flow before changes in net working capital		**442.1**	**444.4**
(Increase) / Decrease in inventories		21.7	18.6
(Increase) / Decrease in trade receivables		35.3	(22.4)
Increase / (Decrease) in trade payables		(219.2)	(229.9)
(Increase) / Decrease in other current assets/ liabilities		108.0	127.7
Change in working capitals		**(54.2)**	**(106.0)**
Dividends collected		7.7	6.4
Interests income and other financial income collected		14.8	10.7
Interests expense and other financial charges paid		(74.3)	(81.8)
Taxes paid		(10.7)	(6.4)
Cash flow from (for) operating activities (a)		**325.4**	**267.3**
Investments in property, plant and development		(50.3)	(40.8)
Investments in intangible fixed assets		(107.1)	(104.6)
Investments in companies and business units net of cash and cash equivalents	*30*	(5.2)	(4.9)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)		3.5	3.4
Divestment of unconsolidated companies and contingent consideration		-	0.2
(Increase) / Decrease in other investment activities		(1.7)	(10.5)
Cash flow from (for) investing activities (b)		**(160.8)**	**(157.2)**
New issues of long-term bonds		-	-
Repayments and other net changes in borrowings		(312.7)	(371.9)
Lease finance payments		(2.2)	(2.4)
Investments in consolidated companies	*30*	-	(27.0)
Share capital increase		-	9.1
Dividends paid out to Hera shareholders and non-controlling interests		(136.1)	(137.3)
Change in treasury shares		(6.9)	8.8
Cash flow from (for) financing activities (c)		**(457.9)**	**(520.7)**
Effect of change in exchange rates on cash and cash equivalents (d)		**-**	**-**
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)		**(293.3)**	**(410.6)**
Cash and cash equivalents at the beginning of the period		541.6	834.5
Cash and cash equivalents at the end of the period		248.3	423.9

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 2.04.03 of these consolidated financial statements.

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 period					107.3	**107.3**	8.1	**115.4**
Other components of comprehensive income at 30 June 2015 :								
fair value of derivatives, change in the period			0.3			**0.3**	0.2	**0.5**
Actuarial income/(losses) post-employment benefits				5.1		**5.1**	0.6	**5.7**
Total comprehensive Income for the period		**-**	**0.3**	**5.1**	**107.3**	**112.7**	**8.9**	**121.6**
Change in treasury shares	3.9	4.9				**8.8**		**8.8**
Payment for non-controlling shares						**-**	9.1	**9.1**
change in equity interests		(15.0)				**(15.0)**	(12.0)	**(27.0)**
Allocation of 2014 profit :								
- dividends paid out		(6.3)			(126.4)	**(132.7)**	(9.7)	**(142.4)**
- allocation to ohter reserves		8.1			(8.1)	**-**		**-**
- undistributed profits to retained to retained earnings		30.3			(30.3)	**-**		**-**
Balance at 30 June 2015	**1,473.8**	**729.5**	**(0.8)**	**(25.1)**	**107.3**	**2,284.7**	**144.4**	**2,429.1**
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 period					121.0	**121.0**	7.2	**128.2**
Other components of comprehensive income at 30 June 2016 :								
fair value of derivatives, change in the period			0.1			**0.1**	0.1	**0.2**
Actuarial income/(losses) post-employment benefits				(6.7)		**(6.7)**	(0.6)	**(7.3)**
Total comprehensive Income for the period		**-**	**0.1**	**(6.7)**	**121.0**	**114.4**	**6.7**	**121.1**
Change in treasury shares	(2.8)	(4.1)				**(6.9)**		**(6.9)**
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 30 June 2016	**1,471.4**	**773.7**	**(0.5)**	**(32.2)**	**121.0**	**2,333.4**	**140.0**	**2,473.4**

2.02 2.03.01 EXPLANATORY NOTES

2.02.01 ACCOUNTING POLICIES AND EVALUATION PRINCIPLES

The bi annual abbreviated consolidated financial statement as at 30 June 2016 of Hera Spa (hereafter also "Company") and its subsidiaries (hereafter also "Hera Group" or "Hera") 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, has been prepared in compliance with (EC) Regulation No. 1606/2002 of 19 July 2002, in observance of International Accounting Financial Reporting Standards (hereafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations by the International Financial Reporting Standards Interpretations Committee - IFRS IC), previously called Standing Interpretations Committee (SIC), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

In preparing the bi annual abbreviated consolidated financial statements, prepared in accordance with IAS 34 Interim Financial Reporting, the same accounting principles were adopted as those utilized in drafting the consolidated financial statements as at 31 December 2015, which should be consulted for more detailed information, except for what is described in chapter 2.2.03 "Changes in international accounting standards".

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

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

In order to prepare the bi-annual abbreviated consolidated financial statement, the management was required to make estimates. The major areas characterised by particularly significant valuations and assumptions, together with those having notable effects on the situations outlined here are provided in the paragraph "Significant estimates and valuations".

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

This bi annual abbreviated consolidated financial statement as at 30 June 2016 was drawn up by the Board of Directors and approved by the same at the meeting held on 28 July 2016. This financial statement underwent limited auditing by Deloitte & Touche Spa.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements 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 1 revised, 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 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 the amendments to IAS 1, the Group considered combining the item "real estate investments" into the item "Tangible fixed assets" in view of the modest significance of these data and the valuation criterion in question:

€/mln	31 Dec 15 published	Reclassifications	31 Dec 2015
Property, plant and equipment	2,028.0	3.6	2,031.6
Property investments	3.6	(3.6)	-

Significant estimates and valuations

The preparation of the bi-annual abbreviated consolidated financial statement 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. The main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.

Going concern

The directors considered the applicability of the assumed going concern in drafting the consolidated financial statement, and decided that such assumption is appropriate in that there are no doubts about the going concern.

Recognition of revenues

Revenues for the sale of electricity, gas and water are recognised and accounted for at supply and include the allocation for services rendered between the date of the last reading and the end of the financial period, but still not billed. This allocation is based on 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.

Depreciation and amortisation

Amortisation and depreciation are 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.

Provisions for risks

These provisions were made by adopting the same procedures as in previous accounting periods, with reference to reports by the legal advisors and consultants that are following the cases, as well as on the basis of developments in the relevant legal proceedings.

Deferred tax assets

Accounting for deferred tax assets takes place on the basis of expectations of taxable income in future years. The evaluation of the taxable income expected for the purposes of accounting for deferred tax assets depends on factors that may vary over time and significantly affect the recoverability of deferred tax assets.

Fair Value assessment and evaluation process

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices; in the absence 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 commodity derivative contracts are set using inputs that can be directly observed in the market, where available. The methodology for calculating the fair value of these instruments includes the assessment of the non-performance risk, where relevant. All derivative contracts entered into by the Group are with leading institutional counterparties.

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

Income taxes are reported on the basis of the best estimate of the weighted average tax rate anticipated for the full financial year.

2.02.02 SCOPE OF CONSOLIDATION

The bi annual abbreviated consolidated financial statement as at 30 June 2016 includes the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Small-scale subsidiaries are valuated at cost and excluded from overall consolidation.

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.

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

	30-Jun-16		31-Dec-15		30-Jun-15	
	Average	Specific	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Serbian Dinar	122.799	123.142	120.687	121.451	120.883	120.321

Changes in the scope of consolidation

On 8 April 2016, the Hera Group's company Hera Comm Srl acquired all the shares of Julia Servizi Più Srl, operating in gas and electricity sales in the Teramo area. A brief summary of the effects of the operation follows:

€/mln	
Carying amount of acquired assets	**(0.9)**
Adjustments to fair value:	
Intangible assets	8.8
Deferred tax assets / (liabilities)	(2.5)
Fair value net assets acquired	**5.4**
Cash payment	5.4
Potential fees/payments	
Fair value of fees/payment	**5.4**

Due to insignificant book values, the associated company Ghirlandina Solare Srl was excluded from the scope of consolidation and therefore ceased to be valuated using the equity method.

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

2.02.03 CHANGES IN INTERNATIONAL ACCOUNTING STANDARDS

Accounting standards, amendments and interpretations applicable from 1 January 2016

Starting 1 January 2016, the following accounting standards and associated amendments 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, applicable as of 1 January 2014. 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, which are applicable as of 1 July 2014, include amendments to the following existing IFRSs:

- Improvement 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.
- Improvement IFRS 3 - Accounting for contingent consideration in a business combination. This improvement clarifies that contingent consideration in a business combination classified as an asset or a liability must 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.
- Improvement IFRS 8 - Operating segments: Aggregation of operating segments. The improvement requires disclosure of management's considerations in the process of aggregation of operating segments.
- Improvement 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 by management.
- Improvement 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 when the effect of discounting is immaterial.
- Improvement IAS 16 - Property, plant and equipment & Improvement 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.
- Improvement IAS 24 - Related parties: Key management personnel. This improvement clarifies some provisions concerning 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) Amendment issued by the IASB on 6 May 2014 and effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted. 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 and applicable as of financial years that begin on 1 January 2016. 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.

Amendments to IAS 16 and IAS 41 - Bearer plants (Regulation 2113/2015). Amendments issued by the IASB on 30 June 2014 and applicable as of financial years that begin on 1 January 2016. The documents foresees that for a few specific types of biological assets (bearer plants) the accountancy methods must be those of IAS 16.

Amendments to IAS 27 - Separate financial statements (Regulation 2441/2015). Document issued by the IASB on 12 August 2014. The amendments, applicable as of financial years beginning 1 January 2016, allow the equity method to be used in recognising investments in subsidiaries, associated companies and joint ventures in the separate financial statements. The objective is to reduce the complexity of treatment and the relative costs for companies that operate in legal systems in which the IFRS standards also applicable in separate financial statements as well.

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, applicable to financial years beginning 1 January 2016 or later, include amendments to the following international accounting standards:

- Improvement 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) and cases in which held-for-distribution accounting is discontinued.
- Improvement IFRS 7 - Financial Instruments: Disclosures. The document governs the introduction of additional guidelines to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures. Furthermore, as regards compensation between financial assets and liabilities, the document clarifies that the information is not explicitly required in all the interim financial reporting. However, the information cold be necessary to respect the requisites foreseen by IAS 34, in case the information in question is significant.
- Improvement IAS 19 - Employee Benefits: issues 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 size of the market for high quality corporate bonds should be assessed at currency level.
- Improvement IAS 34 - Interim Financial Reporting: disclosure of information elsewhere in the interim report. The document introduces amendments in order to clarify cases in which the information required 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, applicable as of financial years beginning 1 January 2016, 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 foreseen 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 aggregate as single line items, based on whether or not it will subsequently be reclassified to profit or loss;
- explanatory notes - clarifies 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.

Following the amendments to IAS 1 and in particular the cessation of the obligation of a minimum amount in the items listed under the net financial situation item, the Group considered combining the item "real estate investments" into the item "Tangible fixed assets" in view of the modest significance of these data and the valuation criterion in question, maintaining however the detailed report in the commentary notes. In relation to the new provisions of IAS 27, the Group opted to confirm the cost method to account for investments in subsidiaries, joint ventures and associates in the separate financial statements.
With reference to the application of other amendments introduced, there were no observable effects on the Group financial statements.

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

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

IFRS 9 - Financial Instruments. This standard was issued by the IASB in its final version on 24 July 2014 at the end of a multi-year process aimed at replacing the current IAS 39. The standard, which will take effect beginning 1 January 2018, introduces new classification criteria for financial assets and liabilities, for the de-recognition and impairment of financial assets, and the treatment and accounting of hedging transactions. A series of detailed analyses will soon be initiated in order to assess the effects that the introduction of IFRS 9 will have on the Group.

IFRS 15 - Revenue from contracts with customers. 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 - Leases, contractual rights and obligations, and other 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. Application will have retroactive effect, with the possibility of choosing whether to apply IFRS in full to prior periods or to recognise the effects as an adjustment to the opening balance of equity as at the date of the first reporting period. A series of detailed analyses will soon be initiated in order to assess the effects that the introduction of IFRS 15 will have on the Group.

Amendments to IFRS 10, IFRS 11 and IAS 28 - Investment Entities: applying the consolidation exception. 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 provides the disclosures relating to investment entities required by IFRS 12.

The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

IFRS 16 - Leases. Standard issued by the IASB on 13 January 2016, to replace the IAS 17 standard "Leases", as well as the interpretations of IFRIC 4 "Determining whether an agreement contains a lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the substance of transactions in the legal form of a lease". The new standard provides a new definition of leases and introduces a criterion based on the right of use of an asset to distinguish lease contracts from service contracts, identifying discriminating factors such as: the identification of the property, the right to replace it, the right to obtain essentially all the economic benefits deriving from the use of the property and the right to manage the use of the property named in the contract. Its application will be effective 1 January 2019. Early adoption is permitted for the entities that will apply the IFRS 15. A series of detailed analyses will soon be initiated in order to assess the effects that the introduction of IFRS 16 will have on the Group.

Amendments to the IAS 12 – Accounting for deferred financial assets for losses that did not occur. 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 financial assets associated with a liability valuated at fair value. Early application is permitted.

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 entities to provide information regarding any variation in their financial liabilities so that users to more effectively evaluate the underlying factors of variations in the entities' overall indebtedness.

Amendments to IFRS 2. On 20 June 2016 the IASB published a document entitled “Classification and measurement of share-based payment transactions”. The amendments provide clarifications as to recording the effects of vesting conditions when dealing with cash-settled share-based payments, classifying share-based payments with a net settlement feature, and accounting procedures for modifications of the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments will be effective as of 1 January 2018 but may be applied prior to that date. At present, administrators are evaluating the possible effects of these amendments on the Group’s consolidated financial statements. For the following standards and interpretations the EU endorsement has been suspended indefinitely:

IFRS 14 - Regulatory deferral accounts. This standard was published for the first time on 30 January 2014. It permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Its application will be effective 1 January 2016, but early adoption is permitted.

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.

2.02.04 COMMENTARY NOTES TO THE FINANCIAL STATEMENT FORMATS

It is noted that paragraphs 1.01 and 1.2 of the management report show an analysis of the performance of the first half of the year which can aid in better understanding the changes that occurred in the key items of operating expenses and revenues.

1 Revenues

	First half 2016	First half 2015	Change
Revenues from sales and services	2,149.8	2,211.2	(61.4)
Change in inventories, work in process, semi-finished and finished products	2.9	1.8	1.1
Total	**2,152.7**	**2,213.0**	**(60.3)**

Revenues are achieved mainly in Italy.

2 Other operating revenues

	First half 2016	First half 2015	Change
Long-term contract	93.5	91.7	1.8
White certificates	24.2	23.1	1.1
Operating grants and grants for separated waste collection	14.3	14.0	0.3
Apportionments of operating grants	4.0	3.9	0.1
Uses of provisions	3.2	3.7	(0.5)
Other revenues	22.8	19.5	3.3
Total	**162.0**	**155.9**	**6.1**

"Long-term contract" include revenues generated from the construction or improvement of infrastructures held in concession as per the interpretation of IFRIC 12.

"White certificates" shows the revenues calculated on the basis of energy efficiency targets for the year established by GSE in relation to the Compensation Fund of the electricity sector.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 0.9 million euro (2.3 million euro in the first half of 2015), 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 13.4 million euro (11.7 million euro in the first half of 2015) mainly comprising the value of packaging (cardboard, iron, plastic and glass) transferred to the Conai consortia.

"Apportionments of operating grants" is the revenue associated with the amortization amount deriving from the assets subject to contributions.

"Use of provisions", this item regards the internal costs appropriately accounted for in relation to labour, leachate and vehicle hours.

"Other revenues" includes mainly cost recoveries in relation to environmental, electricity and gas services, safety incentives, active leases and insurance reimbursements.

3 Use of raw materials and consumables

	First half 2016	First half 2015	Change
Electricity ready for sale	430.8	506.8	(76.0)
Methane ready for sale and LPG net of change in stocks	392.9	477.0	(84.1)
White, green an grey certificates	31.7	21.1	10.6
Maintenance materials net of changes in stocks	31.3	29.1	2.2
Electricity for industrial use	27.2	26.7	0.5
Charges and revenues from certificate valuation	25.4	(8.6)	34.0
Water	22.3	21.0	1.3
Methane for industrial use	11.8	14.0	(2.2)
Chemical products	8.4	7.8	0.6
Fuels and lubricants	7.9	8.0	(0.1)
Charges and revenues from derivatives	(1.7)	(2.1)	0.4
Consumables and sundry	10.0	3.1	6.9
Total	**998.0**	**1,103.9**	**(105.9)**

"White, grey and green certificates" includes the purchase cost of the various types of environmental certificates incurred during the first half of 2016, specifically: 30.6 million euro in white certificates (20.4 million euro in 2015) and 1.1 million euro in grey certificates (0.6 million euro in 2015). The change from the previous year was due to the different purchasing requirements in view of the Group's certificate needs.

"Charges and revenues from certificate valuation" reflects the valuation of environmental certificates in stock, mainly comprising green certificates. The significant increase in net taxes from the previous period can be attributed to the new incentive mechanism that no longer recognizes green certificates, but rather establishes an advantageous rate for the sale of electricity. Consequently, the portfolio of this type of bonds will be cancelled with a negative effect in terms of evaluation, delivery times to GSE or sales on the market.

For the item "Charges and revenues from derivatives", please see note 19 "derivative financial instruments".

4 Service costs

	First half 2016	First half 2015	Change
Transport and storage	140.4	124.8	15.6
Waste transport, disposal and collection service	134.4	118.0	16.4
Charges for w orks and maintenance	133.3	134.1	(0.8)
Fees paid to local authorities	39.8	39.4	0.4
IT and data processing services	15.2	12.8	2.4
Rents and leases payable	12.0	13.5	(1.5)
Professionnal, legal, tax and organisational services	11.6	10.7	0.9
Commercial services	11.2	9.4	1.8
Insurances	8.6	8.9	(0.3)
Postal and telephone cost	8.3	7.3	1.0
Recruitement training and other staff cost	8.1	8.4	(0.3)
Technical services	7.6	6.0	1.6
Bank fees and charges	5.6	5.2	0.4
Agency costs	5.0	4.0	1.0
Announcements and advertising	4.3	4.1	0.2
Cleaning and security costs	4.0	4.1	(0.1)
Meters reading	3.4	2.9	0.5
Fees payable	3.0	2.6	0.4
Remuneration to statutory auditors and directors	2.8	2.8	-
Other service costs	11.7	11.7	-
Total	**570.3**	**530.7**	**39.6**

"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 higher costs of waste disposals paid to third parties.

"Charges for works and maintenance" includes costs relating to the construction or improvement of infrastructure held in concession as per the interpretation of IFRIC 12 and the costs of maintaining the plants. The increase as compared to the previous period is mainly due to an increase in investment on the networks under contract, as already highlighted in the dedicated note for the item "Other operating revenues."

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

"Other service costs” includes the items concerning consumption, organizational services and laboratory analyses.

5 Personnel costs

	First half 2016	First half 2015	Change
Wages and salaries	191.0	185.7	5.3
Social security contributions	64.0	60.1	3.9
Employee leaving indemnity and other benefits	0.8	0.8	-
Other costs	10.9	14.1	(3.2)
Total	**266.7**	**260.7**	**6.0**

The increase in personnel costs of 6 million euro as compared to the first half of 2015 is mainly due to the consolidation of the Waste recycling Group in the amount of 2.7 million euro (a subsidiary since 31 December 2015) in addition to the normal evolution of contractual dynamics.

The average number of employees in the first half of the year, analysed by category, is as follows:

	First half 2016	First half 2015	Change
Managers	152	151	1
Middle-management	529	508	21
Clerks	4,483	4,373	110
Blue-collar w orkers	3,271	3,379	(108)
Average number	**8,435**	**8,411**	**24**

Overall the average cost of labour per capita for the first six months of 2016 was 31.6 thousand euro (31.1 thousand in the first half of 2015).

At 30 June 2016, the actual headcount was 8,439 as compared to 8,376 employees as at 30 June 2015.

6 Amortisation, depreciation and provisions

	First half 2016	First half 2015	Change
Amortisation property,plant and equipment	76.9	79.6	(2.7)
Amortisation intangible assets	90.6	86.1	4.5
Allow ance for bad debts	36.3	35.1	1.2
Provisions for risks and charges	10.3	14.6	(4.3)
Releases from provisions	(1.4)	(1.4)	-
Total	**212.7**	**214.0**	**(1.3)**

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 control over Waste Recycling Group and Biogas 2015 Srl during the second half of 2015, as well as the acquisition of the control over the Julia Servizi Più which took place at the beginning of 2016, resulted in higher depreciation in the current period, especially as a consequence of the registration of client lists.

The item “releases from provisions” includes the re-verification of the various funds in the financial statement.

7 Other operating costs

	First half 2016	First half 2015	Change
Taxation other than income taxes	7.0	7.0	-
State rentals	2.6	3.6	(1.0)
Landfill special tax	1.8	2.8	(1.0)
Membership and other fees	1.7	1.6	0.1
Losses on disposals and divestitures of assets	0.3	3.9	(3.6)
Other minor charges	7.4	8.0	(0.6)
Total	**20.8**	**26.9**	**(6.1)**

"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.

"Landfill special tax" corresponds to the payment of ecotax on landfills managed by the Group. The decrease is mainly attributable to lower quantities of waste disposed of in landfills.

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

8 Capitalized costs

	First half 2016	First half 2015	Change
Increases in self-constructing asset	11.2	12.3	(1.1)

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

9 Share of profits (losses) pertaining to associated companies

	First half 2016	First half 2015	Change
Share of profits pertaining to joint ventures	3.2	3.2	-
Share of losses pertaining to joint ventures	-	(0.2)	0.2
Share of net profit pertaining to joint ventures	**3.2**	**3.0**	**0.2**
Share of profits pertaining to associated companies	3.6	3.6	-
Share of losses pertaining to associated companies	(0.3)	(0.3)	-
Share of net profit pertaining to associated companies	**3.3**	**3.3**	**-**
Total	**6.5**	**6.3**	**0.2**

The share of profits/losses pertaining to joint ventures and associated companies includes the effects generated by the evaluation of the companies included in the consolidation carried out using the equity method.

"Share of profits pertaining to joint ventures" relates to the companies:

- Enomondo Srl, 0.3 million euro (0.5 million euro in the first half of 2015);
- Estenergy Spa, 2.9 million euro (2.7 million euro in the first half of 2015).

"Share of losses pertaining to joint ventures" of the previous period relates to the company that is no longer part of the Elettrogorizia Spa Group.

"Share of profits pertaining to associated companies" relates mainly to the companies:

- Aimag Spa, 1.7 million euro (1.2 million euro in the first half of 2015);
- Sgr Servizi Spa, 1.8 million euro (2.4 million euro in the first half of 2015).

10 Financial income and expense

	First half 2016	First half 2015	Change
Interest rate and foreign exchange derivatives	62.5	42.7	19.8
Valuation at fair value of financial liabilities	-	7.8	(7.8)
Customers	2.6	1.2	1.4
Other financial income	3.5	5.6	(2.1)
Total income	**68.6**	**57.3**	**11.3**

	First half 2016	First half 2015	Change
Bonds	50.9	53.5	(2.6)
Interest rate and foreign exchange derivatives	41.2	31.2	10.0
Charges from valuation at fair value of financial liabilities	22.6	11.7	10.9
Discounting of provisions and financial leases	10.1	9.2	0.9
Factoring charging	3.2	4.6	(1.4)
Loans	3.4	4.9	(1.5)
Charge from the valuation of financial liabilities at amortised cost	0.1	6.6	(6.5)
Other financial expense	1.6	3.2	(1.6)
Total Expense	**133.1**	**124.9**	**8.2**

The change in financial income/expense is described, overall, in the Directors' Report.

For additional details on expenses and composition of the item "Loans" and "Bonds", please refer to note 25 "Current and non-current financial liabilities".
For "Income and expenses related to valuation at fair value of financial liabilities" and "Interest rate derivatives" reference is made to note 19 "Derivative financial instruments"

"Factoring charging" refers to financial expenses incurred to factor and securitize receivables, so as to optimize the Group's working capital management.

The item "Charges from the valuation of financial liabilities at amortised 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 6.5 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 fair value hedge for some derivatives resulted in the reclassification of the positive fair value adjustments previously associated with the underlying loan to depreciated cost.

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

	First half 2016	First half 2015	Change
Post-closure landfill	6.7	6.3	0.4
Restoration of third-party assets	2.2	1.5	0.7
Plants dismantling	0.1	0.1	-
Employee leaving indemnity and other benefits	0.9	0.8	0.1
Finance leases	0.2	0.5	(0.3)
Total	**10.1**	**9.2**	**0.9**

The increase is attributable to higher charges for discounting of the restoration of third party assets provision and the Group's landfill post-closure provisions due to a decrease in the discounting rate used, to reflect current market conditions. For landfill post-closure provisions, this effect was partly mitigated by the rescheduling of the cash flows associated with future disbursements.

11 Taxes

This item is made up as follows:

	First half 2016	First half 2015	Change
Ires	55.9	54.0	1.9
Irap	15.0	14.0	1.0
Substitute tax	0.3	0.3	-
Total	**71.2**	**68.3**	**2.9**

Income taxes are reported on the basis of the best estimate of the weighted average tax rate anticipated for the full 2016 financial year. The tax rate for the first six months of 2016 is 35.7% as compared to the 37.2% of the first six months of 2015. The reasons for this improvement are mainly attributable to the benefits that will be enjoyed in the 2016 financial year consequent to the application of the "Patent box", the tax credit for research and development activities, as well as the tax benefits associated with the maxi depreciation pursuant to the 2016 Stability Law. It should also be noted that in the first half of 2016 lower taxes relating to prior financial years have been accounted for in the amount of 1.5 million euro, resulting mainly to a different tax interpretation associated to IAS 19 relating to the provision of severance pay.

Report on the "tax moratorium"

The appeal filed by Hera Spa aimed at obtaining the interest charged by the tax authorities in relation to the years under examination (1998 and 1999) was granted by the Provincial Tax Commission of Bologna. However, in its ruling, the Commission only liquidated the higher interest unduly paid for the year 1998, failing to specify this difference for 1999, in the amount of 1,412 thousand euro. On the basis of this factual error, a request to correct this ruling was filed on 10 January 2014. At the hearing held on 17 March 2014, the Commission granted this request for correction, indicating in addition the amount of interest to be returned with reference to the 1999 assessment: the interest therefore totalled 2,707 thousand. It should be noted that, on 19 March 2014, the Office notified Hera Spa of an appeal for the partial reform of said judgment. On 20 March 2014, the Company therefore filed a counter-appeal in which it was also proposed a cross appeal in relation to this ruling. The hearing was scheduled for 24 September 2014 and the Regional Tax Commission of Bologna rejected the request to suspend the provisional execution of the ruling promoted by the Office. As of the current moment, the final hearing has yet to be scheduled. The Company is evaluating whether to promote compliance with the ruling, in order to obtain reimbursement of the amounts owed, even the arrears associated with the hearing before the Regional Tax Commission.

Except for the case described above, aimed solely at recovering what has already been paid, the entire "tax moratorium" situation shall be considered concluded, since future disbursements which create financial impacts on the Group's accounts are not expected.

Report on the assessment notices issued in 2010 to Hera Spa: management fee Ferrara and Forlì-Cesena

On 29 December 2010 Hera S.p.A. 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 use of the trademark) provided by Hera S.p.A., in its capacity as parent company of the Hera Group, to the operating

subsidiary of Forlì-Cesena, Hera Forlì-Cesena S.R.L. On 18 February 2011, the company filed a tax settlement proposal, pursuant to Art. 6, paragraph 2, of Legislative Decree no. 218 of 1997 with the Emilia Romagna General Directorate of the Revenue Agency, Large Taxpayers Office, which concluded negatively for the company. Therefore, on 20 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. Pending the tax proceedings, the company was notified of a tax payment request on 4 January 2012, for the provisional recording of 653 thousand euro, which the company paid on 29 February 2012. 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. Following these decisions, on 19 November 2012, the General Directorate of the Revenue Agency for Emilia Romagna notified the company about the cancellation of the entries made while a decision was pending and in December 2012, the Company received a refund of the sum disbursed when the original entries were made. 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. At the current moment, the hearing has not yet been scheduled for negotiating with the General Directorate of the Revenue Agency for Emilia Romagna.
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.

Disclosure of ICI assessment notices served in 2012 and 2015 to Herambiente Spa and Hera Spa

On 24 April 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 7 January 2014 it was served with the associated payment order, amounting to 766 thousand euro, while on 21 January 2014 it was notified that the entry of the assessment notice had been suspended. On 24 April 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 once again to the incinerator in Ferrara. The established amounts, including penalties and interest, amount to 1,461 and 723 thousand euro, respectively. On 7 January 2014, the company was served with the associated payment order, amounting to 2,332 thousand euro and on 21 January 2014 it was notified that measures had been taken to suspend the entry of the assessments. 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.
During the 2015 financial year, regarding the same plant, Herambiente Spa received notives for the years 2010 to 2013 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. The company filed appeals against these assessment notices; the ruling is suspended awaiting the outcome of the correlated land registry decision.
At the end of 2015, moreover, tax assessment notices were received in relation to the Via Baiona 182 and via Romea Nord plants in Ravenna for partial failure to pay ICI in 2010, in the amount of 81 thousand euro, and in 2011, in the amount of 219 thousand euro; the ruling is suspended awaiting the outcome of the correlated land registry decision.
The company, 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.

Report regarding the request to appear for non-paid Ici/Imu from 2010 to 2015 received by the Frullo Energia Ambiente Srl company

In the course of 2016 the Frullo Energia Ambiente Srl company has been notified by the Union of the Municipalities of the Terre di Pianura a request to appear, concerning the alleged unpaid ICI / IMU on the waste-to-energy plant located in the municipality of Granarolo dell'Emilia; as at the date of this report the dispute with the municipality in question is still ongoing concerning the legal grounds of the report made by the entity, which considers the current land registry classification placing the plant under the category "E", exempt from taxation, to be incorrect.

Reporting on tax audits

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 the associated assessment notices were notified, against which the company appealed while also paying one-third on a provisional basis for 100 thousand euro on 24 December 2014. The 10 June 2015 ruling of the regional tax agency was favourable to the company in terms of the deduction of the "tax wedge". 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 12 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, that company had not applied the 4.20% rate relative to the concessionary companies. On 24 January 2015 comments were submitted on the tax assessment report. On 29 April 2015 an assessment notice was served in relation to 2010, against which an appeal was filed on 10 June 2015; with the 22 June 2015 decree a a stay of execution was granted, later revoked in the closed-doors hearing held on 12 October 2015. The Company therefore provisionally paid a third of the tax assessment, in the amount of 178 thousand euro, on 23 October 2015. On 4 July 2016, the hearing was granted and the ruling is now pending.

On 15 December 2015 an assessment notice was served in relation to 2011, against which an appeal was filed on 5 February 2016. In the 9 May 2016 hearing, the stay of execution request was rejected and the Company provisionally paid a third of the tax and interest amount due in the amount of 256 thousand euro as at 27 May 2016.

Hera Trading Srl

The Revenue Office also 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 tax authorities sent the company the following in relation to the tax periods in question.

- 2007: on 28 December 2012 a communication of irregularities in the amount of 110 thousand euro, against which the Company filed an appeal on 26 February 2013. Through its decree of 27 June 2013, the CTP of Bologna rejected the stay of execution request and the Company provisionally paid a third of the tax and interest amount due. The Bologna CTP handed down a ruling on 22 July 2014, unfavourable to the Company; on 30 April 2015 the company provisionally paid the second third of the requested amount, for 21,842 euro. On 20 March 2015, the Company filed an appeal.
- 2008: on 3 February 2012, a payment order for a total of 126 thousand euro, which the company appealed. The hearing on the merits of the case was held on 15 May 2013. The ruling, handed down on June 20, 2013, was unfavourable; the amount was then paid and, simultaneously, an appealed was filed on 31 January 2014.
- 2009: on 10 October 2012 a notice of irregularity for 282 thousand euro, against which an appeal was filed on 7 December 2012. The Bologna CTP handed down its ruling on 28 May 2014, in which it ruled against the company's appeal; a counter-appeal was filed on 8 January 2015. On 13 May 2013, the payment order was delivered, including penalties and interest, in the amount of 376 thousand euro, against which an appeal was filed on 5 July 2013 before the CTP of Bologna and Trieste. On 25 November 2013, the amount was paid in that, in the meantime, the stay of execution request that had been initially granted was not confirmed. On 17 November 2014, the CTP of Bologna ruled against the Company, which has lodged an appeal, filed on 10 July 2015; the hearing has yet to be scheduled. On 16 June 2015, the CTP of Trieste ruled against the Company, which has lodged an appeal, filed on 10 February 2016; the hearing has yet to be scheduled.
- 2011: on 10 February 2016 a notice of irregularity was served in the amount of 131 thousand euro, paid on 13 February 2015.

On 28 January 2015 a tax audit was initiated at Hera Trading Srl conducted by the Finance Police - Bologna tax police unit and initially concerning the 2013 tax period but then extended to periods still open to investigation (financial years from 2010 to 2014). This investigation, which ended with the notification of preliminary findings on 9 July 2015, was focused on the correct 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 for the purposes of calculating IRES, in

addition to the company's alleged violation of the increased IRAP amount as established by Emilia-Romagna Regional Law for the 2013 tax period. The Company prepared comments on the above PVC, which were filed on 7 September 2015.
On 27 July 2015, the Emilia-Romagna Regional office of Inland Revenue served the company with a questionnaire regarding the black list costs in 2010 and 2011 requiring proof of the so-called exemptions, to which the company replied on 23 October 2015. Following these proceedings, the Revenue Office served notice of a sanction for failure to separately indicate these costs as a single item, which was resolved on 31 December 2015 with the payment of 31 thousand euro.
On 5 February 2016, the Friuili Venezia Giulia Regional Revenue office served the company with a similar questionnaire regarding the black list costs in 2012 and 2013, to which the company presented a reply on 3 May 2016 and is now awaiting the outcome of the proceedings.

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 the following from the Inland REvenue Office in relation to the respective tax periods:

- 2008: on 13 March 2012, a payment order for a total of 126,940 thousand euro, which the company appealed. The hearing for the stay of execution of the act took place 16 January 2013 (the company paid the amount in arrears), while the hearing on the merits of the case was held 15 May 2013. The ruling, handed down on 20 June 2013, was unfavourable. An appeal was therefore filed on 31 January 2014.
- 2009: On 11 October 2012, communication of irregularities in the amount of 376,175 thousand euro ,against which an appeal was presented 7 December 2012. On 19 April 2013 the payment order was received, including penalties and interest, for 485,808 thousand euro, against which the Company filed an appeal on 3 May 2013. On 4 April the discussion hearing was held and on 28 May 2014 the ruling was handed down, which was unfavourable to the company, which proceeded to pay the payment order. An appeal was then filed on 8 January 2015.
- 2010: communication of irregularities in the amount of 564,338 thousand euro, against which the Company filed an appeal on 19 July 2013. The CTP of Bologna handed down its ruling on 2 February 2015, unfavourable to the Company. The terms for filing an possible appeal are pending. On 31 March 2014 a payment order was served for 713,478 thousand euro, including penalties and interest, against which an appeal was filed on 16 May 2014. On 30 May 2014, a stay of execution was granted by Presidential Decree until 16 June 2014. On 17 June 2014, the stay of execution was rejected by order of the Commission of Bologna, and the company thus proceeded to pay the payment order in question.
- 2011: on 16 December 2016 a notice of irregularity was served in the amount of 922,147 thousand euro, paid on 15 January 2015.

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

12 Earnings per share

	First half 2016	First half 2015
Profit (loss) for the period attributable to holders of ordinary shares of the Parent Company (A)	121.0	107.3
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
- basic (B)	1,472,523,399	1,473,861,996
- diluted (C)	1,472,523,399	1,473,861,996
Earnings (loss) per share (euro)		
- basic (A/B)	**0.082**	**0.073**
- diluted (A/C)	**0.082**	**0.073**

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

As of this writing, the share capital of the parent company, Hera S.p.A., consisted of 1,489,538,745 ordinary shares, unchanged from 30 June 2015, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	30 Jun 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	560.9	16.7	567.6	16.8	(6.7)
Plants and machinery	1,216.7	6.5	1,263.9	8.1	(47.2)
Other moveable assets	113.0	0.2	113.1	0.7	(0.1)
Assets under construction and advance payments	106.5	-	83.4	-	23.1
Operating assets	**1,997.1**	**23.4**	**2,028.0**	**25.6**	**(30.9)**
Property investments	3.6	-	3.6	-	-
Total	**2,000.7**	**23.4**	**2,031.6**	**25.6**	**(30.9)**

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

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
30 Jun 2015									
Land and buildings	558.3	1.1	(3.3)	(8.1)	-	0.6	548.6	699.1	(150.5)
Plants and machinery	1,307.5	6.9	(2.4)	(57.5)	-	10.9	1,265.4	2,442.1	(1,176.8)
Other moveable assets	117.1	5.7	(0.2)	(14.0)	-	7.1	115.7	401.3	(285.5)
Asset under construction and advance payments	80.8	26.5	(0.1)	-	-	(18.3)	88.9	89.0	-
	2,063.7	**40.2**	**(6.0)**	**(79.6)**	**-**	**0.3**	**2,018.6**	**3,631.5**	**(1,612.8)**
30 Jun 2016									
Land and buildings	567.6	0.8	-	(8.3)	0.3	0.5	560.9	732.9	(172.0)
Plants and machinery	1,263.9	4.2	(2.8)	(55.0)	-	6.4	1,216.7	2,503.3	(1,286.6)
Other moveable assets	113.1	4.1	(0.3)	(13.6)	0.1	9.6	113.0	411.3	(298.3)
Asset under construction and advance payments	83.4	41.2	(0.1)	-	-	(18.0)	106.5	106.5	-
	2,028.0	**50.3**	**(3.2)**	**(76.9)**	**0.4**	**(1.5)**	**1,997.1**	**3,754.0**	**(1,756.9)**

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

"Land and buildings", totalling 560.9 million euro, consisted of 115.3 million euro in land and buildings and 445.6 million euro in buildings. In relation to land, these are mainly company-owned properties on which the majority of the sites and production plants stand.

"Plants and machinery", amounting to 1,216.7 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, waste treatment, purification and composting, material recovery and chemical-physical treatment, anaerobic digesters, and special waste treatment plants.

"Other moveable assets", equal to 113 million euro, include the equipment, waste disposal bins for 57 million euro, moveable assets, furniture and electronic machines for 14.2 million euro, and vehicles and cars for 41.8 million euro.

"Assets under construction and advance payments", amounting to 106.5 million euro, include mainly investment for development of district heating and electricity distribution and periodic replacement of waste-to-energy plant components.

"Other changes" mainly covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial period, as well as the reclassification from Property, plant and equipment to Intangible assets

14 Intangible assets

	30 Jun 2016	31 Dec 2015	Change
Industrial patents and intellectual property rights	57.0	50.6	6.4
Concessions, licences, trademarks	101.5	107.6	(6.1)
Public services under concession	2,419.0	2,444.7	(25.7)
Intangible assets under construction and public services under concession	193.1	140.2	52.9
Intangible assets under construction	43.3	47.7	(4.4)
Other	108.2	104.8	3.4
Total	**2,922.1**	**2,895.6**	**26.5**

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
30 Jun 2015									
Industrial patents and intellectual property rights	47.9	0.3	-	(9.8)	-	10.8	49.2	282.1	(232.9)
Concessions, licences, trademarks and similar rights	110.7	0.4	-	(5.9)	-	(0.1)	105.1	379.4	(274.3)
Public services under concession	2,370.2	10.5	(0.1)	(64.7)	-	34.2	2,350.1	3,687.7	(1,337.7)
Intangible assets under construction and advance payments for public services under concession	134.5	81.3	-	-	-	(26.9)	188.9	188.9	-
Work in progress and advance payments	54.2	11.3	(3.9)	-	-	(18.2)	43.4	43.4	-
Other	79.6	0.7	-	(5.7)	5.2	0.5	80.3	164.2	(83.9)
	2,797.1	**104.5**	**(4.0)**	**(86.1)**	**5.2**	**0.3**	**2,817.0**	**4,745.7**	**(1,928.8)**
30 Jun 2016									
Industrial patents and intellectual property rights	50.6	0.5	-	(10.8)	-	16.7	57.0	312.0	(255.0)
Concessions, licences, trademarks and similar rights	107.6	-	-	(6.1)	-	-	101.5	388.3	(286.8)
Public services under concession	2,444.7	11.1	(0.4)	(67.1)	-	30.7	2,419.0	3,889.8	(1,470.8)
Intangible assets under construction and advance payments for public services under concession	140.2	82.4	-	-	-	(29.5)	193.1	193.1	-
Work in progress and advance payments	47.7	12.1	-	-	-	(16.5)	43.3	43.3	-
Other	104.8	1.0	-	(6.6)	9.0		108.2	204.8	(96.6)
	2,895.6	**107.1**	**(0.4)**	**(90.6)**	**9.0**	**1.4**	**2,922.1**	**5,031.3**	**(2,109.2)**

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

"Industrial patents and intellectual property rights," in the amount of 57 million euro, mainly refers to costs incurred in purchasing and implementing corporate information systems and related applications.

"Concessions, licences, trademarks", amounting to 101.5 million euro primarily comprises the value of the rights relating to the activities of gas distribution and integrated water cycle.

"Public services under concession", amounting to 2,419 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 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.

"Intangible assets under construction and public services under concession," amounting to 193.1 million euro, refers to investments related to the these same contracts that have yet to be concluded at year-end.

"Intangible assets under construction", equal to 43.3 million euro, essentially comprises IT projects that are still incomplete.

The item "Other", amounting to 108.2 million euro, refers mainly to use rights for networks and infrastructures for the passage and laying down of telecommunication networks, to multi-year contractual rights and customer lists acquired through business combinations.

"Other changes" includes 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.

The amounts shown in the column "Change in scope of consolidation" in relation to the item "Other" include the valorisation of the customer lists associated with the entrance of Julia Servizi Più Srl into the scope consolidation, as outlined in chapter 2.2.02 "Scope of consolidation".

15 Goodwill

The item reflects mainly the following operations:

- integration resulting in the creation of Hera S.p.A. in 2002, 81.3 million euro;
- acquisition of control through the merger of Agea Spa, effective beginning 1 January 2004, 41.7 million euro:
- acquisition of control over Gruppo Meta which took place at the end of the 2005 financial year, as a result of the merger of Meta Spa into Hera Spa, 117.7 million euro;
- 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;

In accordance with the provisions of IAS 36 and in the absence of trigger events, as set forth by the standard itself, the impairment test on goodwill recorded by 30 June 2016 has not been prepared.

16 Equity investments

	30 Jun 2016	31 Dec 15	Change
Joint Venture			
Enomondo Srl	12.6	13.0	(0.4)
EstEnergy	9.6	11.3	(1.7)
Total	**22.2**	**24.3**	**(2.1)**
Associated companies			
Aimag Spa	44.5	44.1	0.4
Set Spa	35.6	35.8	(0.2)
Sgr Servizi Spa	19.5	20.6	(1.1)
Other minor companies	2.2	2.3	(0.1)
Total	**101.8**	**102.8**	**(1.0)**
Non-consolidated subsidiaries and joint ventures			
Energo doo	5.0	5.0	-
Other minor companies	1.2	1.2	-
Total	**6.2**	**6.2**	**-**
Other companies			
Calenia Energia Spa	7.0	7.0	-
Galsi Spa	12.1	12.1	-
Other minor companies	4.7	4.7	-
Total	**23.8**	**23.8**	**-**
Total equity investments	**154.0**	**157.1**	**(3.1)**

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 amount of the result concerning the companies valuated using the net equity method is displayed in note 9.

Among "Other companies", the item "other minor companies" mainly includes the non-qualified equity investment in Veneta Sanitaria Finanza di Progetto S.p.A., held at 17.50% and with a carrying amount of 3.6 million euro.

The Group, in compliance with the provisions of IAS 36, in the absence of a triggering event, has not conducted an impairment test for electricity generation assets (Calenia Energia Spa, Set Spa and Tamarete Energia Srl).

17 Financial assets

	30 Jun 2016	31 Dec 2015	Change
Receivables for loans	77.3	78.0	(0.7)
Portfolio securities	2.4	2.8	(0.4)
Other financial receivables	45.3	44.4	0.9
Total non-current financial assets	**125.0**	**125.2**	**(0.2)**
Receivables for loans	15.0	16.8	(1.8)
Portfolio securities	3.6	6.0	(2.4)
Other financial receivables	18.1	11.8	6.3
Total current financial assets	**36.7**	**34.6**	**2.1**
Total cash and cash equivalents	**248.3**	**541.6**	**(293.3)**
Total financial assets, Cash and cash equivalents	**410.0**	**701.4**	**(291.4)**

"Receivables for loans" comprises non-interest bearing loans or loans regulated at market rate, made to the following companies:

	30 Jun 2016			31 Dec 2015		
	non current portion	current portion	Total	non current portion	current portion	Total
Enomondo Srl	-	4.1	4.1	-	4.1	4.1
Aloe Srl	10.2	-	10.2	10.4	0.4	10.8
Set Spa	30.9	7.3	38.2	32.2	7.3	39.5
Tamarete Energia Srl	27.7	2.5	30.2	28.6	2.5	31.1
Other	8.5	1.1	9.6	6.8	2.5	9.3
Total	**77.3**	**15.0**	**92.3**	**78.0**	**16.8**	**94.8**

"Portfolio Securities" includes, in the non-current section, bonds and securities issued by BPER 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.

Bonds and certificates of deposit 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. Their decrease compared to 31 December 2015 is attributable to the extinction, in the initial months of 2016, of bonds and insurance policies held by the Waste Recycling Spa subsidiary.

For "Other financial receivables", the non-current section includes the following financial positions regulated at market rates in relation to:

- The City of Padua, concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 18.2 million euro;
- Acosea Impianti Srl, regarding a security deposit in the amount of 12.4 million euro;
- The "Collinare" Consortium of Municipalities in the amount of 11.3 million euro represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- Municipality of Padua, following the deferral of payment over ten years for supplying electricity for public lighting systems in the amount of 1.3 million euro;

The current part mainly consists of:

- 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 AcegasApsAmga Spa, in the amount of over 6.8 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 2.2 million euro;
- Deposit paid by the Herambiente Spa subsidiary to purchase a business unit from Geonova for 2.2 million euro;
- Blocked accounts to guarantee continued operations on the exchange platform by Hera Trading Srl, for 1.4 million euro;
- the provision of electricity to the Municipality of Padua for public lighting systems, for 1.4 million euro, (please see the previous note for the non-current amount).
- 1.3 million euro receivable from Prima.Vera Spa (now Zephyro spa) concerning a public lighting contract managed by Sinergie Spa.
- Receivables for contingent consideration related to the transfer of the investment in Hera Energie Rinnovabili Spa (now Aloe Spa) to Agave Srl for 0.7 million euro.

"Cash and cash equivalents" includes 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 248.2 million euro. Additional details about cash inflows and outflows for the financial period are available in the cash flow statement and the comments shown in the Directors' report.

18 Deferred tax assets and liabilities

	30 Jun 2016	31 Dec 2015	Change
Differred tax assets	128.8	130.7	(1.9)
Deferred taxation adjustment	(54.4)	(60.7)	6.3
Substitute tax credit	2.7	3.0	(0.3)
Total net deferred tax assets	**77.1**	**73.0**	**4.1**
Deferred tax liabilities	79.9	84.5	(4.6)
Deferred taxation adjustment	(54.4)	(60.7)	6.3
Total net deferred tax liabilities	**25.5**	**23.8**	**1.7**

"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.

The item "Substitute tax credit" as an advance payment on current taxes, represents the amount paid for the release of goodwill reported in prior years for tax purposes.

19 Financial instruments - derivatives

Non current assets/liabilities					
Underlying	Fair Value Hierarchy	30 Jun 2016		31 Dec 2015	
		Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Interest rate and foreign exchange derivatives					
Loans	2	115.2		93.4	
Loans	2		60.8		33.4
Total Interest rate and foreign exchange derivatives		**115.2**	**60.8**	**93.4**	**33.4**
Exchange rate derivatives (financial transactions)					
Loans	2	44.4		14.8	
Total		**159.6**	**60.8**	**108.2**	**33.4**

Current assets/liabilities					
Underlying	Fair Value Hierarchy	30 Jun 2016		31 Dec 2015	
		Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Commodity derivatives					
Commodity	3		2.8	0.5	8.5
Commodity	2	16.5	20.5	6.0	13.8
Total		**16.5**	**23.3**	**6.5**	**22.3**

Derivative financial instruments classified under non-current liabilities amounted to 159.6 million euro (108.2 million euro as at 31 December 2015); they refer to interest rate derivatives for 115.2 million euro and to derivatives on exchange rates in connection to loans for 44.4 million euro. Derivative financial instruments classified under non-current assets amounted to 60.8 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 16.5 million euro (6.5 million euro as at 31 December 2015) and refer entirely to commodity derivatives. The derivative financial instruments classified as current assets amounted to 23.3 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 as at 30 June 2016, the Group's net exposure was positive by 54.4 million euro, compared with a positive exposure of 60 million euro as at 31 December 2015. The negative change in the fair value compared to the previous year is attributable to the earning of positive differentials from the derivatives cashed in the financial period and, simultaneously, to the increase of the yield curve due mainly to higher uncertainty levels in the market as a result of the referendum for Britain's exit from the European Economic Community (Brexit) in late June. This uniquely refers to hedging for fixed-rate financial liabilities.

As at 30 June 2016, the fair value of derivatives set up to hedge the exchange rate and the fair value of foreign currency loans is positive in the amount of 44.4 million euro as compared to an assessment that was also positive, amounting to 14.8 million euro, as at 31 December 2015. The marked positive change in fair value in the amount of approximately 29.6 million euro is due prevalently to the exchange rate, since the Japanese yen gained considerably on the euro during the, first six months of 2016. The gain in value of the Japanese Yen is also attributable to the Brexit effect, as the Japanese currency is considered less vulnerable to turbulence associated to the British referendum.

At 30 June 2016 the net fair value of commodity and currency derivatives was negative for 6.8 million euro, as compared to a negative fair value of 15.8 million euro at 31 December 2015. The reduction of the recorded overall exposure compared to 31 December 2015 is mainly due to the dynamics of the national single price (PUN) for electricity contracts, which constitute the majority of the volume managed.

During the first six months of 2016, no transfers took place between the different levels of fair value indicated above.

Interest rate and foreign exchange derivative instruments held as at 30 June 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	30 Jun 2016			31 Dec 2015		
	Fair Value Assets	Fair Value Liabilities	Net effect	Fair Value Assets	Fair Value Liabilities	Net effect
Cash Flow Hedge	-	1.7	(1.7)	-	2.0	(2.0)
Fair Value Hedge	44.4	35.6	8.8	14.8	28.9	(14.1)
Non Hedge Accounting	115.2	23.5	91.7	93.4	2.5	90.9
Total fair value	**159.6**	**60.8**	**98.8**	**108.2**	**33.4**	**74.8**
Type	First half 2016			First half 2015		
	Income	Expense	Net effect	Income	Expense	Net effect
Cash Flow Hedge	-	0.5	(0.5)	-	0.8	(0.8)
Fair Value Hedge	31.8	10.8	21.0	14.1	5.5	8.6
Non Hedge Accounting	30.7	29.9	0.8	28.6	24.9	3.7
Total Income / expense	**62.5**	**41.2**	**21.3**	**42.7**	**31.2**	**11.5**

Interest rate derivatives identified as cash flow hedges show a negative fir value of 1.7 million euro (2 million euro as at 31 December 2015) against variable rate loans of the same amount. The positive change is mainly due to the reimbursement of equity interests in the underlying investments. Income and charges associated to said class of derivatives predominantly refer to cash flows realised, or to the recording of shares of future flows, which shall have a financial impact in the following period.

The derivatives on interest rates and exchange rates, identified as fair value hedges of liabilities reported in the balance sheet (fair value hedges) have a residual notional value of 8.8 million euro as compared to a positive fair value of 13.9 million euro, as at 31 December 2015. The positive change for the period amounts to 22.8 million euro and is mainly due to the above mentioned exchange effect.

The derivatives on interest rates and exchange rates, not identified as fair value hedges (non-hedge accounting) have an overall fair value of 91.7 million euro as compared to a positive fair value of 90.9 million euro, as at 31 December 2015. In this regard, it should be noted that, during the 2015 financial 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.

In cases of foreign currency financing, the notional value of the derivative in euro represents conversion at the original exchange rate hedged. Specifically, financial liabilities hedged refer to a bond loan in Japanese yen with a notional residual value of 20 billion yen or 149.8 million euro. The valuation of these derivatives resulted in the recording of a net financial income of 22.8 million euro; simultaneously, the value of the underlying loans has been corrected by detecting net financial expenses in the amount of 22.6 million euro.

The table below provides a breakdown at 30 June 2016 of financial income and expense associated with the underlying liabilities, as adjusted for the income and losses attributable to the hedged risk:

Underlying	First half 2016			First half 2015		
	Income	Expense	Net effect	Income	Expense	Net effect
Financial liabilities valutation	-	22.6	(22.6)	7.8	11.7	(3.9)

Commodity derivative instruments held as at 30 June 2016 can be classed into the following categories (figures in millions of euro):

Commodity/change rate derivatives (commercial transactions)						
Type	30 Jun 2016			30 Jun 2015		
	Fair Value Assets	Fair Value Liabilities	Net effect	Fair Value Assets	Fair Value Liabilities	Net effect
Non Hedge Accounting	16.5	23.3	(6.8)	11.0	16.5	(5.5)
Type	First half 2016			First half 2015		
	Income	Expense	Net effect	Income	Expense	Net effect
Non Hedge Accounting	33.2	31.5	1.7	61.2	63.6	(2.4)

At financial year-end there were no commodity derivatives accounted for as hedges.

The commodity derivatives classified as non-hedge accounting also 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 recognised as operating costs.

Overall, these derivatives, in the first six months of 2016, generated a net income of 1.7 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.

Market risk and currency risk on commercial transactions

Concerning the wholesale business carried on by Hera Trading Srl, the Group manages risks related to the misalignment between indexation formulas related to the purchase of gas and electric energy and the indexation formulas related to the sales of the same commodities (including contracts entered into at fixed prices) as well as exchange rate risks in case the trading contracts for the commodities are denominated in currencies other than the euro (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.

20 Inventories

	30 Jun 2016	31 Dec 2015	Change
Raw materials and stock	60.7	84.5	(23.8)
Materials held for sale and finished products	10.4	10.2	0.2
Contract w ork in progress	23.4	21.6	1.8
Total	**94.5**	**116.3**	**(21.8)**

"Raw materials and stock", stated net of an obsolescence provision, amount to 60.7 million euro and mainly comprise gas stocks, for 29.1 million euro(53.2 million euro as at 31 December 2015), spare parts and equipment used for maintenance and running of operating plants, equal to 31.6 million euro (31.3 million euro as at 31 December 2015).

The item "Materials held 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 the changes in the regulatory framework, the Group decided not to proceed with the construction of the new line, as it was not able, among other things, to request an additional time extension for beginning the construction work. It is still considered feasible to recover the carrying value of these inventories by selling them on the market to potential buyers that have already been identified, or alternatively through the revamping of other incineration plants already owned by the Group.

The item "Contract work in progress", which amounts to 23.4 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 of 8.8 million euro), as well as for design activities aimed at acquiring commissions in the national and international markets.

21 Trade receivables

	30 Jun 2016	31 Dec 2015	Change
Trade receivables	1,125.9	1,115.9	10.0
Allowance for bad debt	(223.9)	(203.4)	(20.5)
Intangible assets under construction	564.3	620.5	(56.2)
Total	**1,466.3**	**1,533.0**	**(66.7)**

Trade receivables comprises estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 30 June 2016. The provisions for bad debts, equal to 223.9 million euro (203.4 million euro as at 31 December 2015) are considered to be adequate in relation to the estimated realizable value of said receivables.

Changes in the allowance for bad debt were as follows:

	Opening balance	Allocation to provisions	Change in the scope of consolidation	Uses and other movements	Closing balance
30 Jun 2015	183.0	35.1	2.1	(16.4)	203.8
30 Jun 2016	203.4	36.3	0.5	(16.3)	223.9

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, as described in the following paragraph "credit risk".

The change in the scope of consolidation mainly reflects the acquisition of control over the company Julia Servizi Più Srl, as outlined in these notes in the paragraph 2.02.02 "Scope of consolidation."

Credit risk

The value of trade receivables reported in the financial statements at 30 June 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 the mass client base that does not undergo individual write-downs, allocations are made to the provision for doubtful receivables, 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, 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

	30 Jun 2016	31 Dec 2015	Change
Income tax credits	20.6	8.2	12.4
IRES refund credit	20.9	20.9	-
Total current tax assets	**41.5**	**29.1**	**12.4**
Income tax payable	96.5	15.3	81.2
Substitute tax payable	6.4	10.4	(4.0)
Total current tax liabilities	**102.9**	**25.7**	**77.2**

"Income tax credits" refer to the excess advance IRES and IRAP payments over the tax amount payable as well as advance payments made in the first half of 2016. 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 payable" includes provisions for IRES and IRAP made in relation to profit for the period. The item "Substitute tax payable" reflects the remaining instalments to be paid for the value alignment of certain assets carried out in previous financial periods.

23 Other current assets

	30 Jun 2016	31 Dec 2015	Change
Certificates of energy efficiency and emission trading	64.6	67.2	(2.6)
Prepaid costs	40.8	16.2	24.6
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	34.0	32.3	1.7
VAT, excise and additional taxes	25.0	29.6	(4.6)
Advances to suppliers/employees	11.6	6.5	5.1
Security deposits	10.4	11.4	(1.0)
Receivables related to other advances	6.3	5.7	0.6
Receivables related to tariff components	5.2	9.5	(4.3)
Other receivables	50.0	47.7	2.3
Total	**247.9**	**226.1**	**21.8**

"Certificates of energy efficiency and emission trading", includes:

- green certificates, 17 million euro (42.1 million euro as at 31 December 2015);
- White certificates, 46.2 million euro (22.4 million euro as at 31 December 2015);
- grey certificates, 1.2 million euro (2.7 million euro as at 31 December 2015);

The significant decrease in the number of green certificaes held in portfolio as compared to 31 December 2015 can be attributed to the new incentive mechanism for the production of electricity from renewable sources, on the basis of which green certificates are no longer recognized, but which rather establishes an advantageous rate for the sale of electricity. Consequently, the portfolio of this type of bonds will be cancelled with a negative effect in terms of evaluation, delivery times to GSE or sales on the market. In relation to white certificates, the increase in the value of the portfolio is primarily due to the recording of the amount of certificates recognized in the period, waiting to cash from the Compensation fund the value reported for the previous financial year.

"Prepaid costs" are costs incurred such as fourteenth monthly pay accrued as of 30 June 2016, insurance policies, surety, bank fees and charges, fees due and concession fees for network services, external services and activities, taxes and taxes prepaid as of the reference date.

"Equalisation fund for the electricity and gas sectors for standardisation and continuity income", totaling 34 million euro (32.3 million euro as at 31 December 2015). The increase is mainly attributable to a higher 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 lower amount than the previous financial year.

"VAT, excise and additional taxes", amounting to 25 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 18.4 million euro and for excise and additional taxes in the amount of 6.6 million euro. The change as compared to 31 December 2015 is attributable to a decrease of 4.9 million euro in receivables for value added tax (23.3 million euro at 31 December 2015) and an increase of 0.2 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.

"Advances to suppliers and employees", amounting to 11.6 million euro (6.5 million euro as at 31 December 2015) increased as compared to the previous financial year mainly owing to payment of new advance payments to suppliers.

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 a varability 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 for grants, various tax credits, fees for network service concessions and receivables from asset companies.

24 Share capital and reserves

Compared to 31 December 2015, shareholders' equity increased by 29.7 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 6.9 million euro;
- overall revenues for the period in the amount of 121.1 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 30 June 2016 amounted to 1,471.4 million euro, made up of 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up.
The treasury shares, whose nominal value at 30 June 2016 was 17.7 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 741 million euro, include retained earnings and reserves accrused in previous financial years and in-kind equity injections, or shares, in the amount of 785 million euro, cumulative loss in the other comprehensive income (OCI) reserve for 32.7 million euro and reserves for operations on negative treasury shares in the amount of 11.3 million euro. These latter items reflect transactions carried out on treasury shares as at 30 June 2016. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 1.6 milion 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

	30 Jun 2016	31 Dec 2015	Change
Loans	2,921.9	2,920.4	1.5
Other financial liabilities	5.4	5.8	(0.4)
Financial leasing payables	15.9	17.6	(1.7)
Total non-current financial assets	**2,943.2**	**2,943.8**	**(0.6)**
Loans	87.4	284.9	(197.5)
Other financial liabilities	11.2	68.2	(57.0)
Financial leasing payables	1.8	2.0	(0.2)
Overdrafts and interest expense	89.5	129.2	(39.7)
Total non-current financial assets	**189.9**	**484.3**	**(294.4)**
Total financial liabilities	**3,133.1**	**3,428.1**	**(295.0)**

The main change as compare to the items associated to "Financial leasing payables" is due for its current part to reimbursement of the eurobond due to mature in February 2016 with a residual value of 195.4 million euro.

At 30 June 2016, the item "Other financial liabilities" includes, for the portion due after the close of the financial year, the debt amounting to 5.2 million euro owed to the municipal pension fund of the City of Trieste by AcegasApsAmga Spa.
The current portion, amounting to 11.2 million euro, mainly includes debt to municipalities for TARI payments in the amount of 8.5 million euro (35.3 million euro as of 31 December 2015). In addittion, it is reported the closure of the advance payment from Mediocredito Italiano to repay white certificates in the amount of 27.8 million euro as of 31 December 2015.

At 30 June 2016 the Hera Group provided the following security interests for certain bank loans. Specifically:

- mortgages and special liens on property, plant and equipment by the Hera Group to the syndicate of banks that extended a loan to the subsidiary Fea S.r.l. whose nominal amount outstanding is now 25.5 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 2.3 million euro.
- mortgages securing the loan granted to the subsidiary AcegasApsAmga Spa, with a nominal outstanding value of 2.1 million euro.

The table below shows the bonds and loans as at 30 June 2016, with an indication of the portion expiring within 12 months, within 5 years and after 5 years:

Type	Residual amount 30 June 2016	Portion due within the period	Portion due within 5° year	Portion due beyond 5° year
Bond	2,377.1	-	1,062.5	1,314.6
Bank loans	632.2	87.4	203.2	341.6
Other financial liabilities	16.6	11.2	5.4	-
Financial leasing payables	17.7	1.8	7.3	8.6
Overdrafts and interest expense	89.5	89.5	-	-
Total loans and financial liabilities	**3,133.1**	**189.9**	**1,278.4**	**1,664.8**

The following shows the main terms and conditions for the bonds outstanding as at 30 June 2016:

Bonds		Duration (year)	Maturity	Nominal value (mln)	Coupon	Annual interest rate
Eurobond	Luxembourg Stock Exchange	10	3-dic-19	500 Eur	Fixed, annual	4.500%
Green Bond	Luxembourg Stock Exchange	10	4-lug-24	500 Eur	Fixed, annual	2.375%
Bond	Unlisted	15	5-ago-24	20,000 Jpy	‹ed, six montl	2.925%
Bond	Luxembourg Stock Exchange	10	22-mag-23	68 Eur	Fixed, annual	3.375%
Bond	Luxembourg Stock Exchange	12	22-mag-25	15 Eur	Fixed, annual	3.500%
Bond	Unlisted	15/20	14 May 2027/2032	103 Eur	Fixed, annual	5.250%
Bond	Luxembourg Stock Exchange	15	29-gen-28	700 Eur	Fixed, annual	5.200%
Bond	Luxembourg Stock Exchange	8	4-ott-21	500 Eur	Fixed, annual	3.250%

At 30 June 2016, the total bonds outstanding, with a nominal value of 2,535 million euro, had a fair value of 3,148 million euro, as determined on the basis of market quotations, when available.
There are no covenants on the debt except that, for one loan, which requires the company not to have even one agency lower its rating below investment grade (BBB-). As of the balance sheet date this covenant

The item "Financial lease payables" represents the recording of payables arising from accounting for leasing transactions using the financial method. The decrease as compared to 31 December 2015 is due, in addition to payment of the matured capital shares, to the advance redemption of a lease associated to a biogas production plant.
The value of the lease payments still due on 30 June 2016 amounted to 19.5 million euro.

Specifically:
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 30 June 2016 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 1.10 "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 applied actualization rate changes for every company according to the average lenght of the bond and if the actuarial projections were made on the basis of the Euro Composite AA yield curve.

The table below shows the changes in the above provisions during the year:

	31 Dec 2015	Service cost	Financial expense	Actuarial gains/ losses	Uses and other movements	30 Jun 2016
Employee leaving indemnity	129.9	0.3	0.7	7.1	(2.5)	135.5
Provision for tariff reduction	8.0	0.3	0.1	0.6	(0.2)	8.8
Premungas	5.3	0.1	-	-	(0.2)	5.2
Gas discount	5.1	0.1	0.1	0.2	(0.4)	5.1
Total	**148.3**	**0.8**	**0.9**	**7.9**	**(3.3)**	**154.6**

"Increases" represents the amounts associated with the first six months of 2016 related to service cost economic components and net interest cost.

Actuarial "gains/losses" reflect 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 over the course of the period, amounting to 3.3 million euro.

27 Provisions for risks and charges

	31 Dec 2015	Provisions	Financial expense	Uses and other movements	Changes in the scope of consolidation	30 Jun 2016
Provisions for landfill post-closure and closure expenses	115.7	0.5	6.7	(6.9)	-	116.0
Provision for restoration of third-party assets	162.0	5.1	2.2	-	-	169.3
Provisions for labour disputes	25.5	1.2	-	(1.9)	-	24.8
Other provisions for risks and charges	62.1	3.5	0.1	(5.6)	0.3	60.4
Total	**365.3**	**10.3**	**9.0**	**(14.4)**	**0.3**	**370.5**

The "provision for landfill closure and post-closure expenses", equal to 116 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 managed. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting and provision procedure due to changes in the assumptions on future outlays, following the change in estimates both on current and closed landfills. Uses represent the effective outlays during the year.
"Uses and other movements" decreased by a net amount of 6.9 million euro due to actual cash outlays for the management of landfills, of which 3.2 million euro refer to internal costs (see note 2 for further details);

The" provision for restoration of third-party assets", totalling 169.3 million euro, includes provisions made in relation to law and contractual requirements for Hera S.p.A. and Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. The provision reflects the present value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted to present value, and the financial charges for the period associated with the cash flows discounted to present value.

The "provision for legal cases and disputes brought by personnel", amounting to 24.8 million euro, reflects the outcomes of lawsuits and disputes brought by employees. The provision includes 6 million euro relating to the dispute with INPS, mainly connected to the subsidiary AcegasApsAmga Spa. 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. As concerns Hera Spa and certain Group companies, the dispute has been permanently closed following an agreement signed 25 January 2013 with INPS and Equitalia, and the payment of the premiums and contributions payable with associated interest. Civil penalties remain to be paid, for which an extension has been requested. 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 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. The lawsuit, originally brought only in the Court of Bologna, as requested by INPS was separated into different lawsuits brought in various courts, for taxes relating to each respective provincial INPS office. 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 60.4 million euro, comprises provisions made against sundry risks. Below, there is a description of the main items:

- 11.3 milion euro, due to the potential liability related to existing obigations (guarantee on financial exposure given by Acegas S.p.A.) in case of abandonment of the operations run by the foreign subsidiaries Rilagas (Bulgaria) and Sigas (Serbia).
- 8.6 million euro for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill.
- 6.7 million euro, for the future decommissioning of the WTE plants of Trieste and Padua. This provisions includes financial charges deriving from the discounting process;
- 4.3 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;
- 2.5 million euro, related to the provisions made to cover actual losses considering the future prospects of Oikothen Scral in liquidation;

The item "Uses and other movements" decreased by 5.6 million euro, as follows:

- uses for 4.4 million euro, of which 1.8 associated to costs incurred for the disposal of waste deposited at the end of the previous financial year and 1.9 million euro for penalties associated to the gas distribution service;
- de-provisioning for 1.2 million euro due to the annulment of liability for which the provision was established.

The variation in the scope of consolidation is due to having acquired control over Julia Servizi Più Srl.

28 Trade payables

	30 Jun 2016	31 Dec 2015	Change
Trade payables	362.3	531.6	(169.3)
Trade payables – invoices receivable	545.0	589.7	(44.7)
Total	**907.3**	**1,121.3**	**(214.0)**

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

29 Other current liabilities

	30 Jun 2016	31 Dec 2015	Change
Capital grants	133.8	132.2	1.6
VAT, excise and additional taxes	115.5	11.0	104.5
Security deposits	102.0	97.9	4.1
Payables due to advances to the Equalisation Fund	100.1	104.9	(4.8)
Equalisation Fund	64.3	54.2	10.1
Personnel	44.5	38.3	6.2
Due to social security institutions	43.7	39.7	4.0
Revenues paid in advance other expense	14.7	14.5	0.2
Employee w ithholdings	13.2	16.8	(3.6)
Other payables	85.0	75.1	9.9
Total	**716.8**	**584.6**	**132.2**

"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.

"VAT, excise and additional taxes" includes 32.1 million euro of VAT (2.2 million euro at 31 December 2015), with an increase of 29.9 million euro due in part to the fact the the yearly advance payment is payed at the end of the month of December, thus reducing the debt exposure as of this date. This item includes, additionally, 83.4 million euro of excise and additonal taxes (8.8 million euro as at 31 December 2015) with an increase of 74.6 million euro. As illustrated in note 23, "Other current assets", this increase must be understood taking into account the factors that regulate financial relations with the Inland Revenue Office, which can generate credit/debit positions with differences that can be significant even between one financial period and another.

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

"Payables for advances to the equalization fund", comprising the following:

- 98.3 million euro (103.1 million euro as at 31 December 2015) for the debt recorded in relation to the non-interest-bearing advances granted by the electricity sector Equalization Fund 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;
- 1.8 million euro, related to the debts associated with the APR mechanism for re-negotiating mtuli-year contracts for natural gas.

"Equalisation Fund for the Electricity and Gas Sectors", reflects the debt positions for equalization on the gas distribution/measurement, some components of the gas service system and equalization of the electricity service.

“Personnel" includes the vacation time accrued and not used as of 30 June 2016, as well as the productivity bonuses accounted for by department.

"Payables to social security institutions", relates to contributions owed to these institutions for the month of June.
"Other payables" mainly include debts owed to minority shareholders for dividends in the amount of 10.9 million euro and debts for tariff components amounting to 4.1 million euro.

30 Comments on the consolidated cash flow statement

Investments in companies and business operations

During the first six months of 2016 year control was acquired over the sale company Julia Servizi Più Srl. The cash outlay for the acquisition was approximally 5.4 milion euro andwhile the aquired cash equivalents amounted to 0.2 million euro. For the analysis of the fair value of the assets acquired and liabilities taken on, see the section 2.02.02 "Scope of consolidation" at the beginning of these notes.

Acquisition of Interests in consolidated companies

In the first six months of the previous financial year, the amount of 27 million euro as a whole refers to the cash outlay related to the purchase of minority shares in Akron Spa (a company tha was subsequently merged into Herambiente Spa).

2.02.05 REPORTING BY SECTOR OF OPERATION

The outlining of the results by area of operation is carried out based on the approach used by management to monitor the Group's performance by homogeneous business areas. Net costs and assets of the business support functions, in line with the internal control model, are entirely due to the operating businesses.

At 30 June 2016 the Hera Group is organized according to the following areas of operation:

- Gas: includes the costs of distributing and selling methane and GPL, district heating and heat management;
- Electricity: includes the costs of producing, distributing and selling electricity;
- Water Cycle: includes the aqueduct, water purification and sewage;
- Environment: includes the collection, tratment, recovery and disposal of waste;
- Other services: Includes public lighting, telecommunications and other minor services.

The main assets and liabilities by sector of operation for the 2015 financial year and the first six months of 2016 are listed below.

	Gas	Electricity	Water	Environment	Other services	Total
31 Dec 2015						
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**
Fondi diversi	(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**
30 Jun 2016						
Assets (property, plant and equipment and intangibles)	1,427.2	583.1	1,747.3	1,062.5	102.8	**4,922.9**
Goodwill	112.3	42.3	42.5	176.0	4.9	**378.0**
Non-controlling interests	67.0	45.8	18.6	22.5	0.1	**154.0**
Fixed assets not attributed						**51.6**
Net non-current assets	**1,606.5**	**671.2**	**1,808.4**	**1,261.0**	**107.8**	**5,506.5**
Net working capital attributed	(73.0)	193.2	(10.6)	52.7	22.4	**184.7**
Net working capital non attributed						**(68.3)**
Net working capital	**(73.0)**	**193.2**	**(10.6)**	**52.7**	**22.4**	**116.4**
Fondi diversi	(155.5)	(37.0)	(115.4)	(212.3)	(4.9)	**(525.1)**
Net invested capital	**1,378.0**	**827.4**	**1,682.4**	**1,101.4**	**125.3**	**5,097.8**

The main results by sector of operation for the 2015 financial year and the first six months of 2016 are listed below:

Income Statement June 2016

	Gas	Electricity	Water	Environment	Other Services	Structure	Total	Consolidated Financial Statements
Direct revenues	762.3	669.4	364.2	468.9	44.7	5.1	2,314.6	2,314.6
Infracyclical revenues	25.5	26.0	3.0	19.9	14.5	12.7	101.6	
Total direct revenues	**787.8**	**695.3**	**367.2**	**488.8**	**59.3**	**17.9**	**2,416.2**	**2,314.6**
Indirect revenues	5.9	2.4	6.9	2.6	0.0	-17.9		
Total revenue	**793.8**	**697.7**	**374.1**	**491.4**	**59.3**	**0.0**	**2,416.2**	**2,314.6**
EBITDA	**162.0**	**76.3**	**106.6**	**116.5**	**8.7**	**0.0**	**470.1**	**470.1**
Amortization, depreciation and direct provisions	52.1	29.9	49.0	58.6	7.1	16.1	212.7	212.7
Amortization, depreciation and indirect provisions	5.3	2.4	7.3	0.7	0.2	-16.1		
Total amortization, depreciation and provisions	**57.5**	**32.3**	**56.4**	**59.3**	**7.3**	**0.0**	**212.7**	**212.7**
R.O.	**104.6**	**44.0**	**50.2**	**57.2**	**1.4**	**0.0**	**257.4**	**257.4**

Income Statement June 2015

	Gas	Electricity	Water	Environment	Other Services	Structure	Total	Consolidated Financial Statements
Direct revenues	851.4	685.7	368.0	403.4	46.4	14.0	2,368.9	2,368.9
Infracyclical revenues	33.3	30.7	2.1	23.8	14.0	4.6	108.5	
Total direct revenues	**884.7**	**716.4**	**370.1**	**427.2**	**60.4**	**18.6**	**2,477.4**	**2,368.9**
Indirect revenues	6.7	1.7	7.3	2.9	0.0	-18.6	0.0	
Total revenue	**891.4**	**718.1**	**377.4**	**430.1**	**60.4**	**0.0**	**2,477.4**	**2,368.9**
EBITDA	**172.5**	**49.6**	**107.6**	**119.8**	**9.6**	**0.0**	**459.1**	**459.1**
Amortization, depreciation and direct provisions	53.7	28.3	47.1	60.6	7.7	16.6	214.0	214.0
Amortization, depreciation and indirect provisions	5.4	2.5	7.6	0.9	0.2	-16.6		
Total amortization, depreciation and provisions	**59.2**	**30.8**	**54.7**	**61.5**	**7.9**	**0.0**	**214.0**	**214.0**
R.O.	**113.3**	**18.8**	**53.0**	**58.3**	**1.7**	**0.0**	**245.0**	**245.0**

2.03 NET BORROWINGS

2.03.01 NET BORROWINGS

€/mln		30 Jun 2016	31 Dec 2015
a	**Cash and cash equivalents**	**248.3**	**541.5**
b	**Other current financial receivables**	**36.7**	**34.7**
	Current bank debt	(89.5)	(129.2)
	Current portion of bank debt	(87.4)	(284.9)
	Other current financial liabilities	(11.2)	(68.2)
	Finance lease payables due within 12 months	(1.8)	(2.0)
c	**Current financial debt**	**(189.9)**	**(484.3)**
d=a+b+c	**Net current financial debt**	**95.1**	**91.9**
	Non-current bank debt and bonds issued	(2,823.2)	(2,845.4)
	Other current financial liabilities	(5.4)	(5.8)
	Lease payments due after 12 months	(15.9)	(17.6)
e	**Non-current financial debt**	**(2,844.5)**	**(2,868.8)**
f=d+e	**Net financial position - CONSOB Communication No 15519 of 28/07/2006**	**(2,749.4)**	**(2,776.9)**
g	**Non-current financial receivables**	**125.0**	**125.2**
h=f+g	**Net non-current financial debt**	**(2,624.4)**	**(2,651.7)**

2.03.02 NET BORROWINGS PURSUANT TO CONSOB DELIBERATION DEM/6064293 OF 2006

(€/mln)		30 Jun 2016	A	B	C	D	31 Dec 2015	A	B	C	D
a	**Cash and cash equivalents**	**248.3**					**541.6**				
	of which Related parties										
b	**Other current financial receivables**	**36.7**					**34.6**				
	of which Related parties		**0.0**	**14.1**	**2.4**	**1.2**		**0.0**	**14.1**	**1.9**	**1.0**
	Current bank debt	(89.5)					(129)				
	Current portion of bank debt	(87.4)		(0.8)			(284.9)		(0.8)		
	Other current financial liabilities	(11.2)			(1.6)		(68)			(13.6)	
	Finance lease payables due within 12 months	(1.8)					(2)				
c	**Current financial debt**	**(189.9)**					**(484.3)**				
	of which Related parties		**0.0**	**(0.8)**	**(1.6)**	**0.0**		**0.0**	**(0.8)**	**(13.6)**	**0.0**
d=a+b+c	**Net current financial debt**	**95.1**					**91.9**				
	of which Related parties		**0.0**	**13.3**	**0.7**	**1.2**		**0.0**	**13.3**	**(11.7)**	**1.0**
	Non-current bank debt and bonds issued	(2,823.2)					(2,845)				
	Other current financial liabilities	(5.4)			(5.2)		(6)			(5.5)	
	Lease payments due after 12 months	(15.9)					(18)				
e	**Non-current financial debt**	**(2,844.5)**					**(2,868.8)**				
	of which Related parties		**0.0**	**0.0**	**(5.2)**	**0.0**		**0.0**	**0.0**	**(5.5)**	**0.0**
f=d+e	**Net financial position - CONSOB Communication No 15519 of 28/07/2006**	**(2,749.4)**					**(2,776.9)**				
	of which Related parties		**0.0**	**13.3**	**(4.4)**	**1.2**		**0.0**	**13.3**	**(17.2)**	**1.0**
g	**Non-current financial receivables**	**125.0**					**125.2**				
	of which Related parties		**0.0**	**62.3**	**19.4**	**27.4**		**0.0**	**64.5**	**19.6**	**25.1**
h=f+g	**Net non-current financial debt**	**(2,624.4)**					**(2,651.7)**				
	of which Related parties		**0.0**	**75.6**	**15.0**	**28.6**		**0.0**	**77.8**	**2.4**	**26.1**

Key to the colomn headings for related parties:

Group A. Non-consolidated subsidiariess

Group B Associated and jointly controlled companies

Group C Related parties with significant influences

Group D Other related parties

2.04 FINANCIAL STATEMENT FORMATS - CONSOB DELIBERATION 15519/2006

2.04.01 INCOME STATEMENT PURSUANT TO CONSOB DELIBERATION 15519/2006

€/mln	Notes	First half 2016	of which Related parties A	B	C	D	Total	%	First half 2015	of which Related parties A	B	C	D	Total	%
Income Statement															
Revenue	1	2,152.7		42.8	154.6	4.3	201.7	*9.4%*	2,213		43.4	148.9	7.2	199.5	*9.0%*
Other operating revenues	2	162.0		0.1	2.6	0.0	2.7	*1.7%*	156		0.1	0.6	0.0	0.7	*0.4%*
Use of raw materials and consumables	3	(998.0)		(14.9)	0.0	(17.0)	(31.9)	*3.2%*	(1,104)		(14.2)	0.0	(20.2)	(34.4)	*3.1%*
Service costs	4	(570.3)		(5.2)	(13.0)	(14.8)	(33.0)	*5.8%*	(531)		(3.8)	(11.2)	(20.7)	(35.7)	*6.7%*
Personnel costs	5	(266.7)							(261)						
Amortisation, depreciation,provisions	6	(212.7)							(214)						
Other operating costs	7	(20.8)		0.0	(1.4)	(0.4)	(1.8)	*8.7%*	(27)		0.0	(0.8)	(0.3)	(1.1)	*4.1%*
Capitalised costs	8	11.2							12						
Operating profit		**257.4**		**22.8**	**142.8**	**(27.9)**	**137.7**		**245.0**		**25.5**	**137.5**	**(34.0)**	**129.0**	
Portion of profits (loss) pertaining to joint ventures and associated companies	9	6.5		6.5	0.0	0.0	6.5	*100.0%*	6.3		6.3	0.0	0.0	6.3	*100.0%*
Financial income	10	68.6		1.4	0.0	0.0	1.4	*2.0%*	57.3		1.0	0.1	0.0	1.1	*1.9%*
Financial expense	10	(133.1)		0.0	(0.1)	0.0	(0.1)	*0.1%*	(124.9)		0.0	(0.2)	0.0	(0.2)	*0.2%*
Total financial operations		**(58.0)**		**7.9**	**(0.1)**	**0.0**	**7.8**		**(61.3)**		**7.3**	**(0.1)**	**0.0**	**7.2**	
Pre-tax profit		**199.4**		**30.7**	**142.7**	**(27.9)**	**145.5**		**183.7**		**32.8**	**137.4**	**(34.0)**	**136.2**	
Taxes for the period	11	(71.2)							(68.3)						
Net profit for the period		**128.2**		**30.7**	**142.7**	**(27.9)**	**145.5**		**115.4**		**32.8**	**137.4**	**(34.0)**	**136.2**	
Attributable to:															
Shareholders of the Parent Company		121.0							107.3						
Non-controlling interests		7.2							8.1						
Earnings per share	12														
basic		0.082							0.073						
diluted		0.082							0.073						

Key to the colomn headings for related parties:

Group A Non-consolidated subsidiariess

Group B Associated and jointly controlled companies

Group C Related parties with significant influences

Group D Other related parties

2.04.02 STATEMENT OF FINANCIAL POSITION PURSUANT TO CONSOB DELIBERATION 15519/2006

thousands of euros	Notes	30 June 2016	of which Related parties A	B	C	D	Total	%	31December 2015	of which Related parties A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	13	2,000.7							2,031.6						
Intangible assets	14	2,922.1							2,895.6						
Goodwill	15	378.0							378.0						
Non-controlling interests	16	154.0	0.5	129.7	0.0	7.3	137.5	89.3%	157.1	0.5	132.7	0.0	19.4	152.6	97.2%
Non-current financial assets	17	125.0	0.0	62.3	19.4	27.4	109.2	87.3%	125.2	0.0	64.5	19.6	25.1	109.2	87.2%
Deferred tax assets	18	77.1							73.0						
Financial instruments - derivatives	19	159.6							108.2						
		5,816.5	**0.5**	**192.0**	**19.4**	**34.7**	**246.7**		**5,768.7**	**0.5**	**197.2**	**19.6**	**44.5**	**261.8**	
Current assets															
Inventories	20	94.5							116.3						
Trade receivables	21	1,466.3	0.0	16.9	101.5	6.9	125.3	8.5%	1,533.0	0.4	21.9	43.1	6.0	71.4	4.7%
Current financial assets	17	36.7	0.0	14.1	2.4	1.2	17.6	48.1%	34.6	0.0	14.1	1.9	1.0	16.9	48.8%
Current tax assets	22	41.5							29.1						
Other current assets	23	247.9	0.0	5.3	5.2	2.4	12.8	5.2%	226.1	0.0	3.8	3.4	2.3	9.5	4.2%
Financial instruments - derivatives	19	16.5							6.5						
Cash and cash equivalents	17, 30	248.3							541.6						
		2,151.7	**0.0**	**36.2**	**109.1**	**10.5**	**155.8**		**2,487.2**	**0.4**	**39.7**	**48.4**	**9.3**	**97.8**	
Non-current assets held for sale															
TOTAL ASSETS		**7,968.2**	**0.5**	**228.2**	**128.5**	**45.2**	**402.5**		**8,255.9**	**0.9**	**236.9**	**68.1**	**53.8**	**359.6**	

thousands of euros	Notes	30 June 2016	of which Related parties A	B	C	D	Total	%	31December 2015	of which Related parties A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	24														
Share capital		1,471.4							1,474.2						
Reserves		741.0							703.7						
Profit / (loss) for the period		121.0							180.5						
Group equity		2,333.4							2,358.4						
Non-controlling interests		140.0							144.7						
Total equity		2,473.4							2,503.1						
Non-current liabilities															
Non-current financial liabilities	25	2,943.2	0.0	0.0	5.2	0.0	5.2	0.2%	2,943.8			5.5		5.5	0.2%
Post-employment benefits	26	154.6							148.3						
Provisions for risks and charges	27	370.5							365.3						
Deferrred tax liabilities	18	25.5							23.8						
Financial instruments - derivatives	19	60.8							33.4						
		3,554.6	**0.0**	**0.0**	**5.2**	**0.0**	**5.2**		**3,514.6**	**0.0**	**0.0**	**5.5**	**0.0**	**5.5**	
Current liabilities															
Current financial liabilities	25	189.9	0.0	0.8	1.6	0.0	2.5	1.3%	484.3	0.0	0.8	13.6	0.0	14.5	3.0%
Trade payables	28	907.3	0.0	13.1	23.6	23.2	60.0	6.6%	1,121.3	0.4	12.1	23.0	24.9	60.5	5.4%
Current tax liabilities	22	102.9							25.7						
Other current liabilities	29	716.8	0.0	2.5	6.5	0.1	9.1	1.3%	584.6	0.0	2.4	11.9	0.3	14.6	2.5%
Financial instruments - derivatives	19	23.3							22.3						
		1,940.2	**0.0**	**16.4**	**31.8**	**23.3**	**71.5**		**2,238.2**	**0.4**	**15.3**	**48.6**	**25.3**	**89.6**	
Total liabilities		**5,494.8**	**0.0**	**16.4**	**36.9**	**23.3**	**76.7**		**5,752.8**	**0.4**	**15.3**	**54.1**	**25.3**	**95.1**	
TOTAL EQUITY AND LIABILITIES		**7,968.2**	**0.0**	**16.4**	**36.9**	**23.3**	**76.7**		**8,255.9**	**0.4**	**15.3**	**54.1**	**25.3**	**95.1**	

Key to the colomn headings for related parties:

Group A. Non-consolidated subsidiariess

Group B Associated and jointly controlled companies

Group C Related parties with significant influences

Group D Other related parties

:

2.04.03 FINANCIAL STATEMENT PURSUANT TO CONSOB DELIBERATION 15519/2006

€/mln	30 Jun 2016	of which Related parties
Pre-tax profit	**199.4**	
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	76.9	
Amortisation and impairment of intangible assets	90.6	
Allocations to provisions	45.2	
Effect of valuation using the equity method	(6.5)	
Financial expense / (Income)	64.5	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	(11.6)	
Change in provisions for risks and charges	(13.1)	
Change in provisions for employee benefits	(3.3)	
Total cash flow before changes in net working capital	**442.1**	
(Increase) / Decrease in inventories	21.7	
(Increase) / Decrease in trade receivables	35.3	(53.9)
Increase / (Decrease) in trade payables	(219.2)	(0.5)
(Increase) / Decrease in other current assets/ liabilities	108.0	(7.0)
Change in working capitals	**(54.2)**	
Dividends collected	7.7	7.7
Interests income and other financial income collected	14.8	1.4
Interests expense and other financial charges paid	(74.3)	(0.1)
Taxes paid	(10.7)	
Cash flow from (for) operating activities (a)	**325.4**	
Investments in property, plant and development	(50.3)	
Investments in intangible fixed assets	(107.1)	
Investments in companies and business units net of cash and cash equivalents	(5.2)	
Sale price of property,plant and equipment and intangible assets (including lease-back transations)	3.5	
Divestment of unconsolidated companies and contingent consideration	-	
(Increase) / Decrease in other investment activities	(1.7)	(0.7)
Cash flow from (for) investing activities (b)	**(160.8)**	
New issues of long-term bonds	-	
Repayments and other net changes in borrowings	(312.7)	(12.3)
Lease finance payments	(2.2)	
Investments in consolidated companies	-	
Share capital increase	-	
Dividends paid out to Hera shareholders and non-controlling interests	(136.1)	(56.9)
Change in treasury shares	(6.9)	
Cash flow from (for) financing activities (c)	**(457.9)**	
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**(293.3)**	
Cash and cash equivalents at the beginning of the year	541.6	
Cash and cash equivalents at the end of the period	248.3	

Key to the colomn headings for related parties:

Group A Non-consolidated subsidiariess

Group B Associated and jointly controlled companies

Group C Related parties with significant influences

Group D Other related parties

2.04.04 LIST OF RELATED PARTIES:

The values shown in the table as at 30 June 2016 refer to the related parties listed hereunder:

Group A. Related parties – non-consolidated subsidiaries and joint ventures:

AdriaLink Srl

Black Sea Comp.Compr.GAS Ltd

Consorzio Akhea Fondo Consortile in liquidation

Inrete Distribuzione Energia Spa

Group B. Related parties – associated companies and joint ventures:

Adriatica Acque Srl

Aimag Spa

Centro Idrico di Novoledo Srl

Energo doo

Enomondo Srl

Estenergy Spa

Estense Global Service Scarl in liquidation

Ghirlandina Solare Srl

H.E.P.T. Co.Ltd

Natura Srl in liquidation

Oikothen Scarl

Q.Thermo Srl

S2A Scarl

Sei Spa in liquidation

SET Spa

SGR Servizi Spa

So.Sel Spa

Tamarete Energia Srl

Group C. Related parties with significant influence:

Municipality of Bologna

Municipality of Casalecchio di Reno

Municipality of Cesena

Municipality of Ferrara

Municipality of Imola

Municipality of Modena

Municipality of Padova

Municipality of Ravenna

Municipality of Rimini

Municipality of Trieste

Con.Ami

Holding Ferrara Servizi Srl

Ravenna Holding Spa

Rimini Holding Spa

Group D. Other related parties:

Acosea Impianti Srl

Acquedotto del Dragone Impianti Spa

Aloe Spa (ex Hera Energie Rinnovabili Spa)

Amir Spa-Asset

Aspes Spa

Calenia Energia Spa

Fiorano Gestioni Patrimoniali Srl

Formigine Patrimonio Srl

Maranello Patrimonio Srl

Megas Net Spa

Romagna Acque Spa

strategic executives

Sassuolo Gestioni Patrimoniali Srl

Serramazzoni Patrimonio Srl

Sis Società Intercomunale di Servizi Spa in liquidation

Società Italiana Servizi Spa-Asset

TE.AM. Società Territorio Ambiente Spa in liquidation

Unica reti-Asset

2.04.05 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CONSOB RESOLUTION 15519 OF 2006

Management of the services

The Hera Group, through Parent Company Hera S.p.A., has public service concession arrangements in place (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large part of the area where it operates and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service is carried out in Modena and Imola. Other public utility services (including district heating, heat management and public lighting) are provided at arm's length, through special agreements with the local authorities concerned. Through special agreements with local authorities, Hera S.p.A. is responsible for the waste treatment and disposal service excluded from the regulatory activity carried out by the local competent authority Atersir. According to regional and national regulations for the sector, Atersir is responsible for awarding contracts, planning and controlling integrated water and urban hygiene services. In accordance with the cited regional and national regulations of reference, the Hera Group entered into several agreements with Atersir which govern the management of water and urban hygiene services.

Water sector

The water service managed by Hera in its area of competence is carried out on the basis of agreements entered into with Atersir, of varying duration, normally twenty years. The assignment to Hera of management of the integrated water service includes all activities involving the capture, purification, distribution of drinking water for civil and industrial use, and the sewerage and purification service. The agreements also provide for the operator's execution of new network design and construction activities and the building of new plants to be used in managing the service. The management of the service is assigned exclusively to Hera for the different area municipalities involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property to lay pipelines without the prior consent of the company.

The agreements regulate the economic aspects of the contractual relationship, the forms of management of the service, as well as service and quality standards.

Starting from 2012, the Government granted the AEEGSI competence over tariffs. Within this purview, AEEGSI adopted a transitory tariff period for 2012-2013 and a consolidation period for 2014-2015; over the course of 2015, the tariff method to be employed for the 2016-2019 period was decided. 2016 tariffs will be established by Atersir on the basis of the chosen tariff method and will be approved by AEEGSI during the second half of 2016.

The local authorities awarding the concession give the manager the right, free of charge as well, to use the network and plants for the provision of integrated water supplies. In the majority of the cases concerning the areas managed by Hera, the local authorities have conferred the ownership of networks and plants to special asset companies. At the end of the concession, Hera is obliged to hand over the assets used to provide the service to the asset companies, or to the municipal authorities.

Any works carried out to upgrade or expand the networks must be compensated at the end of concession with the payment of the residual value of the assets in question. Hera's relations with users are regulated by sector laws and by the provisions set out by the regional councils, sector agencies and the AEEGSI itself; until 30 June 2016, the duties of the operator in terms of service quality and resources and the users' rights are illustrated in the specific Service Charters drafted by the operator based on templates approved by Atersir.

Waste management sector

Hera manages urban waste management services. The agreements signed with Atersir cover the exclusive management of collection, transportation, street sweeping and cleaning, waste transportation to recovery and disposal etc. The agreements signed with the Atersir regulate the economic aspects of the contractual relationship but also the methods of organization and management of the service and the quantitative and qualitative levels of services provided. The payments due to the operator for the services rendered has been

defined annually, in accordance with the provisions of Presidential Decree 158/1999, setting the tariff, as supplemented, starting in 2013, by the rule first on Tares and then on Tari.
The Hera Group has provincial authority to operate urban waste treatment plants. The Group's subsidiary Herambiente signs an annual a service agreement with Atersir, in accordance with article 16 of Regional Law 23/2011 for the disposal of unsorted urban waste.

Management of the networks, plants and equipment

The infrastructure required for the provision of services whose management has been assigned to Hera, including local gas pipelines and waterworks and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities, asset companies owned by local authorities). Specifically, the asset companies own the capital assets used to manage services following their direct contribution by the Municipalities (generally Hera shareholders) or following the assignment to the asset companies of business "asset" units which took place, in almost all cases, at the time of business combinations involving companies in the Emilia-Romagna region with Seabo Spa (then Hera Spa).
In the case of assets owned by local entities and asset companies, relations between the service operator and the owners are governed by service award agreements or business unit lease contracts and, for anything not covered thereunder, by prevailing industry rules.
As regards the financial aspect, business unit lease contracts fix the amount due from the operator to the owners for the use of networks and plants. On the basis of these contracts Hera must carry out, at its own cost and expense, routine and non-routine maintenance as well as the expansion of the networks, as provided for in the investment plans agreed with the asset companies and, where relevant, by the area plans defined by Atersir.
Upon expiry of the lease contracts, provision is made for the handover of the business units to the owner, in a normal state of repair. All works performed by Hera, involving expansion and extraordinary maintenance, will be similarly handed over to local authorities in return for the payment to the operator of compensation/supplement equal, as a general rule, to the net book value or residual value of the associated assets.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report on operations. Hera S.p.A. has longer residual terms than those set out for managing entities that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Tariffs for the distribution of gas are set pursuant to the regulations in force and Aeegsi's periodic resolutions. The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.
The tariff regulation in force at the date of approval of the annual consolidated financial statements, to which this report is attached, is represented mainly by Resolutions 645/2015/R/gas ("Tariff update for gas distribution and metering services for 2016 and changes to the RTDG") by Tudg and Rtdg.
In fact, on 1 January 2014 the new "Regulation of tariffs for gas distribution and metering services for the regulation period 2014-2019 (Rtdg 2014-2019)"came into force, approved with resolution 567/2014/R/GAS, taking into account
subsequent modifications and additions. Pursuant to article 28 of the Rtdg 2014-2018, the mandatory natural gas distribution and metering tariffs are broken down in accordance with six different geographical areas:

- North-West tariff, for the regions of Valle d'Aosta, Piedmont and Liguria;
- North-East tariff, for the regions of Lombardy, Trentino Alto Adige, Veneto, Friuli Venezia Giulia, Emilia Romagna;
- Central Italy tariff, for the regions of Tuscany, Umbria and Marche;
- Central/South-East tariff, for the regions of Abruzzi, Molise, Apulia, Basilicata;

- Central/South-West tariff, for the regions of Lazio and Campania;
- Southern tariff, for the regions of Calabria and Sicily.

The amount of the components under paragraph 27.3, sub-paragraphs c), d), e), f), g), e) and h) of the RTDG 2014-2019 is set by the Authority and is subject to a quarterly update.

As for mandatory tariffs for distributing and metering natural gas and other gas tariff options in force for the first half of 2016, these tariffs were approved by the relevant Authority through Resolution 645/2015 /R/gas dated 22 December 2015 (Tariff updating for gas distribution and metering services for the year 2016).

In keeping with the provisions of art. 40, paragraph 9, of the Rtdg, the fixed components of mandatory tariff associated to the distribution and metering services have been divided into three tranches, on the basis of the class of metering group.

In the case of electricity, the purpose of the concessions (30 years in duration and renewable according to current regulations) is energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives and measurement. A suspension or expiry of the concession may be ordered by the authority regulating the sector if the concession holder is found to be inadequate or to be in breach of regulations in force, in such a way as to prejudice provision of the electricity distribution and metering service in a serious and far-reaching manner. The concessionaire is required to apply the tariffs set by regulations in force and resolutions adopted by the sector Authority. The tariff regulation in force at the date of approval of the bi-annual consolidated financial statements, to which this report is attached, is represented mainly by Resolutions 654/2015/R/eel ("Tariff update for electricity transmission, distribution and metering services for the regulatory period 2016 -2023") that replaced the previous Aeeg Arg/e resolution no. 199/2011 and subsequent amendments and additions ("Provisions of Aeeg for providing electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions regarding the economic conditions regulating the provision of the connection service") in force until 31 December 2015. The mandatory tariff for the distribution service covers the cost of transporting electric energy on distribution networks is applied to all end-customer, except low-tension residential customers for whom a reform was initiated with resolution 582/2015/R/eel that will take effect 1 January 2018. The tariff has a three-pronged structure, which is expressed in eurocents per delivery point per annum (fixed component), eurocents per KW per annum (power component) and eurocents per KWh used (energy component).

The Authority updates the mandatory tariff for the distribution service every year.

2.05 EQUITY INVESTMENTS: 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%
Black Sea Technology Company AD	Varna (Bulgaria)	15.905.235 Lev		99.97%	99.97%
Black Sea Gas Company o.o.d	Varna (Bulgaria)	5.000 Lev		99.97%	99.97%
Esil Scarl	Bologna	10,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	2,430,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Fucino Gas Srl	Luco dei Marsi (AQ)	10,000		100.00%	100.00%
HeraAmbiente 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%
Insigna Srl	Padova	2,000,000		100.00%	100.00%
Julia Servizi Più Srl	Giulianova (TE)	50,000		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%
Neweco Srl	Santa Croce sull'Arno (PI)	100,000		75.00%	75.00%
Rew Trasporti Srl	Santa Croce sull'Arno (PI)	99,000		75.00%	75.00%
Rila Gas EAD	Sofia (Bulgaria)	32.891.000 Lev		100.00%	100.00%
SiGas d.o.o	Pozega (Serbia)	162.260.058 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 Srl	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

2.06 ATTESTATION PURSUANT TO ARTICLE 154 BIS OF LEGISLATIVE DECREE 58/98

1 – The undersigned Mr. Stefano Venier, acting in his capacity as CEO, and Mr. Luca Moroni, acting in his capacity as Manager in charge of preparing the corporate accounting documents of Hera Spa, hereby certify, considering the provisions of article 154 bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 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 abbreviated consolidated financial statements for the first half of 2016.

2 – Said parties furthermore declare that:

2.1 – the half-year 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 Intermediate Directors' Report includes a reliable analysis of the important events occurred during the period in question and their effect on the abbreviated half-year financial statements, along with a description of the major risks and uncertainties pertaining to the remaining six months of the current financial year. The intermediate report on management additionally includes a reliable analysis of significant operations carried out by consolidated companies.

The CEO

Stefano Venier

The Manager in charge of the corporate accounting statements

Luca Moroni

Bologna, 28 July 2016

2.07 REPORT BY THE AUDITING FIRM

Deloitte.

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

To the Shareholders of
HERA S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Hera S.p.A. and subsidiaries (the "Hera Group"), which comprise the statement of financial position as of June 30, 2016 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova
Palermo Parma Roma Torino Treviso Verona

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Codice Fiscale/Registro delle Imprese Milano n. 03049560166 – R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of Hera Group as at June 30, 2016 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
August 5, 2016

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

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Tax code/VAT and Bologna Business Reg. no. 04245520376