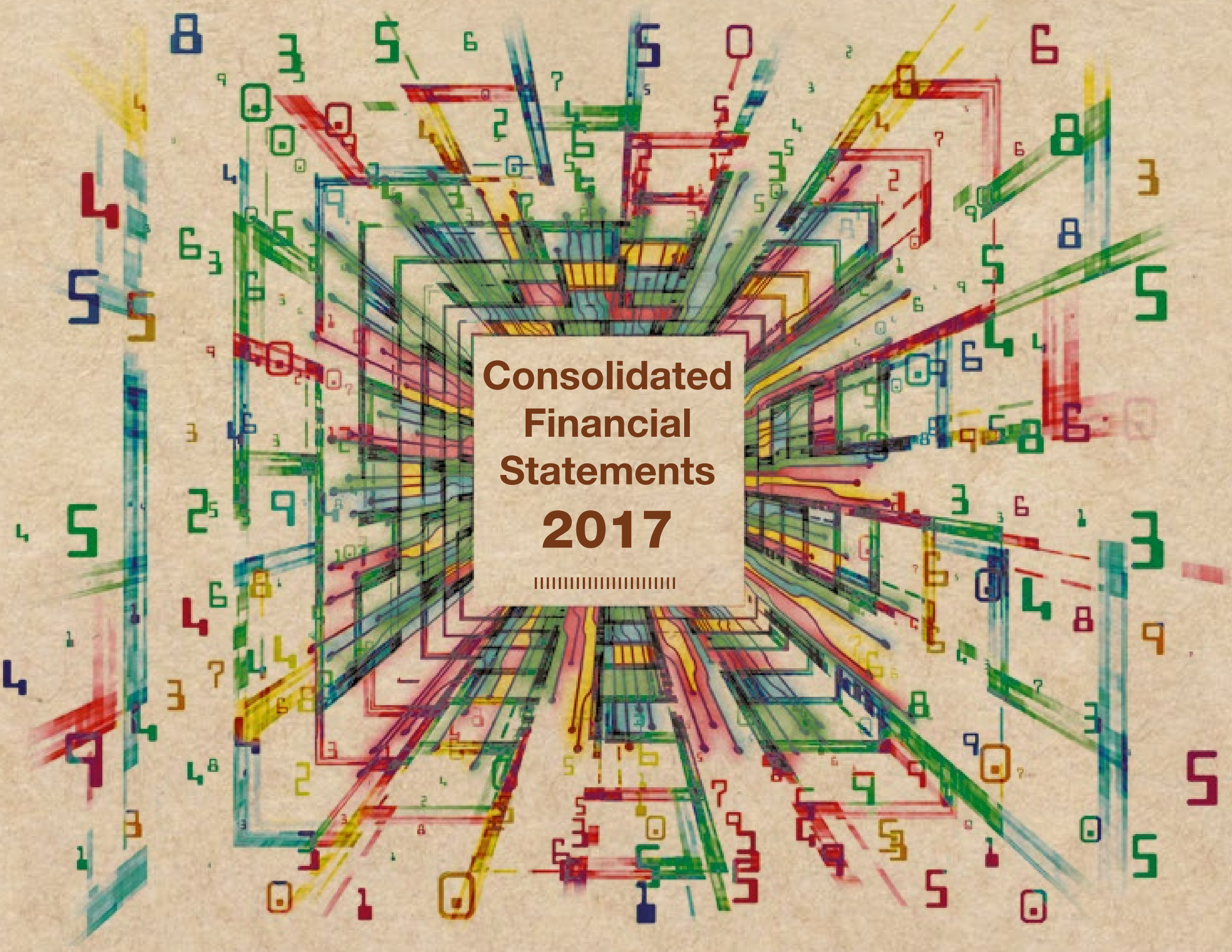
Consolidated Financial Statements 2017



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Introduction

Letter from the Chairman to Shareholders

Dear Shareholders,

Another year of your Company's activity has come to a positive conclusion, and we hereby submit to your approval the financial statements representing the Group's operations during 2017.

This is a particularly brilliant financial report, which ***continues along our path of growing results achieved through the fundamental levers of internal growth and operations in territorial and business integration****. The latter concerned the gas and electricity sales sectors as well as waste management, an area in which the Herambiente Group's activities and plant inventory were significantly enlarged.*

These activities allowed the Group to reach a ***year-end Ebitda amounting to € 986 million, with a 7.4% increase over the previous year****. This operating result was flanked by the quality of our financial results, with a* ***net debt/Ebitda ratio that decreased to 2.56*** *and whose consequences were also felt in measures of return, which came to 9.2% in ROI and 9.9% in ROE, both higher than the figures seen in previous years.*

The results in terms of growth were mainly due to internal growth in free market activities that, through market expansion and efficiency enhancement and innovation policies, contributed to a further improvement in Ebitda per employee, in terms of productivity.

As briefly mentioned above, these operating results were also accompanied by a few acquisitions that on the one hand allowed our energy customer portfolio to increase, and on the other led to a majority holding in the Aliplast Group. This Group is the Italian leader in the sector of plastic recycling, and for us it represents a substantial step forward in recycling plastic materials, amplifying our orientation towards a circular economy, which is in turn a guiding element in many of the activities involved in the services we offer.

These acquisitions, one must emphasise, were entirely financed with cash flows coming from operating management, allowing the Group's debt to remain unchanged, or rather to record an improvement by increasing the financial flexibility that gives us the ability to look positively towards any new opportunities that may appear on the market.

The amount of ***investments*** *(including acquisitions)* ***came to roughly 500 million****, up 30 million net in the Group's operating activities. On the whole, the results described saw us achieve a noteworthy success in both tenders for acquiring customer quotas, in particular in the sector referred to as safeguarded electricity, and regarding our service offers for single customers in liberalised markets.*

This component of our results is particularly important because it confirms that – from the viewpoint of our professionalism and ability to compete with other variously sized operators – our overall structure and cultural orientation seem by now to have proven their adequacy. This will lead to both participating in upcoming tenders for the concession of regulated services and maintaining and increasing the Group's presence as regards customers and initiatives on liberalised markets.

Furthermore, I feel that it is important to underline, as described in greater detail in the ***Sustainability Report****, that this reporting tool itself, which we first adopted many years ago, has in its current edition also become a mandatory reference point. The new layout prepared* *for the 2017 year-end results introduces, as you may observe, further updates, and is particularly rich in elements that shed light on the general social and environmental policies that the Company has reinforced over time. In particular, measuring* ***Shared Value – which came to roughly one third of overall Ebitda*** *– allows us to quantify and report to all our stakeholders the* ***constant commitment we show towards searching for sustainable solutions and evolution****.*

I would also like to point out that the Board of Directors has proposed, respecting the indications contained in the recently approved Business Plan, and fully in line with the results achieved, the payment of ***a 9.5 cent dividend per share****. This additional benefit for shareholders is to be added to the significant* ***increase in the value of the stock recorded over 2017, coming to 32.8%****.*

Furthermore, the 2017-2021 Business Plan, which was recently approved and confirms our wish to maintain a challenging program of reinforcement and growth, contains ***plans for an additional increase in dividends coming to over 10% by the end of the period covered by the Plan****.*

Speaking for the CEO as well, I would like to thank the Board of Directors and the Board of Auditors for their activities, along with all our personnel who contributed to the results, with the aim of concluding the current year as well with coherent prospects for further growth, as unquestionably lies within the Group's potential.

Thank you for your kind attention.

Tomaso Tommasi di Vignano

Chairman of the Board of Directors

Governance and control bodies

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

Corporate structure

The structure of the Hera Group (the Group) developed out of a complex rationalisation process that began in 2002 after the incorporation of the 11 companies out of which it was first created. The Group has since evolved, adapting over time to meet legislative changes and unbundling its activities into separate companies. The Group operates principally in the waste management, energy and water sectors and consists of the companies Hera Spa, Herambiente Spa, Hera Comm Srl, Hera Trading Srl, Marche Multiservizi Spa and AcegasApsAmga Spa.

The top of its corporate structure is occupied by parent company **Hera Spa**, an industrial holding company in charge of governance, coordination and financial management for all Group companies, in addition to being responsible for consolidating their operating activities

Herambiente Spa, 75% of which is owned by Hera Spa, was established in 2009 as a waste-disposal spin-off, ensuring coordinated plant management across the nation. Herambiente Spa in turn established the company Herambiente Servizi Industriali (Hasi Srl), targeted at an industrial customer base.

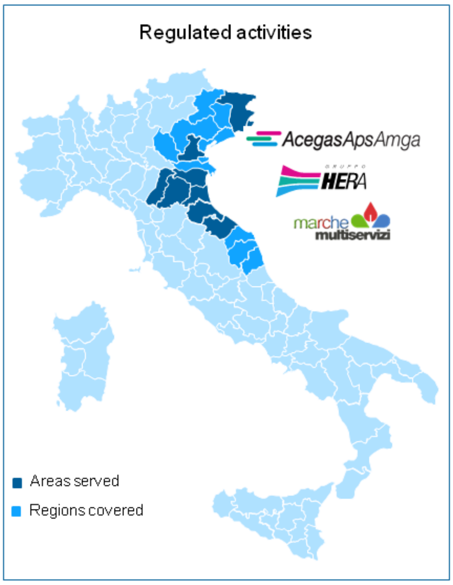
HeraComm Srl, 100% controlled by Hera Spa, with 2.4 million customers, represents the Group on national energy markets.

Hera Trading Srl, 100% controlled by Hera Spa, deals with trading and procurement of wholesale energy commodities, following a flexible supply rationale on international markets.
Over the years, the Group's external expansion has resulted in the integration of over a dozen other multi-utility companies. In order to produce synergies, exploit scale economies and convey know-how, these operations have been achieved by mergers through incorporation into the holding company.

Marche Multiservizi and **AcegasApsAmga** are multi-utility companies operating respectively in the Marche and Triveneto regions, which have maintained their own corporate structure after being merged into the Group. The aim behind this was to maintain a well-rooted and stable presence in these areas, with a twofold objective: guaranteeing geographical proximity and seizing further opportunities for expansion

Free Market activities

Regulated activities



Hera Spa

Herambiente Spa 75%

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

Hera Comm Srl 100%

So.Sel Spa	26%
Sgr Servizi Spa	29,61%
Hera Comm Marche Srl	86,88%
Hera Servizi Energia Srl	57,89%
*EnergiaBase Trieste Srl	100%
*Estenergy Spa	51%

AcegasApsAmga Spa 100%

Hera Trading Srl 100%

*Adria Link Srl	33,33%

Marche Multiservizi Spa 49,59%

Other holdings

Inrete Distribuzione Energia Spa	100%
***Sviluppo Ambiente Toscana	95%
Aimag Spa	25%
****Medea Spa	100%
Set Spa	39%
Acantho Spa	77,36%
Calenia Energia Spa	15%
Ghirlandina Solare Srl	33%
Uniflotte Srl	97%
Galsi Spa	11,77%
Heratech Srl	100%
Tamarete Energia Srl	40%
Energo Doo	34%
S2A Scarl	23,81%
Aloe Spa	10%

* as of 1 January 2018.
** Over 30% held by AcegasApsAmga Spa.
*** Over 5% of Herambiente. Sviluppo Ambiente Toscana Srl in turn has a 40% holding in Q.tHermo Srl.
**** Hera Spa's holding in Medea Spa is expected to be transferred.
Effective as of 1 January 2018, the merger of Amga Calore & Impianti Srl into Sinergie Spa was completed, with the latter changing its corporate name at the same time into AcegasApsAmga Servizi Energetici Spa (Ase Spa).
AcegasApsAmga Spa's holdings are: Black Sea Company for Compressed Gas Eood, Centro Idrico di Novoledo Srl, Hera Luce Srl (dal 1 gennaio 2018), La Dolomiti Ambiente Spa, Ase Spa and AresGas Ead.
Aliplast Spa's holdings are: Alimpet Srl, Alipackaging Srl, Cerplast Srl, Umbroplast Srl, Variplast Srl, Aliplast France Recyclage Sarl, Aliplast Iberia Sl and Aliplast Polska Spoo.
Further expected changes: a transfer of AcegasApsAmga Spaìs holding in Sigas Doo, a merger of Verducci Servizi Srl and Gran Sasso Srl into Hera Comm Marche Srl, and a merger of Amga Energia & Servizi Srl into Hera Comm Srl.

Mission

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

For Hera, being the best is a way of creating pride and trust for: customers, who receive, thanks to Hera’s constant responsiveness to their needs, quality services that satisfy their expectations; the women and men who work at Hera, whose skills, engagement and passion are the foundation of the company’s success; shareholders, confident that the economic value of the company will continue to be generated in full respect of the principles of social responsibility; the reference area, because economic, social and environmental richness represent the promise of a sustainable future; and suppliers, key elements in the value chain and partners for growth.

1

Directors' Report

984,6
million Ebitda

266,8
million Net profit

396,2
million Investments

ROE 9,9 %
Return on Equity

ROI 9,2 %
Return on Investment

2,56 x
Net debt/Ebitda ratio

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

Operating APMs and investments

Operating APMs and investments (mn€)	Dec 17	Dec 16 Adj	Abs. change	Change
Revenues *	**5,612.1**	**5,131.3**	**+480.8**	**+9.4%**
EBITDA	**984.6**	**916.6**	**+68.0**	**+7.4%**
EBITDA/Revenues ratio *	17.5%	17.9%	-0.4 p.p.	
EBIT	**479.3**	**457.1**	**+22.2**	**+4.9%**
EBIT/Revenues ratio *	8.5%	8.9%	-0.4 p.p.	
Net profit	**266.8**	**220.4**	**+46.4**	**+21.1%**
Net profit/revenues ratio *	4.8%	4.3%	+0.5 p.p.	
Net investments **	**396.2**	**366.4**	**+29.8**	**+8.1%**

***** The amount of 2016 revenues has been adjusted (with no effect on results) due to the reclassification of system charges and contributions from former green certificates. For details, see paragraph "1.01.01 Operating and financial results".
****** For the data used in calculating net investments, see notes 13, 14, 15, 16 in the explanatory notes and paragraph 1.01.02 of the overview of Group management performance.

Financial APMs

Financial APMs (mn€)	Dec 17	Dec 16	Abs. change	% Change
Net non-current assets	5,780.6	5,564.5	+216.1	+3.9%
Net working capital	23.2	99.9	-76.7	-76.8%
Provisions	(574.8)	(543.4)	-31.4	-5.8%
Net invested capital	5,229.0	5,121.0	+108.0	+2.1%
Net debt	**(2,523.0)**	**(2,558.9)**	**+35.9**	**+1.4%**

Operating APMs and equity

Operating APMs and equity	Dec 17	Dec 16	Change
Net Debt/Ebitda	**2.56**	**2.79**	**-0.2**
Ffo Adj/Net Debt	**25.8%**	**22.6%**	**+3.2 p.p.**
Roi Adj	9.2%	8.9%	+0.3 p.p.
Roe	9.9%	8.6%	+1.3 p.p.
Cash Flow	166.1	109.0	+57.1

Alternative performance measures (APMs)

The Hera Group uses Alternative Performance Measures (APMs) to more effectively convey information about the profitability of the businesses in which it operates, as well as its equity and financial situation. In accordance with the guidelines published on 5 October 2015 by the European Securities and Markets Authority (ESMA/2015/1415) and in keeping with the provisions of Consob communication no. 92543 of 3 December 2015, the content of and the criteria used in defining the APMs used in this financial statement are explained below.

Operating APMs and investments

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

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

Pre-tax results are calculated by subtracting the financial management shown in the balance sheets from EBIT, as described above.

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

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

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

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

Financial APMs

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

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

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

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

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

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

Operating-financial APMs

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

Adjusted funds from operations (FFO ADJ) are calculated beginning with EBITDA, subtracting provisions for doubtful accounts, financial charges, uses of provisions for risks and severance pay and taxes, net of the fiscal effects deriving from the special items described in the detailed table at the end of this paragraph. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents an indicator of the ability of operating assets to generate cash.

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

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

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

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

- amortisation and provisions for the period, not including provisions for doubtful debts;
- changes in net working capital (*);
- provisions for the risk fund (net of decreases in provisions);
- use of employee severance provisions;
- the difference between changes in taxes paid in advance and in deferred taxes (**);
- operating and financial investments;
- financial charges and financial income (***);
- changes in treasury shares held;
- current taxes.

(*) recorded net of the changes in net working capital concerning Medea Spa, given that it is available for sale (€ 15.6 million), the Aliplast Group, acquired during 2017 (€ 15.1 million) and those concerning the contributions of the AcegasApsAmga Group purifier (€ 30.3 million).
(**) net of the effects of purchasing the Aliplast Group (€ 23.6 million), the branch Enerpeligna (€ 0.4 million) and Verducci Servizi Srl (€ 0.5 million).
(***) net of the effects of updating deriving from the application of accounting principles Ias 37 (€ 20 million) and Ias 19 (€ 1 million), the profits coming from associated companies and joint ventures (€ 14.7 million) and the dividends received from the above (€ 10.9 million).
This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate a company's ability to generate cash flow and therefore its ability to finance itself.

Special item / balance sheet reconciliation

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

Special tax items	Dec 17
Taxes from financial statements	**(92.6)**
Tax redemption operation (special items)	(19.2)
Taxes	**(111.8)**

Result from special items	**0.8**

1.01.01
Operating and financial results

Constant growth in all indicators

The Hera Group closed the 2017 financial year with operating indicators and results increasing compared to the previous year: it consolidated its EBITDA, which reached 984.6 million euro, up 7.4%; EBIT amounted to 479.3 million, up 4.9%; net income came to 266.8 million euro, up 21.1%. From a financial point of view as well, positive results were seen: net financial debt, coming to 2,523 million euro, dropped by 1.4% and the net debt/EBITDA ratio settled at 2.56, also showing a clear improvement compared to the previous year. These results confirm the Hera Group as one of the main operators in its sector, thanks to a consolidated multi-business strategy that guarantees a dynamic balance in its operating and financial activities, combining regulated and free market activities.

In 2017, objectives in development were pursued through both internal and external growth. The main levers used were efficiency and innovation, as can be seen, for example, in public lighting with the use of led street lights, investments moving towards smart cities and company digitalisation. Other levers used included agility and excellence, understood as the offer of an outstanding level of service in all businesses, with the aim of surpassing the qualitative standards set by the Regulating authority for energy, networks and the environment (Arera; hereinafter the Authority). The Group's solidity in equity and financing, instead, provided the key element for development through external lines. Accompanying these strategic levers for growth, a constant role in strategy was played by sustainability and circularity.

The main corporate and business operations having an effect on 2017 can be described as follows:

In September 2016, Hera Comm was awarded the Friuli Venezia-Giulia and Emilia Romagna portion of the last resort gas supply service (FUI) for the period between 1 October 2016 and 30 September 2018, along with 5 portions of the default service in gas distribution between 1 October 2016 and 30 September 2018.
In November 2016, in the national tender held by the Single Purchaser for 2017-18 safeguarded services, Hera Comm was awarded six portions covering eleven regions of Italy.
On 1 February 2017, Waste Recycling Spa acquired the "plants" corporate branch of the Pisa company Teseco, a leading figure in industrial waste treatment and recovery.
In January 2017 Herambiente Spa signed a binding deal with Aligroup Srl for the acquisition of the Aliplast Group, a leading operator in the segment of plastic waste collection and recycling with subsequent regeneration, using an integrated process that transforms all waste into products ready to be reused. The operation was closed on 3 April 2017 following the fulfilment of the main conditions precedent. As of 1 January 2017, all companies of the Aliplast Group were thus entirely consolidated within the Hera Group. In December 2017, Herambiente Spa's acquisition of a further 40% of Aliplast Spa's shares was completed. With this operation, the amount of Aliplast Spa shares held by the Group rose to 80%. The remaining 20% of these shares, as stipulated in the agreement signed in January 2017, will be acquired within June 2022.
On 6 July 2017, Hera Comm Marche Srl acquired a full holding of the company Verducci Servizi Srl, which is active in the natural gas and electricity supply market.

Since 1 January 2017, Heratech, a company that manages works requested by customers (new connections, technical opinions, urbanisation, etc.), has been operational for all network services managed by the Group. It furthermore deals with planning and implementing plants and networks and other highly specialised technical activities, for both the Group and third parties. The company is 100% controlled by Hera S.p.A.

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.

During 2017, the Group chose to adopt in advance accounting principle Ifrs 15 "Revenue from contracts with customers", which only has an impact in electricity sales in particular regulated market segments. For further details, see chapter 2.02.02 of the consolidated income statement.

Following resolution 268/2015/R/eel of 4 June 2015, with which the Authority adopted the Standard grid code for electricity transmission, and, later, directive 13/2016 – Dmeg of 5 August 2016, as of the 2017 financial year revenues and costs amounting to € 657.9 million have been recorded in the income statement for a reclassification of general system charges, from financial accounts to operating accounts of the sales companies. In order to be more easily compared, the amounts recorded in December 2016 have been adjusted, inserting system charges within operating accounts, similarly to 2017. At 31 December 2016, this adjustment, which leaves the results unchanged, introduced higher revenues coming to € 697.9 million and an identical rise in costs.
Note that in order to be more easily compared, the 2016 financial year has been adjusted to reflect the reclassification among "Other operating revenues" of feed-in-premium contributions, formerly green certificates, originally included among "Revenues". The value of this reclassification, which has no effect on results, amounts to € 26.8 million.

The following table shows operating results at 31 December 2017 and 2016:

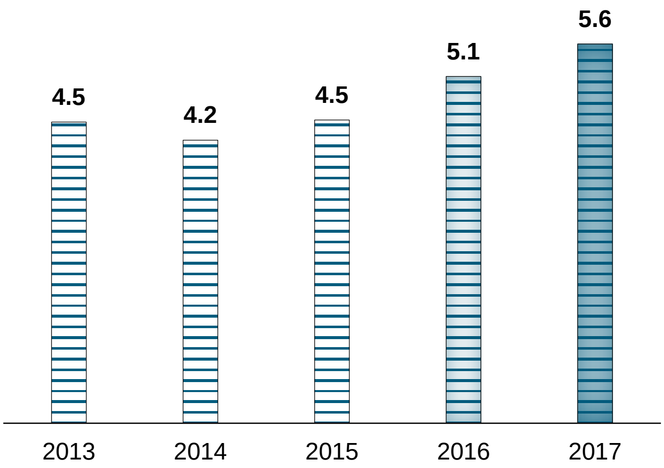
Constant and increasing growth

Income statement (mn€)	Dec 17	% Inc.	Dec 16 Adj	% Inc.	Abs. change	% Change
Revenues	5,612.1		5,131.3		+480.8	+9.4%
Other operating revenues	524.8	9.4%	430.2	8.4%	+94.6	+22.0%
Raw materials	(2,606.8)	-46.4%	(2,176.8)	-42.4%	+430.0	+19.8%
Service costs	(1,952.2)	-34.8%	(1,896.7)	-37.0%	+55.5	+2.9%
Other operating costs	(84.6)	-1.5%	(75.0)	-1.5%	+9.6	+12.8%
Personnel costs	(551.6)	-9.8%	(524.1)	-10.2%	+27.5	+5.2%
Capitalised costs	43.0	0.8%	27.8	0.5%	+15.2	+54.7%
EBITDA	**984.6**	**17.5%**	**916.6**	**17.9%**	**+68.0**	**+7.4%**
Amortisation, depreciation and provisions	(505.3)	-9.0%	(459.6)	-9.0%	+45.7	+9.9%
EBIT	**479.3**	**8.5%**	**457.1**	**8.9%**	**+22.2**	**+4.9%**
Financial operations	(101.5)	-1.8%	(117.4)	-2.3%	-15.9	-13.5%
Pre-tax profit	**377.8**	**6.7%**	**339.7**	**6.6%**	**+38.1**	**+11.2%**
Taxes	(111.8)	-2.0%	(119.3)	-2.3%	-7.5	-6.3%
Net result	**266.0**	**4.7%**	**220.4**	**4.3%**	**+45.6**	**+20.7%**
Result from special items	**0.8**	0.0%	-	0.0%	+0.8	+100.0%
Net profit of the period	**266.8**	**4.8%**	**220.4**	**4.3%**	**+46.4**	**+21.1%**
Attributable to:						
Shareholders of the Parent Company	**251.5**	**4.5%**	**207.3**	**4.0%**	**+44.2**	**+21.3%**
Non-controlling interests	15.3	0.3%	13.1	0.3%	+2.3	+17.4%

Revenues for 2017 came to € 5,612.1 million, up € 480.8 million or 9.4% compared to the € 5,131.3 million seen in 2016. The 2017 financial year benefitted from the entrance of the Aliplast Group, which contributed with € 109 million, and Verducci Servizi Srl, with 1.8 million. Not including these changes in the Group's scope of operations, growth in revenues amounted to € 370.0 million, mainly owing to an increase in trading, coming to roughly € 300 million, higher revenues in gas and electricity sales, due to a rise in the price of commodities, amounting to € 60 million, greater volumes of gas and electricity sold, coming to roughly € 75 million and higher regulated revenues in the water services, reaching € 22 million. The reduction in revenues offsetting the growth described above was due to the effect of the sale of green certificates during the past year, amounting to roughly € 24 million (with an equal effect on costs), the application of accounting principle Ifrs 15, coming to € 19.1 million, and lower revenues for system charges, reaching € 40 million.

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

Revenues (bn€)



Note: the trend seen from 2013 to 2015 does not reflect the adjustemt of system charges, which came to € 697.9 million in 2016 and € 657.9 million in 2017.

€ 5.6

billion in revenues

Other operating revenues increased over the previous year by € 94.6 million or 22.0%. This growth is mainly due to higher Ifric 12 revenues coming to € 45.0 million and higher revenues from energy efficiency certificates amounting to € 33.5 million for their higher value per unit, changes in the scope of operations coming to roughly € 4.0 million and a higher recovery of insurance and reimbursements amounting to roughly € 4.0 million.

Costs for raw and other materials rose by € 430.0 million over 2016, up 19.8%; this increase, not including the change in scope of operations following the entrance of the Aliplast Group and Verducci Servizi Srl amounting to roughly € 60.0 million and the € 24 million classification of environmental certificates, is due to an increase in trading, a higher price for electricity as a raw material, greater volumes of gas and electricity sold and the higher cost per unit of energy efficiency certificates.

Other operating costs, not including the change in scope of operations following the entrance of the Aliplast Group and Verducci Servizi Srl coming to roughly € 17.8 million, increased by € 47.3 million overall (€ 38.5 million in higher costs for services and € 8.8 million in higher operating expenses). Mention must also go to roughly € 60 million in higher Ifric 12 commissions per circa 60 million, € 7.0 million in commissions and works between Group companies, higher costs in the water cycle largely involving an increase in quick response activities owing to the drought in 2017 and higher costs in the waste area tied to maintenance works on a few waste treatment plants. The higher costs mentioned above were only partially offset by lower costs for system charges, amounting to € 40 million.

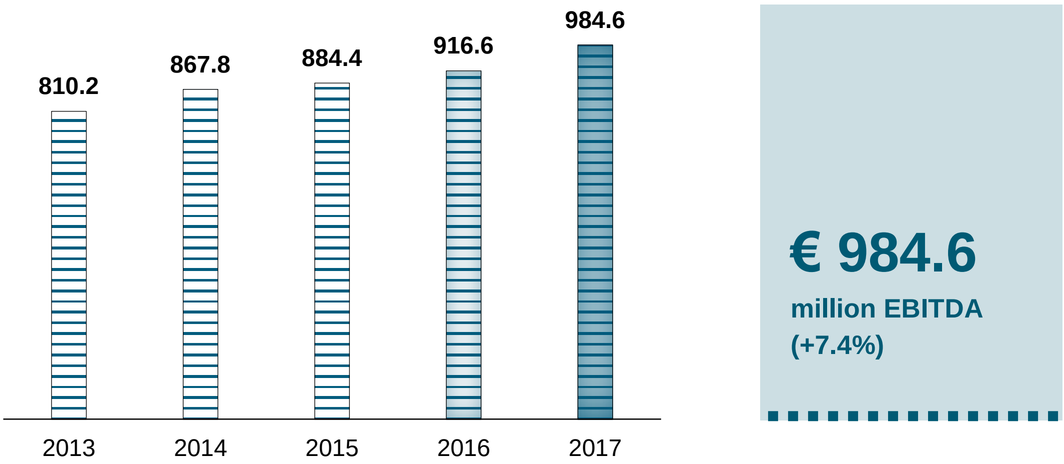
Personnel costs, excluding changes in the scope of operations, rose by € 10.5 million or 2.0%. This increase was mainly due to the higher retribution foreseen by the national labour contract and was only partially offset by a lower average presence. The changes in the scope of operations mentioned above amounted to € 17.0 million overall, the most significant of which involved the waste area with the entrance of the Aliplast Group and the corporate branch of Teseco Srl.

Capitalised costs rose by € 15.2 million or 54.7% in 2017 compared to the previous year, for greater works on plants and work on assets belonging to the Group.

EBITDA settled at € 984.6 million, rising by € 68.0 million or 7.4% over 2016. This growth can be attributed to the good performance shown by all business areas. The energy areas rose by € 50.3 million, driven by the electricity business with a higher income on free market and safeguarded sales activities and a higher income from electricity production. The waste area also made a significant contribution, with € 15.3 million coming from the reinforced organisational structure owing to the acquisition of the Aliplast Group. Results were positive for the integrated water cycle and the other services area as well.

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

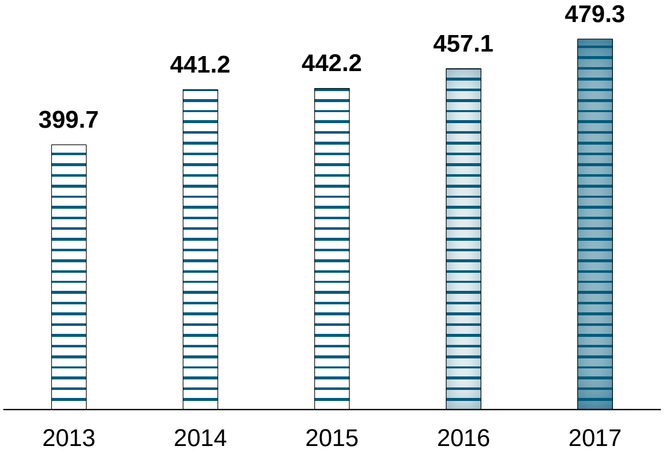
EBITDA (mn€)



Amortisation and provisions rose by € 45.7 million or 9.9%, going from the € 459.6 million seen in the previous year to € 505.3 million. Amortisations increased due to new investments in operations and the change in scope due to the Aliplast Group and the sales companies. Provisions for doubtful debts rose, in particular in the sales company Hera Comm Srl, owing to the new scope of operations in managing for safeguarded services.

EBIT reached € 479.3 million at the end of 2017, increasing by € 22.2 million or 4.9% compared to the € 457.1 million seen in 2016.

Ebit (mn€)



€ 479.3

million EBIT (+4.9%)

The results of financial management at the end of 2017 came to € 101.5 million, improving by € 15.9 million or 13.5% compared to 31 December 2016. The good performances can be attributed to a more efficient and flexible financial structure, partially obtained through the liability management operations introduced in 2016, and the higher income due to default indemnities applied to the late payment of safeguarded customer credits. Also note the improved results obtained by related companies and joint ventures.

Good performance in financial management

Pre-tax profits grew by € 38.1 million, going from € 339.7 million in 2016 to € 377.8 million in 2017.

Income taxes went from € 119.3 million in 2016 to € 111.8 million in 2017. The tax rate showed a clear improvement, settling at 29.6% rather than the 35.1% seen in 2016. This improvement was mainly due to a decrease in the nominal Ires rate, which fell to 24%, but also benefitted from the patent box, ace, tax credits for research and development, large and extremely large amortisations (the latter concerning the consistent investments made in instrumental goods serving a technological and digital transformation along the lines of "Industry 4.0") that the Group proved able to take advantage of over the year.

Improved tax rate

Net results rose by 20.7%, corresponding to € 45.6 million, going from € 220.4 million in 2016 to € 266.0 million in 2017.

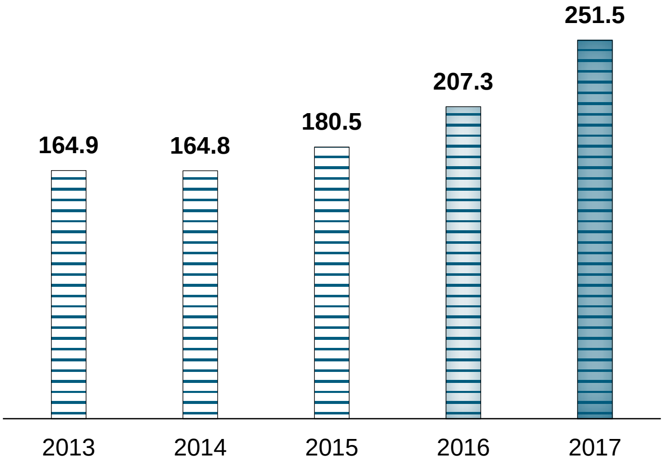
2017 results increased thanks to special items amounting to € 0.8 million, made up of: (i) goodwill write-downs coming to 12.4 million; (ii) other provisions for risks, coming to 6.0 million; (iii) positive tax effects, amounting to 19.2 million, linked to discharge transactions, through the payment of the substitute tax, relating to the controlling interest in Aliplast Spa, coming to 10.6 million, and the discharge of goodwill recorded in Inrete Distribuzione Energia Spa, coming to 8.6 million. For the tax rate derived from the financial statements, see note 11 of paragraph 2.02.06.

Net profits thus rose by 21.1% or € 46.4 million, going from € 220.4 million in 2016 to € 266.8 million in 2017.

+21.1% Net profits

Group net profits came to € 251.5 million, up € 44.2 million compared to the amount seen at 31 December 2016.

Net profits post minorities (mn€)



€ 251.5

million in net profits post minorities (+21.3%)

1.01.02

Analysis of the Group's financial structure and investments

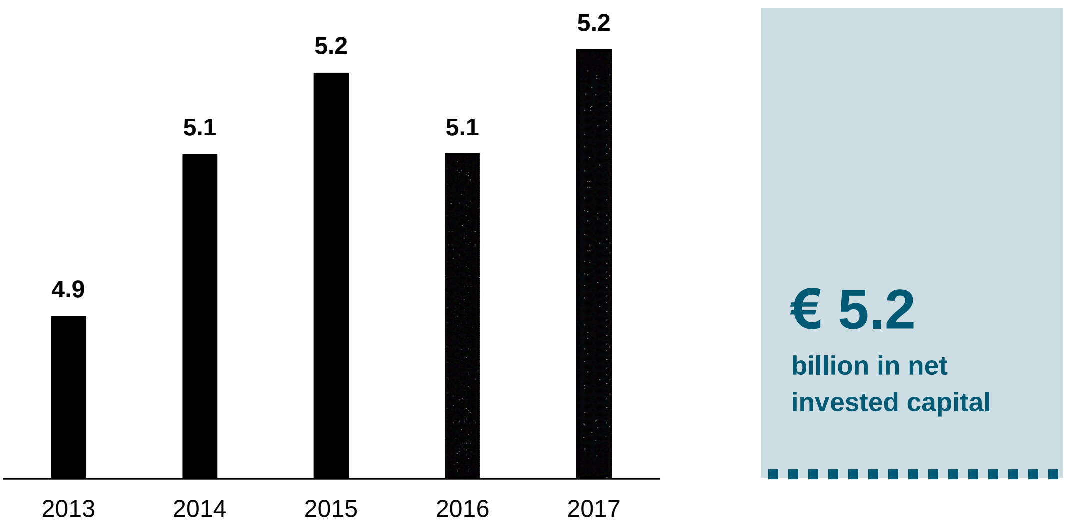
What follows in an analysis of trends in the Group's net invested capital and sources of financing for the year ended 31 December 2017.

The Group's solidity increases

Invested capital and sources of financing (mn€)	Dec 17	% Inc.	Dec 16	% Inc.	Abs. change	% Change
Net non-current assets	5,780.6	110.5%	5,564.5	108.7%	+216.1	+3.9%
Net working capital	23.2	0.4%	99.9	2.0%	-76.7	-76.8%
(Provisions)	(574.8)	-11.0%	(543.4)	-10.6%	-31.4	-5.8%
Net invested capital	**5,229.0**	**100.0%**	**5,121.0**	**100.0%**	**+108.0**	**+2.1%**
Equity	(2,706.0)	51.7%	(2,562.1)	50.0%	-143.9	-5.6%
Long-term borrowings	(2,735.4)	52.3%	(2,757.5)	53.8%	+22.1	+0.8%
Net current financial debt	212.4	-4.1%	198.6	-3.9%	+13.8	+6.9%
Net debt	(2,523.0)	48.3%	(2,558.9)	50.0%	+35.9	+1.4%
Total sources of financing	**(5,229.0)**	**-100.0%**	**(5,121.0)**	**100.0%**	**-108.0**	**-2.1%**

In 2017, net invested capital amounted to € 5,229.0 million, with a 2.1% change compared to the € 5,121.0 million seen in 2016. This increase is entirely due to the acquisition of shareholding in the Aliplast Group by the company Herambiente. Efficiency in managing net working capital was also confirmed, as it fell by an additional € 76.7 million.

Net invested capital (bn€)

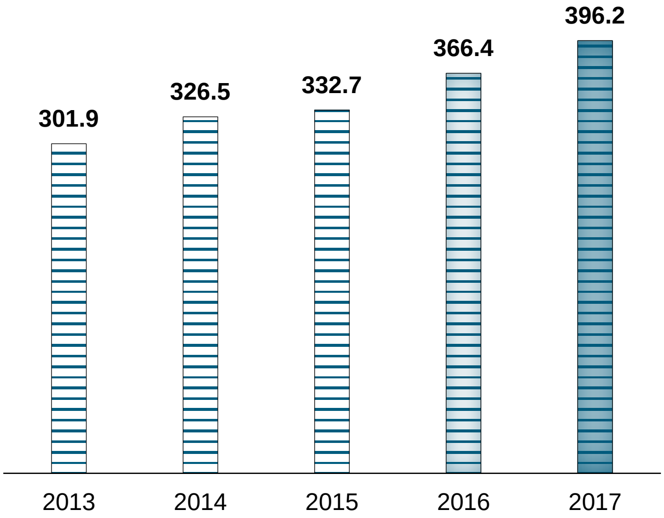


In 2017, Group investments amounted to € 396.2 million, benefitting from € 44.3 million in capital grants, of which € 8.2 million for FNi investments, as provided for by the tariff method for the integrated water service.

Including capital grants, the Group's overall investments came to € 440.5 million. Net investments grew by € 29.8 million, going from € 366.4 million in 2015 to € 396.2 million in 2017.

Net investments rise to € 396.2 million, up € 29.8 million

Total net investments (mn€)



€ 396.2
million in net investments (+29.8 million)

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

Total investments (mn€)	Dec 17	Dec 16	Abs. change	% Change
Gas area	101.5	94.8	+6.7	+7.1%
Electricity area	23.6	25.2	-1.6	-6.3%
Water cycle area	156.6	131.8	+24.8	+18.8%
Waste management area	67.2	50.7	+16.5	+32.5%
Other services area	18.7	15.9	+2.8	+17.6%
Headquarters	72.4	67.6	+4.8	+7.1%
Total operating investments	**440.0**	**386.1**	**+53.9**	**+14.0%**
Total financial investments	0.5	0.6	-0.1	-16.7%
Total gross investments	**440.5**	**386.7**	**+53.8**	**+13.9%**
Capital contributions	44.3	20.3	+24.0	+118.2%
of which FoNI (New Investment Fund)	8.2	7.3	+0.9	+12.3%
Total net investments	**396.2**	**366.4**	**+29.8**	**+8.1%**

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

Operating investments, coming to € 440.0 million, were up by 14.0% compared to the previous year and mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale substitution of metres, and the depuration and sewerage areas.

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

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall, investments in structures increased by € 4.8 million compared to the previous year.

In Group headquarters, investments on corporate buildings, it systems and the vehicle fleet

The 2017 financial year came to a close with net working capital amounting to € 23.2 million, with a sharp drop compared to the € 99.9 million seen at the end of 2016. This result is due to the positive management and control of performance in credits and the increase in debits that offset the rise in credits from safeguarded electricity customers. In particular, note that credits from safeguarded customers that cannot be disconnected, in case of non-payment, are reimbursed by the Fund for energy and environmental services (Csea), as provided for by the Authority's resolution 370/12. On this point, note that the total amount of credits towards customers includes € 221.3 million (€ 146.3 million in December 2016 – see note 29) in credits towards safeguarded customers (for whom the Csea payment has already been made, because it is recorded among other current liabilities).

€ 23.2 million net working capital

In 2017, provisions amounted to € 574.8 million, up compared to the results recorded at the end of the previous year. This result is mainly due to period-specific provisions, which offset the outflows for usage as well as an adjustment to the fund for severance pay, calculated on an actuarial basis. Contributions to the increase also came from adjusting post-mortem landfill provisions and reinstating third party goods due to the application of accounting principle Ias 37. For details on the transfer of funds, see the explanatory notes.

€ 574.8 million in provisions

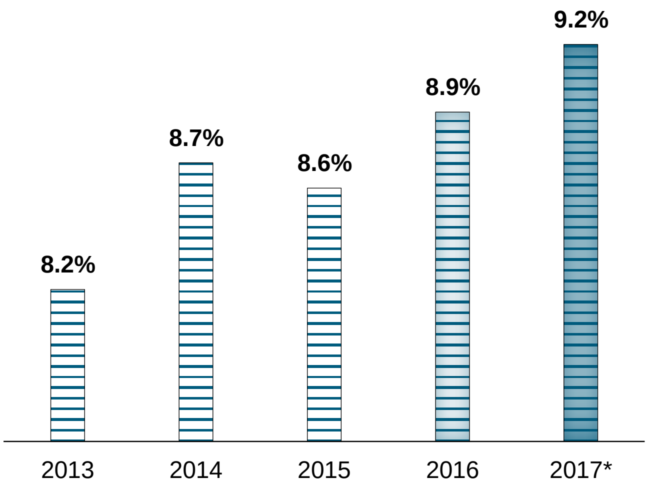
Equity rose from the € 2,562.1 million seen in 2016 to € 2,706.0 million in 2017, going to the benefit of the Group's financial structure. This equity reinforces the Group's solidity, thanks to the good net result of management in 2017, coming to € 266.8 million, which not including the dividends paid during the year, amounting to € 140.4 million, guarantees € 126.5 million in self-financing.

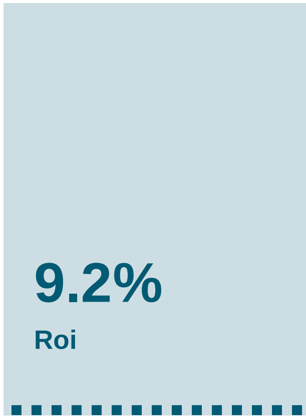
€ 2.7billion in equity

Return on invested capital (Roi) settled at 9.2% in 2017. This result, superior to the one seen in 2016, ensues from the good yield management achieved during the year, as it is more than proportional to the increase in net invested capital caused by the entrance of the Aliplast Group in the scope of operations and numerous investments.

Roi at 9.2%

Roi (%)

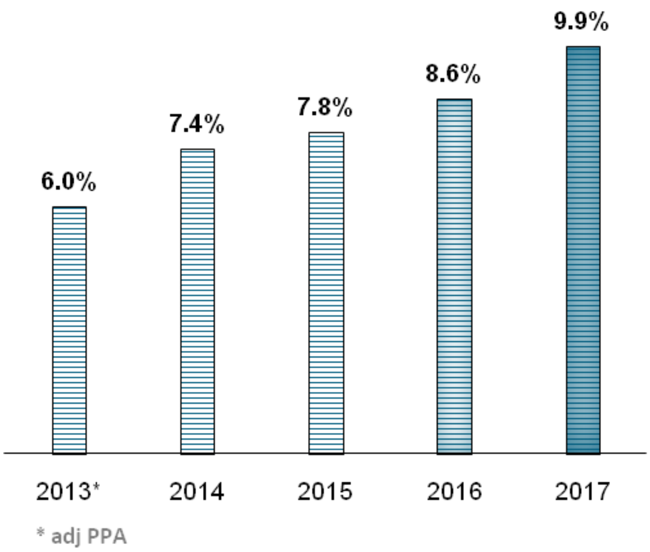


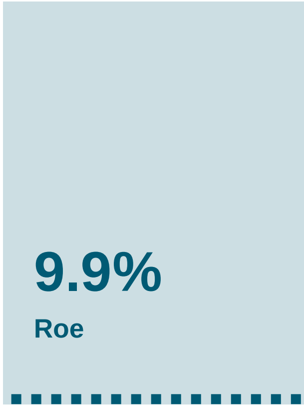


*adj for non-recurring items

Return on equity (Roe) went from 8.6% in 2016 to 9.9% in 2017. This increase is due to the good operating and extra-operating economic results of 2017.

Roe (%)





Reconciliation between separate and consolidated financial statements

	Net profit	Equity
Balances as per Parent's Company's separate financial statements	**170.4**	**2,313.3**
Excess of equity over the carrying amounts of Investments in consolidated companies	**86.3**	**67.4**
Consolidation adjustments:		
- Measurement with the equity method of investments reported at cost in the separate financial	3.2	49.1
- Difference between purchase price and book value of corresponding portion of equity	(7.6)	135.7
- Elimination of intercompany transactions	(0.9)	(20.3)
Total	**251.4**	**2,545.2**
Restoration of third-party assets	15.4	160.8
Balances as per consolidated financial statements	**266.8**	**2,706.0**

1.01.03

Analysis of net cash (net borrowings)

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

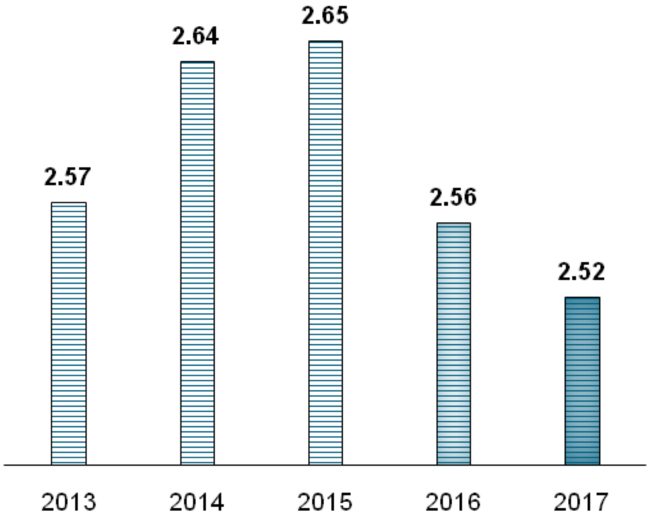
A solid financial position

mn€		31 Dec 17	31 Dec 16
a	**Cash and cash equivalents**	**450.5**	**351.5**
b	**Other current financial receivables**	**41.5**	**29.4**
	Current bank debt	(187.0)	(72.1)
	Current bank debt	(55.3)	(71.7)
	Other current financial liabilities	(35.3)	(36.2)
	Finance lease payments maturing within 12 months	(2.0)	(2.3)
c	**Current financial debt**	**(279.6)**	**(182.3)**
d=a+b+c	**Net current financial debt**	**212.4**	**198.6**
	Non-current bank debt and bonds issued	(2,825.3)	(2,847.8)
	Other non-current financial liabilities	(21.4)	(5.0)
	Finance lease payments maturing after 12 months	(13.9)	(14.9)
e	**Non-current financial debt**	**(2,860.6)**	**(2,867.7)**
f=d+e	**Net financial position - CONSOB Communication No 15519/2006**	**(2,648.2)**	**(2,669.1)**
g	**Non-current financial receivables**	**125.2**	**110.2**
h=f+g	**Net debt**	**(2,523.0)**	**(2,558.9)**

The overall amount of net financial debt, € 2,523.0 million, improved by roughly € 35.9 million compared to the previous year. The Group's financial structure at 31 December 2017 shows current financial debt coming to € 279.6 million, of which € 55.3 million in bank loans reaching maturity in 2018 and € 187.0 million in current bank debt. The latter consists of roughly € 136 million in usage of current credit lines and € 51 million in accruals for passive interest on financing. The amount concerning non-current bank debt and bonds issued is essentially unchanged with respect to the previous year. At 31 December 2017, medium- and long-term debt was largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (78.6% of the total), with repayment at maturity.
The total debt shows an average time to maturity of over seven years, with 66% of the debt maturing after over five years.

Net financial debt went from € 2,558.9 million in 2016 to € 2,523.0 million in 2017. As was the case in 2016, 2017 as well was marked by a significant operating cash flow.

Net financial debt (bn€)

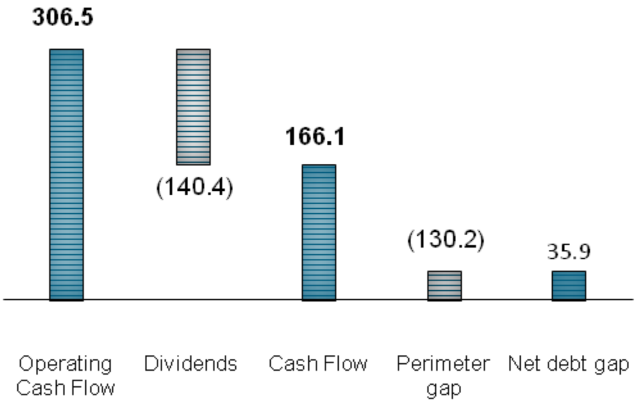


€ 2.52

billion in net financial debt

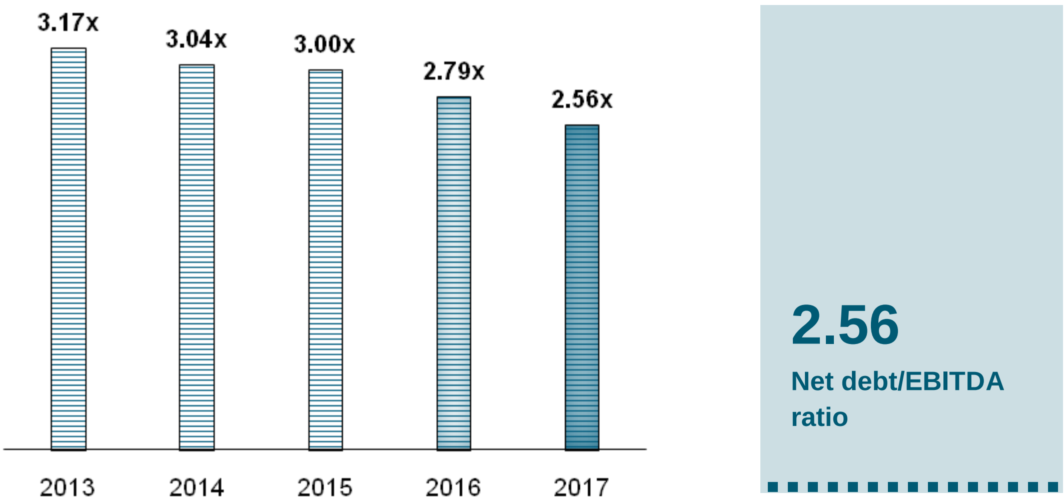
The Groups' characteristic management generated operating cash flows that rose compared to the previous year, thanks to both the better results achieved during the period in question and the management of net working capital, allowing dividends to be paid and the acquisitions carried out in 2017 to be self-financed, including the one involving the Aliplast Group.

Cash flow (mn€)



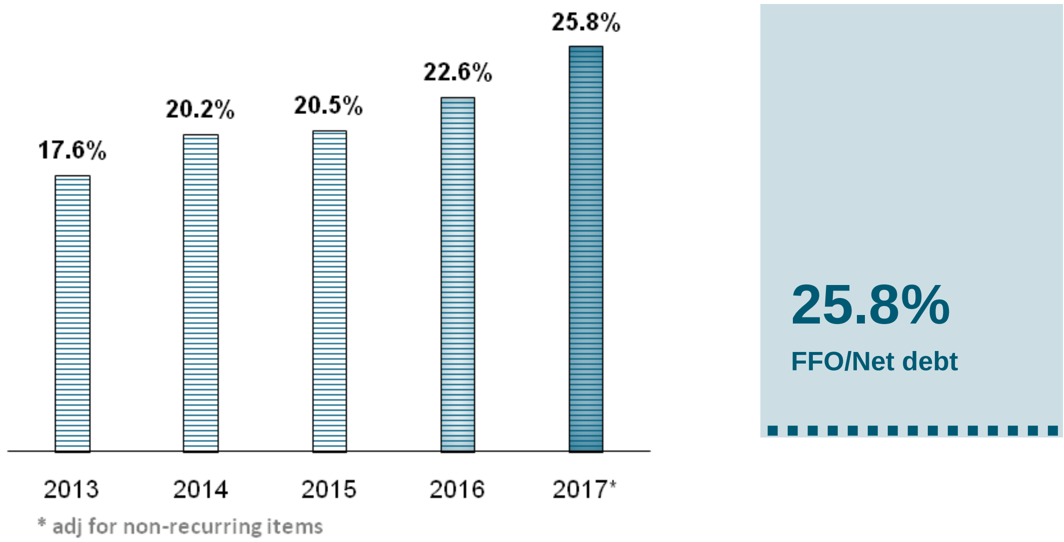
The Net debt/EBITDA ratio dropped to 2.56. This result benefitted from both operating results that increased over the previous year and the reduction in net debt.

Net debt/EBITDA



The Funds from operations/Net debt index was up compared to the result seen in 2016. This index as well, like the previous one, benefited from an improved net debt and an increase in operating cash flows, confirming the Group's financial solidity and its ability to meet its financial obligations.

FFO/Net debt (%)



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

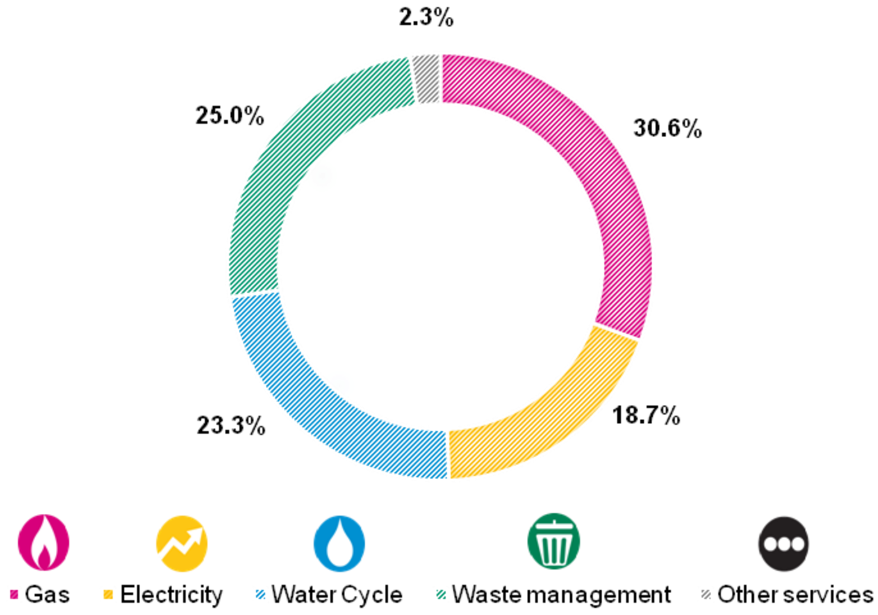
1.02
Analysis by business area

Multi-business strategy

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.

EBITDA December 2017

EBITDA made up of a balanced and coherent mix, thanks to the breakdown of the business model



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

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

The new organisational and corporate configuration ensuing from the creation of Inrete and Heratech has led to a different representation of personnel costs and operating costs within the various business areas, while remaining globally unchanged.

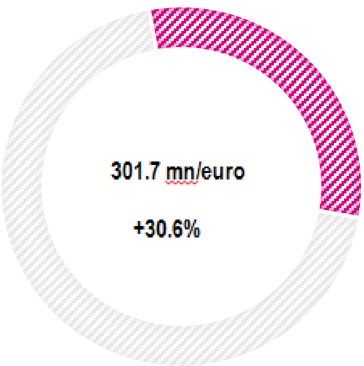
1.02.01

Gas

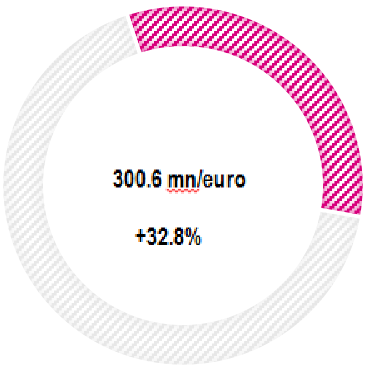
The gas area showed slight growth compared to the previous year as regards both EBITDA and volumes sold. This result was partially obtained thanks to the company Hera Comm being awarded five portions of the default gas distribution service for the period between 1 October 2016 and 30 September 2018 and two portions of the last resort gas service for the period between 1 October 2016 and 30 September 2018. The entrance within the Group's scope of operations of Verducci Servizi Srl also contributed.

Slight increase in EBITDA

Gas area EBITDA 2017



Gas area EBITDA 2016



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

(mn€)	Dec 17	Dec 16	Abs. change	% Change
Area EBITDA	**301.7**	**300.6**	**+1.1**	**+0.4%**
Group EBITDA	984.6	916.6	+68.0	+7.4%
Percentage weight	30.6%	32.8%	-2.2 p.p.	

0.4% growth in EBITDA

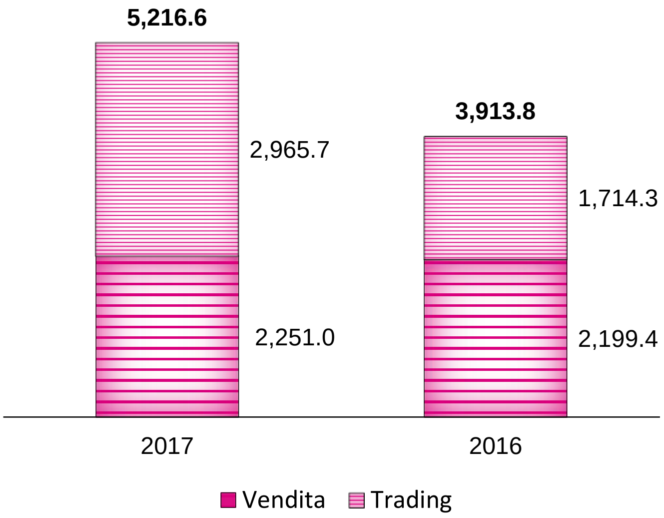
The number of gas customers rose by 14,900 or 1.1% over 2016. This trend is due to both marketing actions set in place to maintain and developed the customer base and to its enlargement due to the acquisition of Verducci Servizi Srl, which contributed with roughly 3,700 customers.

Customers (k)

1.4
million gas customers

Volumes of gas sold increased by 1,302.8 million m^3 or 33,3%, going from 3,913.8 million m^3 in 2016 to 5,216.6 million m^3 in 2017, in spite of the mild temperatures seen in 2017. This trend is mainly due to growth in trading volumes coming to 1,251.4 million m^3 (32.0% of the total volumes). Volumes sold to end customers showed a 1.3% growth over 2016, or 54 million m^3, 31.2 million m^3 of which were due to the enlarged customer base and 3.4 million m^3 to the contribution coming from Verducci Servizi Srl. The default gas service allowed volumes sold in 2017 to increase, compared to the fourth quarter of 2016, by roughly 16.8 million m^3.

Volumes sold (mn/m³)



+33.3%
volumes sold

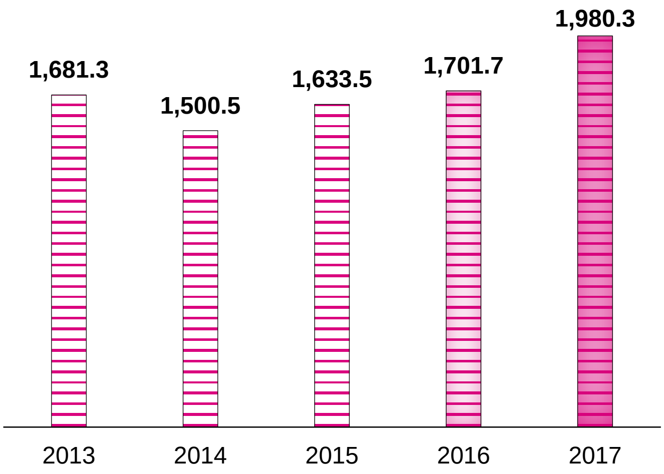
The following table summarises operating results for the gas area:

Income statement (mn€)	Dec 17	% Inc.	Dec 16 Adj	% Inc.	Abs. change	% Change
Revenues	1,980.3		1,701.7		+278.6	+16.4%
Operating costs	(1,584.5)	-80.0%	(1,288.3)	-75.7%	+296.2	+23.0%
Personnel costs	(110.3)	-5.6%	(122.2)	-7.2%	-11.9	-9.7%
Capitalised costs	16.2	0.8%	9.3	0.5%	+6.9	+73.8%
EBITDA	**301.7**	**15.2%**	**300.6**	**17.7%**	**+1.1**	**+0.4%**

Note that pro forma data has been prepared for December 2016 in order to account for the insertion of system charges in the income statement, as for 2017. The effect on the 2016 data increases revenues and operating costs to an equal degree, € 46.4 million.

Revenues went from € 1,701.7 million in 2016 to € 1,980.3 million in 2017, growing by € 278.6 million or 16.4%. The main reasons for this growth lie in the sales and trading businesses, owing to higher revenues in trading coming to roughly € 256 million, higher volumes of gas sold coming to € 14.7 million, and the acquisition of Verducci Servizi Srl, which contributed with roughly € 1.8 million. This growth was contained by lower revenues owing to the lower price per unit of raw materials coming to roughly € 21 million, and lower revenues for system charges, which passed to costs, coming to roughly € 15 million. In regulated distribution, an increase was seen for contributions from energy efficiency certificates coming to roughly € 28 million, the higher price per unit, higher revenues from Ifric 12 and third party contracts, coming to € 14 million overall, and higher regulated revenues coming to € 3.7 million. Lastly, revenues from district heating and heat management dropped by € 4.0 million overall, due to the mild temperatures seen in 2017.

Revenues (mn€)



€ 2.0

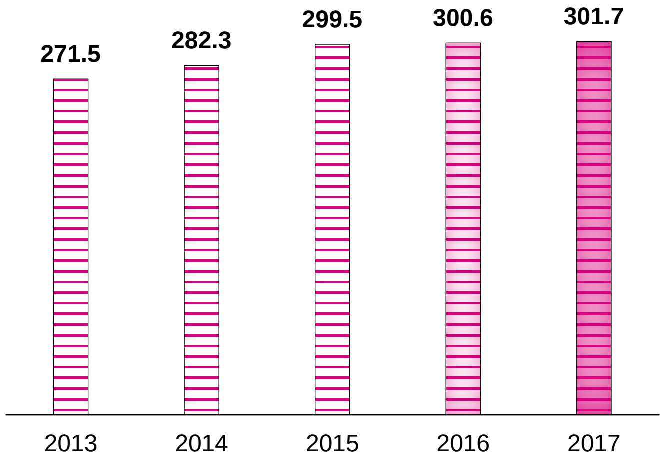
billion in revenues

Note: the trends from 2013 to 2015 do not reflect the adjustment in system charges, included instead in 2016 (€ 46.4 million) and 2017 (€ 31.4 million).

The increase in revenues was proportionally reflected in operating and personnel costs, not including capitalised costs, which went from € 1,401.1 million overall in 2016 to € 1,678.6 million in the same period of 2017, thus showing an overall growth of € 277.4 million. This trend is mainly due to higher trading activities, a rise in volumes sold, the higher cost per unit of energy efficiency certificates, higher Ifric 12 and third party contracts and the negative effects ensuing from sales of non-priority assets in the district heating business.

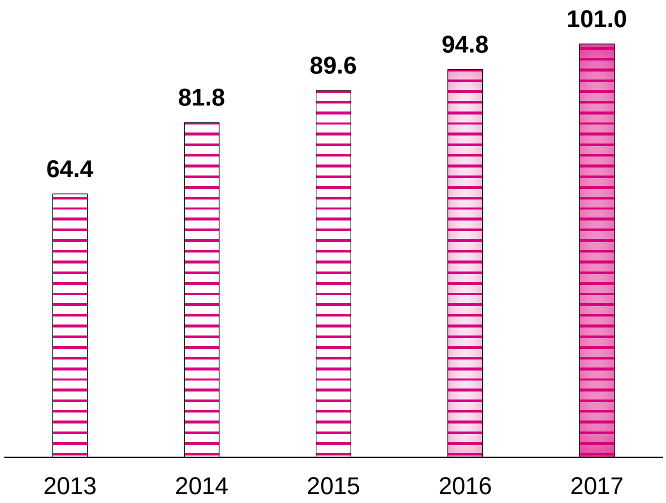
EBITDA rose by € 1.1 million or 0.4%, going from € 300.6 million in 2016 to € 301.7 million at 31 December 2017, thanks to higher earnings in trading and the revenues from regulated services that offset lesser earnings in the district heating business.

EBITDA (mn€)



In 2017, net investments in the gas area came to € 101.0 million, showing a € 6.2 million increase compared to 2016. In gas distribution, a € 9.6 million increase was seen, mainly owing to activities in regulatory upgrading pursuant to resolution 554/15 (ex-resolution 631/13) for a large-scale metre substitution, which also involved lower-class devices (G4-G6), and higher non-recurring maintenance on networks and plants. Requests for new connections in 2017 were similar to those seen in the previous year.
Investments fell by € 2.9 million in district heating and heat management, mainly due to the substantial amount of work done during the previous year on the Bologna Barca and Forlì Campus plants, while a rise was seen in investments in heat management made by the company Sinergie, in the area served by the AcegasApsAmga Group. New connections in district heating saw a slight drop compared to the previous year.

Net investments gas (mn€)



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

Gas (mn€)	Dec 17	Dec 16	Abs. change	% Change
Networks and plants	80.6	71.0	+9.6	+13.5%
RH/Heat management	20.9	23.8	-2.9	-12.2%
Total Gas Gross	**101.5**	**94.8**	**+6.7**	**+7.1%**
Capital contributions	0.4	0.0	+0.4	+100.0%
Total Gas Net	**101.0**	**94.8**	**+6.2**	**+6.5%**

Growth seen in investments in the gas area

The Regulatory asset base (Rab), which defines the value of the assets recognised by the Authority for return on invested capital, increased compared to 2016.

Rab (bn€)

€ 1.086

billion Rab 2017

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

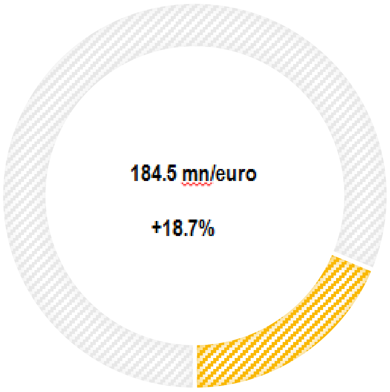
1.02.02
Electricity

The electricity area offered the largest contribution to growth in Group EBITDA compared to 2016. Sales activities widened the customer base and Hera Comm was awarded national tenders by the Single Purchaser for 2017-18 safeguarded services, winning six portions across eleven of Italy's regions, with a different mix than in the previous period. Furthermore, production activities showed an excellent performance in asset management, in spite of the fact that trading activities in 2016 had recorded extraordinary results due to the crisis seen in French plants. Lastly, an advance application of accounting principle Ifrs 15 led to lower revenues amounting to € 19.1 million.

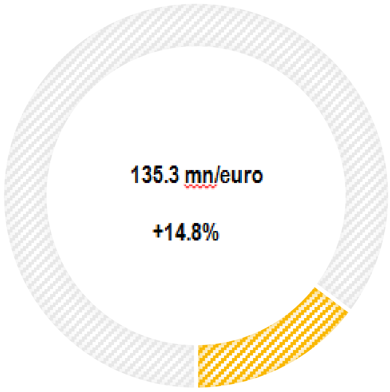
Constant growth in all indicators

These factors brought about a significant growth in EBITDA, both for the electricity area itself and as a percentage of the Group's total.

Electricity EBITDA 2017



Electricity EBITDA 2016



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

(mn€)	Dec 17	Dec 16	Abs. change	% Change
Area EBITDA	**184.5**	**135.3**	**+49.2**	**+36.4%**
Group EBITDA	984.6	916.6	+68.0	+7.4%
Percentage weight	18.7%	14.8%	+3.9 p.p.	

+36.4%

increase in EBITDA

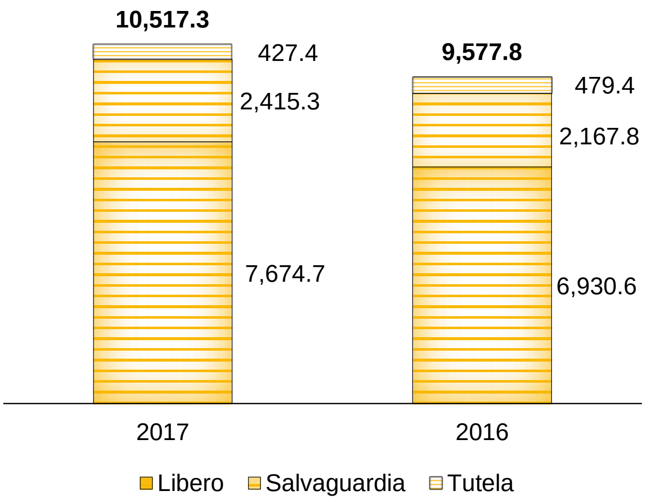
The number of electricity customers showed an 11.5% increase (101.4 thousand), mainly due to growth on the free market, which came to 9.0% of the total. This confirms the trend seen in recent years owing to a reinforcement of marketing and the wider customer base gained, as well as the tender awarded for safeguarded services.

Customers (k)

982
thousand electricity customers

Volumes of electricity sold went from 9,577.8 GWh in 2016 to 10,517.3 GWh in 2017, with an overall increase of 9.8%. Volumes sold on the free market, up 10.7%, more than offset the drop in protected service volumes, while safeguarded service volumes increased by 11.4%.

Volumes sold (GWh)



10.5
GWh sold

The following table summarises operating results for the area:

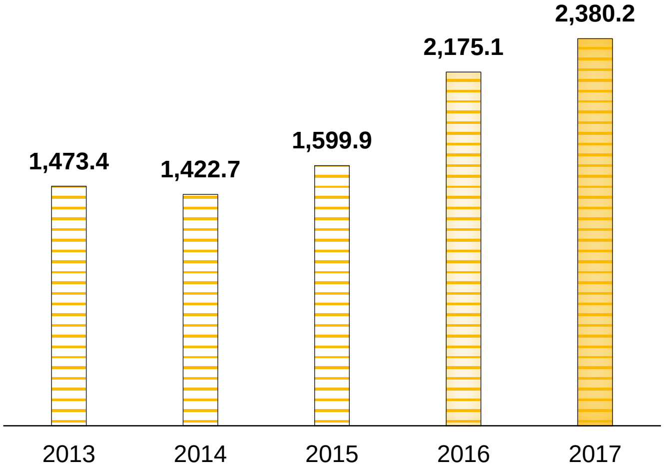
EBITDA rises by € 49.2 million

Income statement (mn€)	Dec 17	% Inc.	Dec 16 Adj	% Inc.	Abs. change	% Change
Revenues	2,380.2		2,175.1		+205.1	+9.4%
Operating costs	(2,161.8)	-90.8%	(2,000.7)	-92.0%	+161.1	+8.1%
Personnel costs	(44.8)	-1.9%	(46.0)	-2.1%	-1.2	-2.6%
Capitalised costs	10.9	0.5%	6.9	0.3%	+4.0	+58.3%
EBITDA	**184.5**	**7.7%**	**135.3**	**6.2%**	**+49.2**	**+36.4%**

Note that pro forma data has been prepared for December 2016 in order to account for the insertion of system charges in the income statement, as for 2017. The effect on the 2016 data is that revenues and operating costs increased to the same degree, € 651.6 million.

Revenues rose by 9.4%, going from € 2,175.1 million in 2016 to € 2,380.2 million in 2017. The main reasons for this growth include: a rise in the price of energy (Pun, nationwide price), up 26% over the previous year, which led to higher revenues amounting to roughly € 111 million in sales, € 47 million in trading and roughly € 20 million in energy production in thermoelectric plants. Furthermore, revenues for volumes sold rose by roughly € 59 million. Revenues for extra-network transportation dropped by € 15 million, and those for system charges fell by roughly € 15 million, while the advance application of accounting principle Ifrs15 reduced revenues by € 19.1 million.

Revenues (mn€)



Note: the trends from 2013 to 2015 do not reflect the adjustment in system charges, included instead in 2016 (€ 651.6 million) and 2017 (€ 626.5 million).

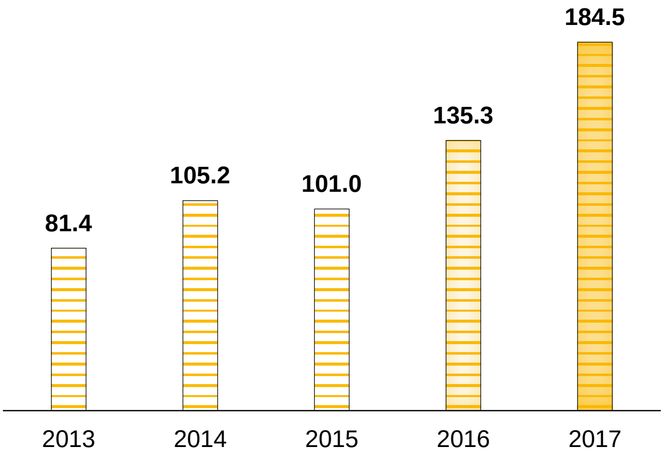
€ 2.4

billion in revenues

The increase in revenues was reflected to an equal degree in rising operating and personnel costs, not including capitalised costs, which went from € 2,039.8 million overall in 2016 to € 2,195.7 million in 2017, thus showing a total growth of € 155.9 million. This change is mainly due to an increase in the cost of materials and the higher volumes sold.

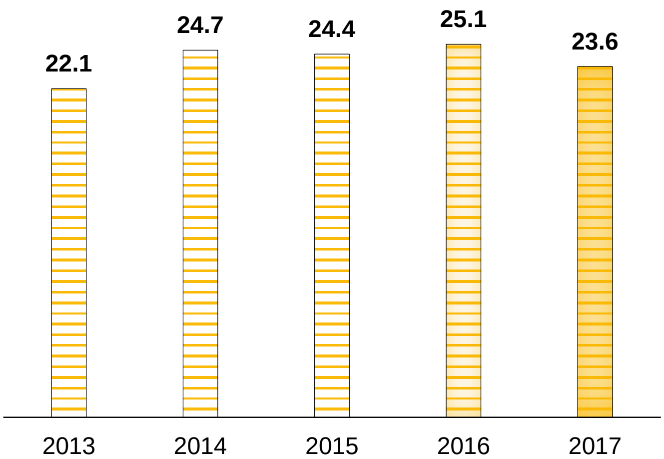
At the end of 2017, EBITDA rose by € 49.2 million or 36.4%, going from € 135.3 million in 2016 to € 184.5 million in 2017, thanks to higher earnings in sales on the free and safeguarded markets, as well as higher earnings in electricity production.

EBITDA (mn€)



Investments in the electricity area in 2017 came to € 23.6 million, dropping by € 1.5 million compared to the € 25.1 million seen in the previous year.
Interventions mainly concerned non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the previous year, non-recurring maintenance fell, for the most part due to the more extensive interventions carried out on the Imola Cogen plant in 2016.
Request for new connections rose compared to the previous year.

Net investments electricity (mn€)

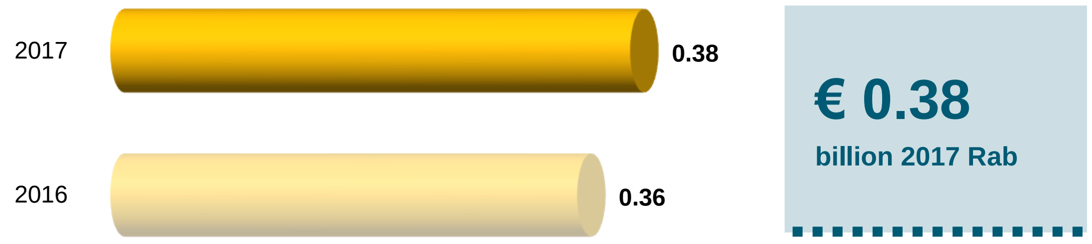


Details of operating investments in the electricity area are as follows:

Eletricity (mn€)	Dec 17	Dec 16	Abs. change	% Change
Networks and plants	23.6	25.2	-1.6	-6.3%
Industrial cogeneration	0.0	0.0	+0.0	+0.0%
Total Electricty Gross	**23.6**	**25.2**	**-1.6**	**-6.3%**
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Electricity Net	**23.6**	**25.1**	**-1.5**	**-6.0%**

The Regulatory asset base (Rab), which defines the value of the assets recognised by the Authority for return on invested capital, increased compared to 2016.

Rab (bn€)



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

1.02.03

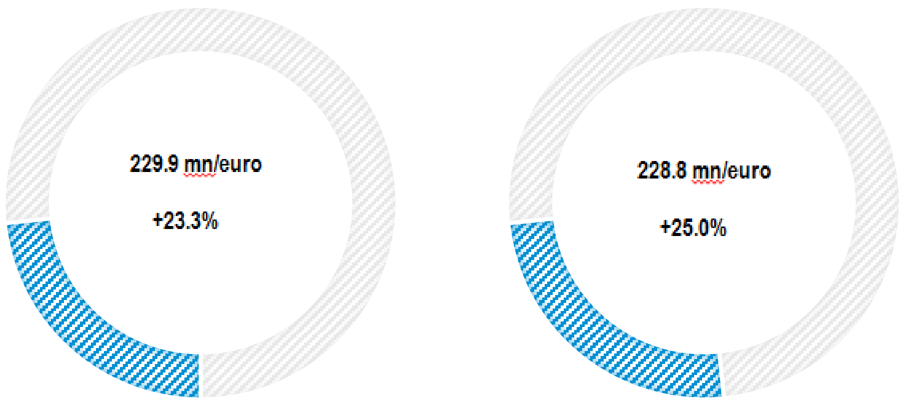
Integrated water cycle

In 2017, the integrated water cycle area recorded a growth of € 1.1 million or 0.5%. As regards current regulations, note that 2017 was the second year in which the tariff method defined by the Authority for 2016-2019 (resolution 664/2015) was applied, and that in both financial years the revenue covering the underlying cost of amortisation related to investments made is recognized on an accrual basis. Furthermore, with resolution 655/15, in force as of July 2016, minimum standards of contractual quality have been defined, including both general and specific standards such as further requirements for help desks, invoicing and estimates. Through this resolution, mechanisms for recognising commercial quality have been introduced.

Results confirmed in 2017 as well

2017 water cycle area EBITDA

2016 water cycle area EBITDA



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

(mn€)	Dec 17	Dec 16	Abs. change	% Change
Area EBITDA	**229.9**	**228.8**	**+1.1**	**+0.5%**
Group EBITDA	984.6	916.6	+68.0	+7.4%
Percentage weight	23.3%	25.0%	-1.7 p.p.	

+0.5%

EBITDA stable

The number of water customers settled at 1.5 million, rising by 5.9 thousand or 0.4% over 2016 and thus confirming a modest trend of internal growth in the areas served by the Group, mainly in the Emilia-Romagna region, served by Hera Spa.

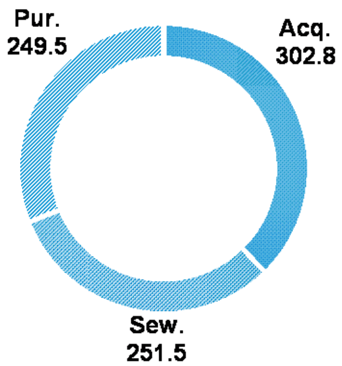
Customers (k)

1.5

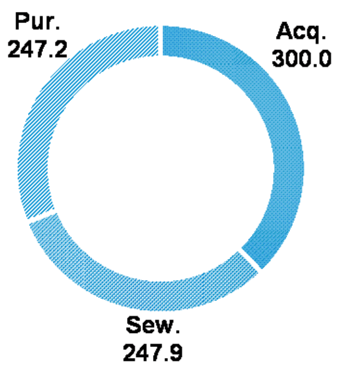
million customers in the integrated water cycle

The main quantitative indicators of the area are as follows:

303 million m³ managed in the aqueduct



Quantity managed 2017 (million m³)

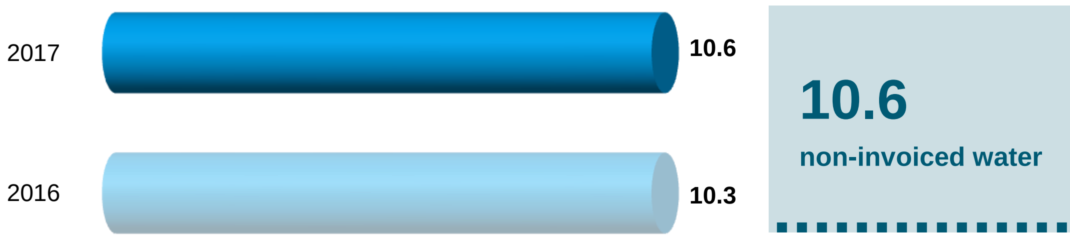


Quantity managed 2016 (million m³)

The volumes dispensed through the aqueduct showed a 2.8 million m³ increase over the figures seen at the end of 2016: this can be traced to both higher consumption across all areas served and the lower amount of rain seen in 2016 compared to the previous year. 2017 has in fact been defined as the year with the least rainfall in the last two centuries, with nine months out of twelve below the average amount of precipitation, which thus fell by 30% overall, and temperatures qualifying it as the fourth hottest year ever. Furthermore, growth was also seen in the amount managed in sewerage (roughly 1.5%) and purification (roughly 0.9%) over December 2016. The volumes dispensed, following the Authority's resolution no. 664/2015, are an indicator of the activities of the areas in which the Group operates and are subject to equalisation thanks to regulations that call for regulated revenues to be recognised independently of volumes distributed.

Non-invoiced water, as an indicator, which represents the effectiveness and efficiency of the distribution system, increased slightly compared to the previous year. This trend is due to both the strain put on pipes by the drought in 2017, which made the soil less elastic, and the higher pressure sustained by the network owing to the greater request related to the particularly high temperatures.

Non-invoiced water (m³/km/days)



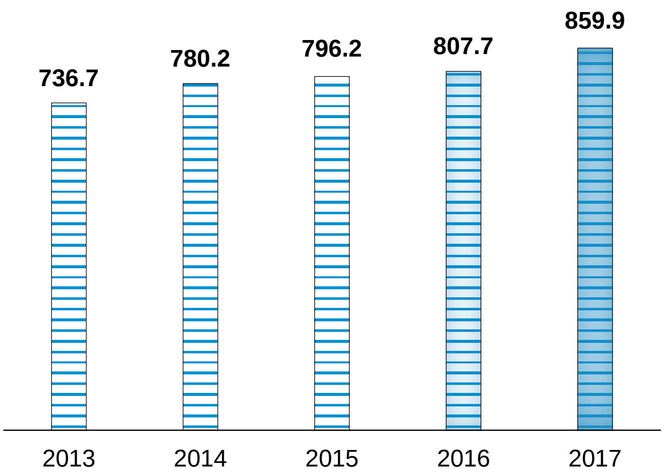
The 2017 data is provisional, pending a definitive reading of the meters.

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

Income statement (mn€)	Dec 17	% Inc.	Dec 16	% Inc.	Abs. change	% Change
Revenues	859.9		807.7		+52.2	+6.5%
Operating costs	(457.0)	-53.1%	(420.6)	-52.1%	+36.4	+8.7%
Personnel costs	(178.1)	-20.7%	(161.9)	-20.0%	+16.2	+10.0%
Capitalised costs	5.1	0.6%	3.6	0.4%	+1.5	+42.1%
EBITDA	**229.9**	**26.7%**	**228.8**	**28.3%**	**+1.1**	**+0.5%**

Revenues showed a 6.5% growth, going from € 807.7 million at December 2016 to € 859.9 million in 2017. This € 52.2 million increase is due to: higher revenues from dispensing coming to roughly € 22 million, as a result of the tariffs provided for by the Authority for the three-year period 2016-2019 (Mti-2); higher revenues covering the underlying cost of amortisation and the recognition of bonuses for commercial quality, ensuing from improved standards compared to the ones foreseen by the Authority's resolution 655/2015. Higher revenues for the application of accounting principle IFRIC12 were also seen, amounting to roughly € 27.0 million, as were higher revenues for subcontracted works coming to roughly € 3.0 million, which offset the € 2.0 million in lower revenues from new connections.

Revenues (mn€)



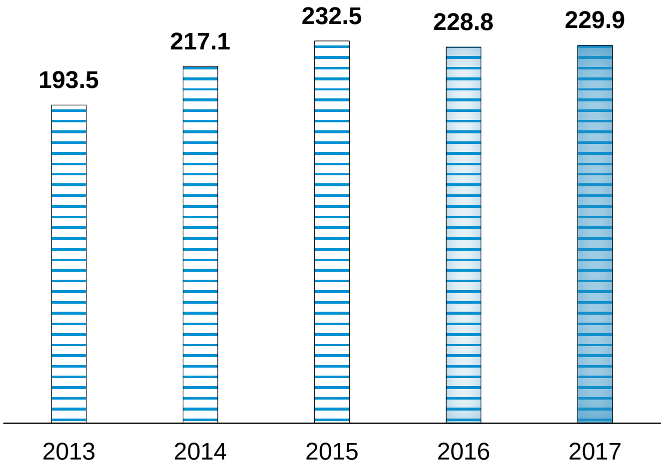
€ 859.9

million in integrated water cycle revenues

Operating and personnel costs, not including capital costs, rose by € 51.1 million or 8.8% overall. Note the higher costs for Ifric 12 and third-party contracts introduced over 2017, amounting to € 32.0 million overall. Furthermore, note the increase in the cost of electricity for plant functioning, higher volumes of water purchased, and higher costs for rapid response services. These management factors were mainly tied to the climate seen in 2017, one of the driest of the last 60 years, with precipitation 30% below the average.

EBITDA increased by € 1.1 million or 0.5%, going from the € 228.8 million seen at December 2016 to € 229.9 million in 2017, thanks to higher revenues from dispensing, even considering the lower revenues from new connections and the higher operating costs mentioned above.

EBITDA (mn€)

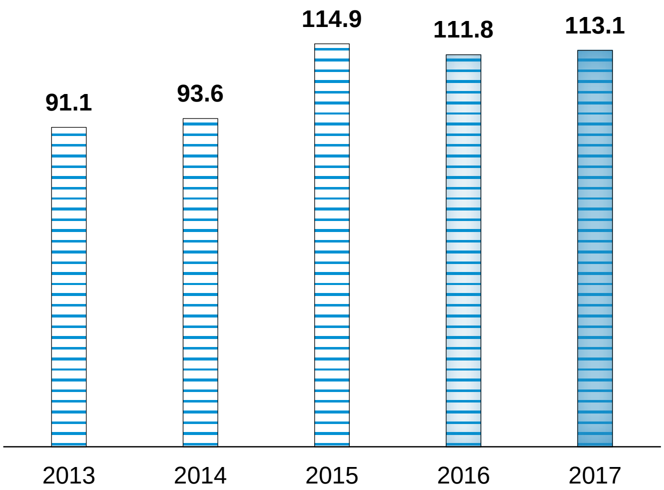


€ 229.9

EBITDA for the integrated water cycle

Net investments in the integrated water cycle area amounted to € 113.1 million, increasing compared to the previous year by € 1.3 million. Including the capital grants received, which increased by € 23.5 million, the investments made rose by € 24.8 million, coming to € 156.6 million compared to the € 131.8 recorded in the previous year.
The interventions mainly involved extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.
Investments were made amounting to € 63.8 million in the aqueduct, € 42.0 million in sewerage and € 50.8 million in purification.

Net investments water cycle (mn€)



€ 113.1

million in net investments in the water cycle

Among the more significant works, note in particular: in the aqueduct, upgrading interconnections in the Modena area water system, a significant upgrading of an abduction conduct in the Ferrara area, anti-

earthquake upgrading of water plants and upgrading hanging reservoirs; in sewerage, continued progress was made in the important works for the Rimini Seawater Protection Plan, in addition to redevelopment of the sewerage network in other areas; in purification, the higher investments compared to the previous year depended above all on the ongoing work done in upgrading the Servola purification plant, in the area served by AcegasApsAmga.
Requests for new water and sewerage connections dropped compared to the previous year.
Capital grants amounting to € 43.5 million included € 8.2 million pertaining to the tariff component provided for by tariff method for the New Investments Fund (FoNI) and rose compared to 2016, mainly due to the amount concerning the Servola purifier.
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Details of operating investments in the integrated water cycle area are as follows:

Water Cycle Area (mn€)	Dec 17	Dec 16	Abs. change	% Change
Aqueduct	63.8	61.5	+2.3	+3.7%
Purification	50.8	32.7	+18.1	+55.4%
Sewage	42.0	37.6	+4.4	+11.7%
Total Water Cycle Gross	**156.6**	**131.8**	**+24.8**	**+18.8%**
Capital contributions	43.5	20.0	+23.5	+117.5%
of which FoNI (New Investment Fund)	8.2	7.3	+0.9	+12.3%
Total Water Cycle Net	**113.1**	**111.8**	**+1.3**	**+1.2%**

Significant operating investments in aqueducts, sewerage and purification

RAB, which defines the value of assets recognised by the Authority for return on invested capital, increased compared to 2016.

Rab (bn€)

€ 1.45

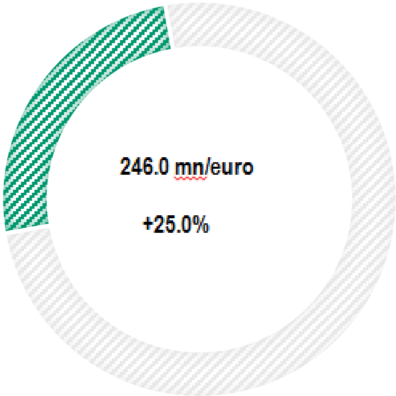
billion 2017 Rab

1.02.04
Waste management

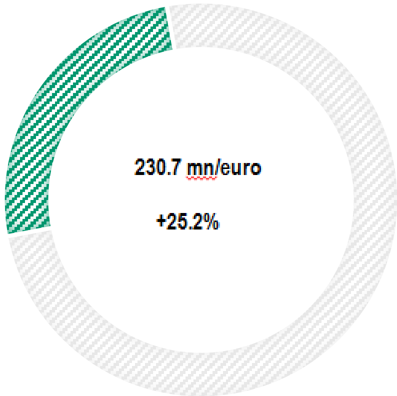
EBITDA rises

In 2017 the waste management area accounted for 25.0% of Group EBITDA, with its own EBITDA rising over 2016. During 2017, it reinforced its organisational structure through the acquisition of the Aliplast Group, a national leader in plastic recycling, and the "plants" corporate branch of the Pisa company Teseco, a leader in industrial waste treatment and recovery. These significant operations allowed the Group to further widen its commercial offer and its own range of plants. Note that the important acquisition of the Aliplast Group reinforced the Hera Group's position as come an operator highly committed to the development of a circular economy, able to offer trustworthy and integrated solutions and to complete the ideal circle of sustainability, from collection and recovery of plastic waste to its regeneration under the form of new products.

2017 waste management EBITDA



2016 waste management EBITDA



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

6.6% growth in EBITDA

(mn€)	Dec 17	Dec 16	Change Abs.	% Change
Area EBITDA	**246.0**	**230.7**	**+15.3**	**+6.6%**
Group EBITDA	984.6	916.6	+68.0	+7.4%
Percentage weight	25.0%	25.2%	-0.2 p.p.	

Volumes marketed and treated by the Group in 2017 are as follows:

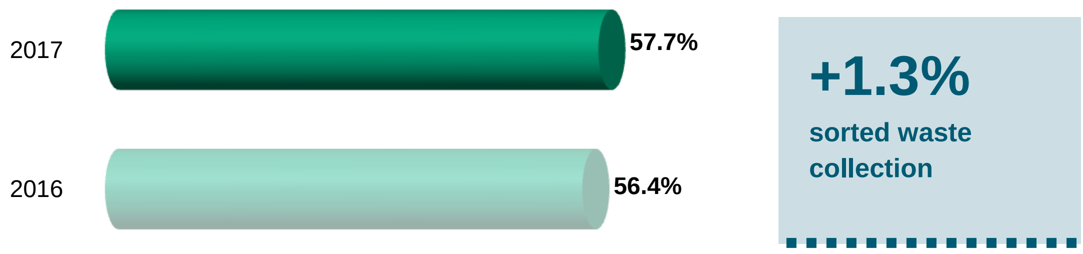
Quantative data (mgl/t)	Dec 17	Dec 16	Abs. change	% Change
Urban waste	2,040.7	2,047.7	-7.0	-0.3%
Market waste	2,526.4	2,340.6	+185.8	+7.9%
Wasted marketed	**4,567.1**	**4,388.3**	**+178.8**	**+4.1%**
Plant by-products	2,234.5	2,479.3	-244.8	-9.9%
Waste treated by type	**6,801.6**	**6,867.6**	**-66.0**	**-1.0%**

Commercial waste up 7.9%

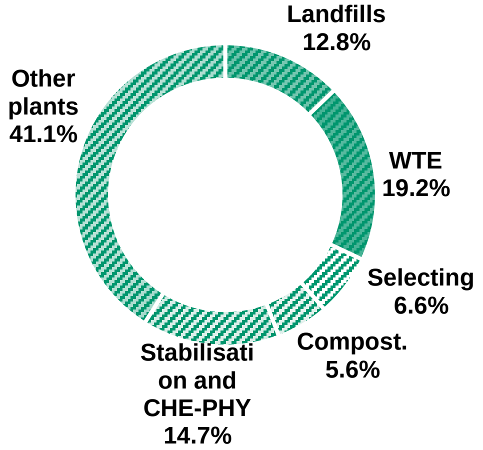
An analysis of the volumes treated shows an 4.1% increase in waste marketed, due to a rise in commercial waste coming to 7.9%, thanks to marketing initiatives aimed at development in new markets and an increase in total plants due to the acquisition of the "plants" corporate branch of Teseco and the Aliplast Group. Urban waste showed a slight decrease. In particular, the higher amount of sorted waste, which rose by 2.1%, only partially offset the lesser amount of unsorted waste, which fell by 3.1%.

Collection of sorted urban waste showed further progress, passing from 56.4% in 2016 to 57.7%. In 2017, in the areas served by Hera Spa, sorted waste collection increased by 0.7%, in those served by Marche Multiservizi it rose by 6.9% and in the Triveneto area this growth settled at 1.3%.

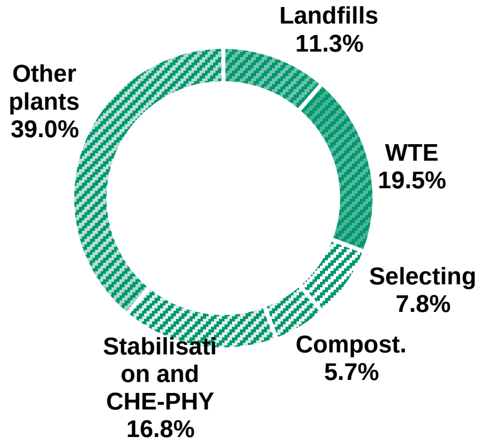
Sorted waste collection (%)



Waste disposed of by type of plant in 2017



Waste disposed of by type of plant in 2016



Quantative data (mgl/t)	Dec 17	Dec 16	Abs. Change	% Change
Landfills	872.3	777.7	+94.6	+12.2%
Waste-to-energy plants	1,305.4	1,336.3	-30.9	-2.3%
Selecting plant and other	451.2	535.5	-84.3	-15.7%
Composting and stabilisation plants	379.4	388.2	-8.8	-2.3%
Stabilisation and chemical-physical plants	1,000.5	1,154.2	-153.7	-13.3%
Other plants	2,792.8	2,675.8	+117.0	+4.4%
Waste treated by plant	**6,801.6**	**6,867.6**	**-66.0**	**-1.0%**

The Hera Group operates in the entire waste cycle, with 92 plants used for urban and special waste treatment and disposal and plastic material regeneration. The most important of these include: 10 waste to energy plants, 11 composters/digesters and 15 selecting plants. The changes in scope of operations described above added three chemical-physical plants, one inertisation plant and one storage plant thanks to the corporate branch of Teseco, along with six selecting plants and three material transformation plants thanks to the entry of the Aliplast Group.

Waste treatment decreased slightly, dropping by 1.0% compared to 2016. As regards landfills, the increased amount treated was due to the greater availability of the Ravenna and Tremonti plants, following the authorisations obtained. Concerning waste to energy plants, the reduction in waste treated compared is due to a different scheduling of plant suspensions and planned maintenance. The lower quantity in selection plants can be ascribed to a change in the classification of a few plants, now included among inertisation and chemical-physical plants. The quantitative decrease in the chain of inertisation and chemical-physical plants is due to a reduction in leachate from landfills, owing to the decrease in rainfall, and the a different representation of a few plants in this category, as mentioned above. Lastly, the set of subcontracted/other plants benefitted from the acquisitions of the Aliplast Group and the "plants" corporate branch of Teseco Srl.

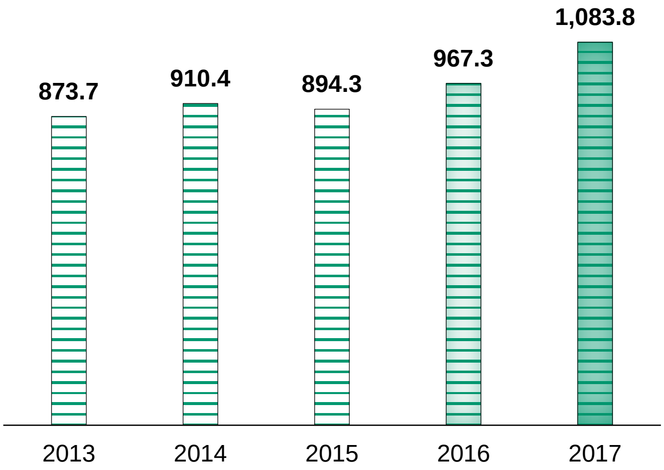
The table below summarises the operating results in this area:

EBITDA rises

Income statement (mn€)	Dec 17	% Inc.	Dec 16	% Inc.	Abs. change	% Change
Revenues	1,083.8		967.3		+116.5	+12.0%
Operating costs	(647.5)	-59.7%	(568.4)	-58.8%	+79.1	+13.9%
Personnel costs	(198.6)	-18.3%	(174.4)	-18.0%	+24.2	+13.9%
Capitalised costs	8.2	0.8%	6.3	0.7%	+1.9	+30.1%
EBITDA	**246.0**	**22.7%**	**230.7**	**23.9%**	**+15.3**	**+6.6%**

Revenues for 2017 rose by 12.0% or € 116.5 million, going from € 967.3 million in 2016 to € 1.083.8 million in 2017. Not including the changes in scope of operations due to the entry of the Aliplast Group, which contributed with € 109.0 million, and lower sales for green certificates amounting to roughly € 24 million (invariant on costs), the waste management area showed a roughly € 32 million increase in revenues over the previous year. This change is due to higher market volumes, thanks to the development of marketing, a positive trend in the market price of special waste, coming to € 23.0 million overall. The higher revenues from electricity production were mainly due to an increase in the price of energy and former green certificated (or Grin conventions; Gestione riconoscimento incentivo, or Incentive recognition management), offsetting the loss of energy incentives for a few plants and for the lesser production of energy in some WTE plants. A positive contribution also came from urban hygiene, in which the increase in revenues was caused by the tariff adjustments resolved by the locally responsible agencies.

Revenues (mn€)



€ 1,083.8

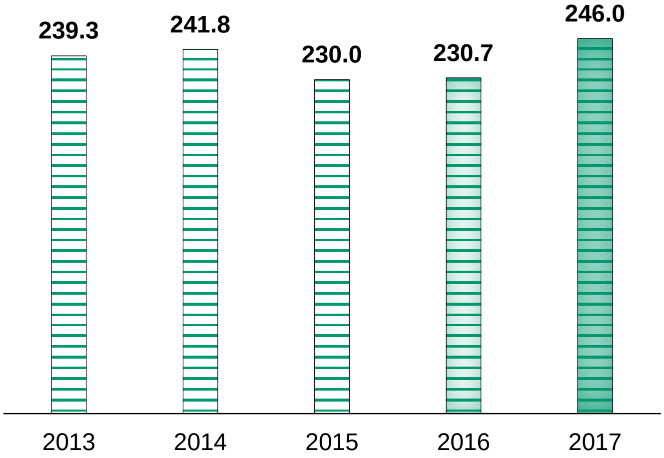
million in waste management revenues

2017 operating costs rose by 13.9%, or € 79.1 million, going from € 568.4 million in 2016 to € 647.5 million in 2017. Not including the change in scope of operations owing to the entry of the Aliplast Group, which contributed with € 77.0 million, and the previously mentioned effect of green certificates, coming to roughly € 24 million, the waste management area saw costs rising by roughly € 26.1 million compared to the previous year. This change is due to the higher costs caused by the rise in waste marketed, the increase in costs tied to maintenance works on a few treatment plants and higher costs for developing new projects in the area of sorted waste.

The increase in the cost of personnel, not including the changes in scope of operations ensuing from the entry of the Aliplast (€ 14.0 million) and the acquisition of the "plants" corporate branch of Teseco Srl (€ 2.4 million), came to 4.5%.

EBITDA went from € 230.7 million in 2016 to € 246.0 million in 2017, showing a € 15.3 million or 6.6% growth. this trend is due to the entry of the Aliplast Group in the Hera Group's scope of operations, amounting to roughly € 17.0 million, higher volume in the waste treatment business, and higher prices for special waste, in spite of the higher costs of management and maintenance for some plants and the loss of a few incentives.

EBITDA (mn€)



€ 246.0

million waste management EBITDA

Net investments in the waste management area concerned plant maintenance and upgrading and amounted to € 66.9 million, up € 16.3 million compared to 2016.

The chain of composters/digesters showed a sharp increase in investments, coming to € 11.5 million, mainly due to interventions on the Sant’Agata Bolognese composter for activities tied to the new biomethane plant, in addition to plant upgrading in the Cesena and Tre Monti sites.

The decrease in investments in landfills, which came to € 7.1 million, is mainly explained by the works carried out in 2016 towards creating the 9th sector of the Ravenna landfill and the 5th portion of the Sommacampagna landfill, compared to the new interventions dating to this year on the Tre Monti (tank reclamation and new energy recovery system), Loria (creation of the 4th sector) and Ravenna (biogas management system) landfills, which amounted to a lesser overall value.

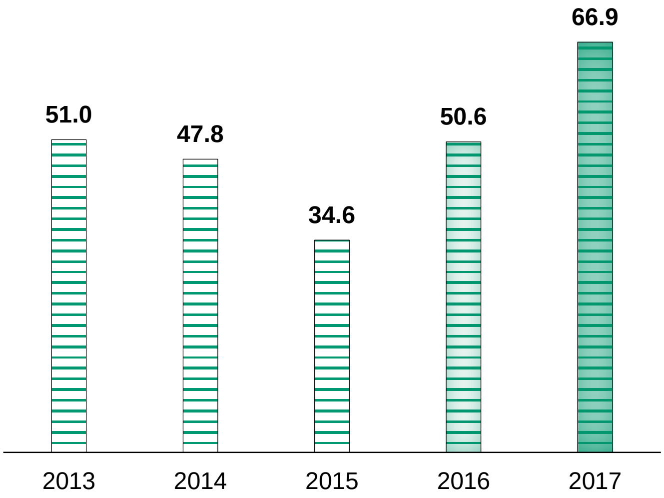
In the chain of WTE plants, a € 0.9 million increase over the previous year was seen, mainly due to works including the modification of the steam generator in the Pozzilli plant and lesser maintenance interventions for the other WTE plants.

Investments in the chain of special waste plants dropped by € 0.5 million, due to the greater amount of works carried out during the previous year on the Ravenna plants.

The chain of ecological islands and collection equipment saw investments that dropped by € 1.0 million, mainly owing to the implementation in 2016 in the Triveneto region of Hergo Ambiente, the innovative information system that manages in an integrated way all of the Hera Group's environmental services, and to lower investments in collecting equipment in the area served by Marche Multiservizi.

The € 12.8 million increase seen in the chain of selection and recovery plants is mainly due to the acquisition of the Aliplast Group, with mention going to the creation of a new line of Pet washers launched by the company Alimpet Srl. Furthermore, the company Waste Recycling is implementing the project I-Waste, a management platform able to gather and elaborate information from various types of sensors that collect analytic data involved in the performance of the various devices and of the treatment plants, putting them into relation with production activities, in order to enhance the efficiency of management, technical and energy processes, introducing IoT extensively into the company.

Net investments waste management (mn€)



€ 66.9

million net investments in waste management

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

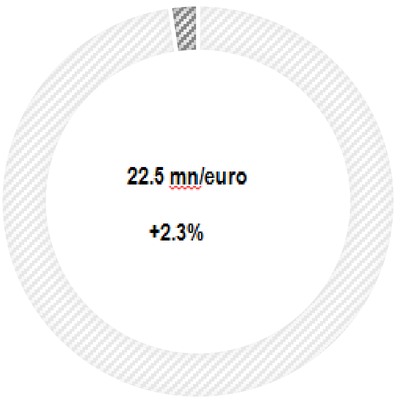
Waste Management (mn€)	Dec 17	Dec 16	Abs. change	% Change
Composting/Digestors	14.7	3.2	+11.5	+359.4%
Landfills	9.9	17.0	-7.1	-41.8%
Wte	10.3	9.4	+0.9	+9.6%
RS Plants	2.4	2.9	-0.5	-17.2%
Ecological areas and gathering equipment	11.3	12.3	-1.0	-8.1%
Transshipment, selection and other plants	18.6	5.8	+12.8	+220.7%
Total Waste Management Gross	**67.2**	**50.7**	**+16.5**	**+32.5%**
Capital contributions	0.3	0.1	+0.2	+200.0%
Total Waste Management Net	**66.9**	**50.6**	**+16.3**	**+32.2%**

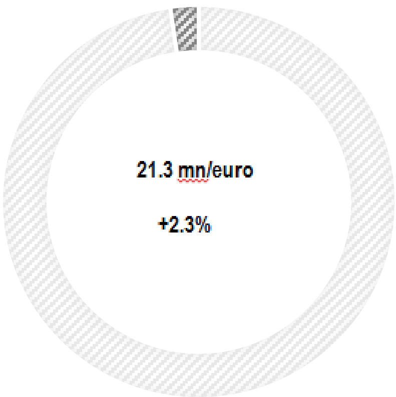
Operating investments rise

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. In 2017, results for this area increased by 6.1% over the previous year: EBITDA in fact went from € 21.3 million in 2016 to € 22.5 million in 2017.

EBITDA increases





The changes occurred in EBITDA are as follows:

(mn€)	Dec 17	Dec 16	Abs. Change	% Change
Area EBITDA	**22.5**	**21.3**	**+1.2**	**+6.1%**
Group EBITDA	984.6	916.6	+68.0	+7.4%
Percentage weight	2.3%	2.3%	+0.0 p.p.	

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

Quantative data	Dec 17	Dec 16	Abs. change	% Change
Public lighting				
Lighting points (thousands)	522.1	517.0	+5.1	+1.0%
of which LED	13.1%	6.0%	+7.1 p.p.	
Municipalities served	163.0	153.0	+10.0	+6.5%

An analysis of the data regarding public lighting shows a growth of 5.1 thousand lighting points and an additional 10 municipalities served. During 2017, the Hera Group acquired roughly 36 thousand lighting points in 17 new municipalities. The most significant of these were: in Lombardy, roughly 4 thousand lighting points in the provinces of Brescia, Bergamo and Cremona; in Abruzzo roughly 12 thousand lighting points; in Lazio roughly 7 thousand lighting points; and in the Triveneto region, roughly 13 thousand lighting points, mainly in the provinces of Pordenone and Venice. The increases seen over the year only partially fully offset the loss of roughly 31 thousand lighting points and 7 municipalities managed, of which the most significant decrease concerns the loss of roughly 29 thousand lighting points in the municipality of Rimini. The percentage of lighting points using led light bulbs also increased, reaching 13.1% in 2017, up 7.1%. This trend highlights the constant attention shown by the Group towards an increasingly efficient management of public lighting and the promotion of new technologies, in order to create a competitive advantage, reduced the amount of energy consumed per lighting point and redistribute the knowhow gained across the areas served.

522.1 thousand lighting points

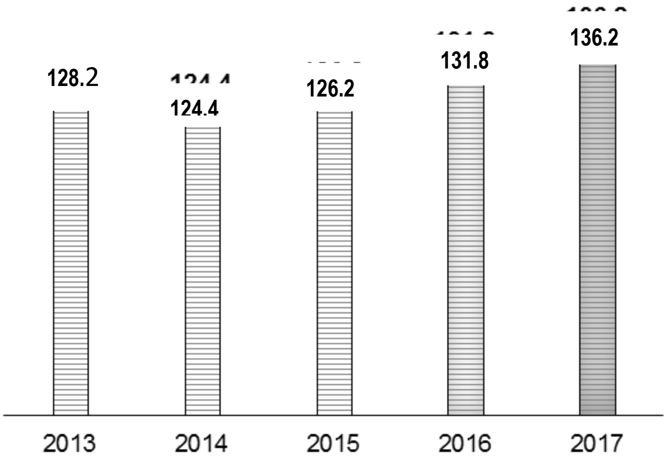
The operating results of the area are as follows:

Growth seen in the area

Income statement (mn€)	Dec 17	% Inc.	Dec 16	% Inc.	Abs. change	% Change
Revenues	136.2		131.8		+4.4	+3.3%
Operating costs	(96.3)	-70.7%	(92.7)	-70.4%	+3.6	+3.9%
Personnel costs	(19.8)	-14.5%	(19.6)	-14.8%	+0.2	+1.0%
Capitalised costs	2.5	1.8%	1.7	1.3%	+0.8	+46.1%
EBITDA	**22.5**	**16.6%**	**21.3**	**16.1%**	**+1.2**	**+6.1%**

Revenues for this area increased over 2016 by € 4.4 million, going from € 131.8 million to € 136.2 million. This growth is due to a positive contribution coming from all the businesses that make up the area: revenues from public lighting grew by roughly € 1.5 million, thanks to the good performance seen in participation in public tenders. Revenues in telecommunications were up thanks to more extensive external marketing collaborations and the contribution coming from the digitalisation and innovation processes implemented by the Hera Group. Lastly, revenues from the cemetery services managed by AcegasApsAmga also increased.

Revenues (mn€)

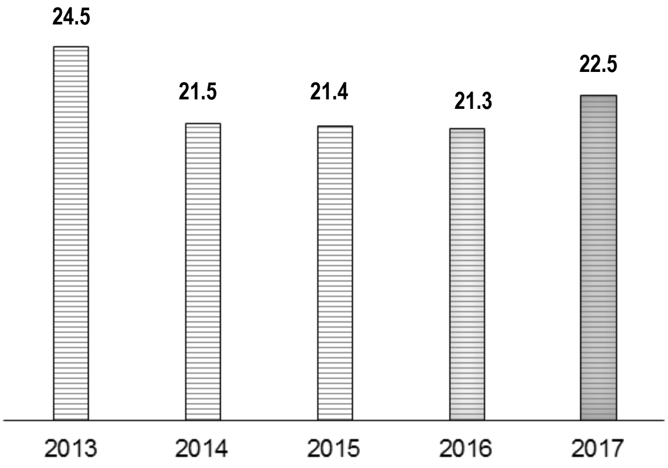


€ 136.2

million in revenues from other services

EBITDA showed a growth of € 1.2 million compared to 2016. This increase is due to higher earnings in public lighting and telecommunications services.

EBITDA (mn€)

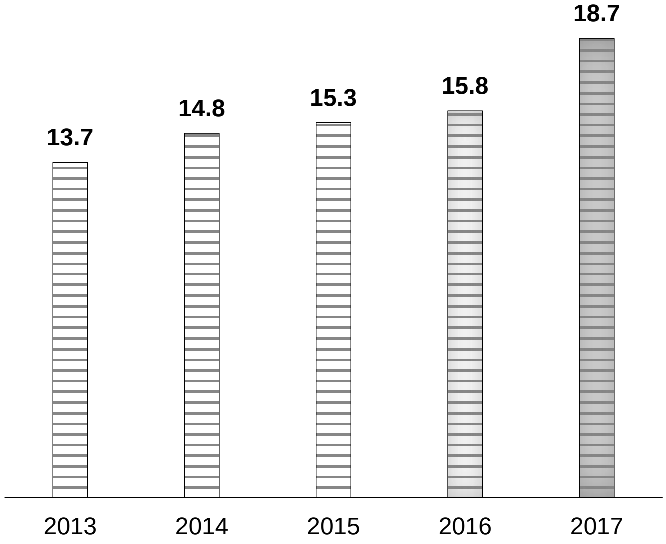


€ 22.5

million other services EBITDA

Investments in the other services area came to € 18.7 million, up € 2.9 million compared to the previous year.
In telecommunications, € 9.2 million of investments were made the network and in Tlc and Idc (Internet data center) services, increasing compared to 2016.
In public lighting services, investments amounting to € 9.5 million concerned maintaining, enhancing and modernising lampposts, with an overall increase of € 2.5 million, which mainly concerned service management in the area covered by the Gruppo AcegasApsAmga Group, and Marche Multiservizi as regards the interventions in the Municipality of Pesaro.

Net investments other services (mn€)



€ 18.7

million net investments in other services

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

Other Services (mn€)	Dec 17	Dec 16	Abs. change	% Change
Tlc	9.2	8.9	+0.3	+3.4%
Lighting and Street Lights	9.5	7.0	+2.5	+35.7%
Total Other Services Gross	**18.7**	**15.9**	**+2.8**	**+17.6%**
Capital contributions	0.0	0.2	-0.2	-100.0%
Total Other Services Net	**18.7**	**15.8**	**+2.9**	**+18.4%**

1.03
Significant events occurred during the year

Herambiente Spa/Aligroup Srl

January

On 11 January 2017 Herambiente Spa and Aligroup Srl signed a framework agreement concerning the acquisition of the entire share capital of Aliplast Spa, a company involved in managing the integrated plastic cycle.
The first tranche of the operation, subject to the approval granted by the Italian Antitrust authority (Autorità garante della concorrenza e del mercato, Agcm), was completed on 3 April 2017, when Herambiente SpA acquired 40% of Aliplast SpA's share capital.
On 14 December 2017, Herambiente Spa acquired a further 40% of the share capital of Aliplast Spa and is also expected to acquire, within June 2022, the remaining 20%, thus becoming the single shareholder of Aliplast Spa.

Waste Recycling Spa/Teseco Srl

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

Biogas 2015 Srl

February

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

Adriatica Acque Srl

March

On 29 March 2017, Hera Comm Srl transferred its holding in Adriatica Acque Srl, a company operating in the sector of office drinking water, including sales of coolers/dispensers, corresponding to 22.32% of the share capital.

Tri-Generazione Scarl

April

Effective as of 5 April 2017, the company Tri-Generazione Scarl, which operates in the sector of trigeneration plant management and maintenance and is 70% controlled by Sinergie Spa, in turn entirely held by AcegasApsAmga Spa, changed its legal status from Srl to Scarl.

Gran Sasso Srl

May

Effective as of 1 May 2017, the share capital of Gran Sasso Srl, a company operating in the sector of gas and electricity purchasing and sales, was increased from € 148,000 to € 162,810, by way of a conferral by Enerpeligna of its own corporate branch involving gas. As of the same date, Enerpeligna transferred its holding pertaining to the abovementioned share capital increase to Hera Comm Srl, with the latter maintaining the entire holding of the company.

Liquidation of Esil Scarl

23 May 2017 saw the liquidation of the holding in Esil Scarl, a company operating in public lighting and traffic light management services, corresponding to 100% of the share capital.

Alipackaging Srl/Cerplast Srl/Umbroplast Srl/Variplast Srl

June

On 27 June 2017, Aliplast Spa, already a shareholder in Alipackaging Srl, Cerplast Srl, Umbroplast Srl and Variplast Srl, holding 80%, 60%, 90% and 80% of the respective share capital, purchased the shares held by the remaining minority shareholders, thus becoming sole shareholder of the abovementioned companies.

AresGas Ead

On 3 July 2017, AcegasApsAmga Spa, which already owned 99.98% of the company Aresgas AD, involved in natural gas distribution and sales in Bulgaria, purchased the remaining 0.02% of the share capital, thus becoming the company's sole shareholder. **July**

Verducci Servizi Srl

On 6 July 2017 the acquisition of 100% of the share capital of Verducci Servizi Srl, a company operating in the gas sales sector with roughly circa 3,500 customers served in the areas of Pescara, L'Aquila and Rieti, by Hera Comm Marche Srl, was completed.

Aliplast France Recyclage Sarl/Aliplast Iberia Sl

On 28 September 2017 Aliplast Spa, which already respectively owned 90% and 98.93% of the companies Aliplast France Recyclage Sarl and Aliplast Iberia Sl, dedicated to plastic waste collection and treatment in France and Spain, acquired the remaining holdings of these two companies, thus becoming the sole shareholder of both. **September**

Amga Calore & Impianti Srl / Sinergie Spa

On 17 October 2017 Hera Comm Srl completed its transfer to AcegasApsAmga Spa of 100% of the share capital of Amga Calore & Impianti Srl, a company active in the sector of heat production, transmission and management. **October**

Later, effective as of 1 January 2018, the merger by incorporation of Amga Calore & Impianti Srl into Sinergie Spa was completed, and on the same date the latter company transferred its legal headquarters to Udine and changed its corporate name to AcegasApsAmga Servizi Energetici Spa (Ase Spa).

Hera Luce Srl **November**

On 20 November 2017, effective as of 1 December 2017, the sole shareholder Hera Spa divested itself, through an asset transfer to Hera Luce Srl, of its "public lighting" corporate branch.

On 28 November 2017, effective as of 1 January 2018, the sole shareholder Hera Spa divested itself, through an asset transfer to AcegasApsAmga Spa, of its shareholding in Hera Luce Srl, corresponding to 100% of the share capital.

Later, on 19 December 2017, effective as of 1 January 2018, the new sole shareholder AcegasApsAmga Spa divested itself, through an asset transfer to Hera Luce Srl, of its "public lighting" corporate branch.

Eni gas e luce Spa electricity customers in the Gorizia area **December**

On 20 December 2017, through EnergiaBaseTrieste Srl, 13,000 protected electricity customers served in the Municipality of Gorizia were acquired, previously belonging to Eni gas e luce Spa.

EstEnergy Spa

On 21 December 2017, effective as of 1 January 2018, AcegasApsAmga Spa's transfer to Hera Comm Srl of its 51% holding in EstEnergy Spa was completed, the latter company operating in electricity purchasing and sales.

Adria Link Srl

On 21 December 2017, effective as of 1 January 2018, the transfer from AcegasApsAmga Spa to Hera Trading Srl of its 33.33% holding in Adria Link Srl was completed, the latter company operating in the sector of electricity line planning, construction and management.

EnergiaBaseTrieste Srl

On 21 December 2017, effective as of 1 January 2018, the transfer from AcegasApsAmga Spa to Hera Comm Srl of its 100% holding in EnergiaBaseTrieste Srl (formerly Acegas Aps Service Srl) was completed, the latter company operating in electricity sales in the Municipality of Trieste.

Estense Global Service Scarl
On 28 December 2017, following the completion of the liquidation procedure, Estense Global Service Scarl, a company operating in the global service sector and 23% held by Hera Comm Srl, was cancelled from the authorised registry of businesses.

Hera Comm Marche Srl
On 29 December 2017, at the conclusion of the designated public tender announced by Marche Multiservizi Spa, Hera Comm Srl acquired the shares held by Marche Multiservizi Spa in Hera Comm Marche Srl, a company operating in sector of gas sales to end customers, coming to 29.50% of the share capital.

Significant events occurred following the reporting period

Blu Ranton Srl
On 7 February 2018 Hera Comm Marche Srl completed its purchase of 100% of the share capital of Blu Ranton Srl, a company operating in the sector of electricity and gas sales, with roughly 15,000 gas customers and 700 electricity customers served in the areas surrounding Teramo, Macerata and Pescara.

Marche Multiservizi Spa
On 7 March 2018, the Shareholders Meetings of Marche Multiservizi Spa and Megas.Net Spa approved a project for merging the latter into Marche Multiservizi Spa. This operation is part of a larger framework of rationalising corporate holdings in the Province of Pesaro-Urbino and the municipalities of this area.

Sangro Servizi Srl
On 20 March 2018, Hera Comm Srl, after winning the public auction announced by the Municipalities of Atessa, Paglieta and San Vito Chietino, acquired from the latter 49% of the share capital of Sangro Servizi Srl, a company operating in sales of natural gas, electricity and other energy products, with roughly 7,000 gas customers served in the Province of Chieti.

Medea Spa
In fulfilment of the binding agreement signed on 21 December 2017, Hera Spa, within the end of March 2018, will transfer to Italgas Spa its entire holding in Medea Spa.

1.04
Share performance and investor relations

During 2017, all main European stock indexes recorded an overall increase, thanks to a general improvement in the macroeconomic context and the constant support provided by the European Central Bank's expansionist monetary policy. Overseas markets also achieved positive performances, reaching new historical highs, based on the expectations for growth in corporate profits and the benefits deriving from the fiscal reform promised by the United States administration.

Global stock markets rise in 2017:

the Italian stock exchange ranks as the best in Europe

With its final result of +15.5%, the Italian stock exchange showed the best performance in Europe, benefiting from the country's reinforced prospects for economic growth and the recovery in fundamental prices for Italian stocks, which had been discounted with respect to their European counterparts.

The decrease in sovereign bond yields, seen in particular for the debt of Europe's more outlying countries, gave rise to a favourable context for investments in the utility sector that, showing constant progress quarter by quarter, closed the year with an increase +20.2% higher than the one recorded by the Italian market.

Positive trend for utilities: Hera performance higher than its reference sector

Within the utility sector, Hera stock stood out with a performance of +33.9%, ending trading for 2017 with an official price of € 2.929 and a capitalisation of roughly € 4.4 billion, the highest ever recorded since the birth of the Group. Hera showed a trend that remained constantly above its reference sector, trading at over 3 euro in December, thanks to both the support provided by the quarterly results, whose increases were higher than consensus expectations, and the prospects for development contained in the business plan, presented to the financial community in early 2017.

2017 Hera stock, utility sector and Italian market performance comparison

On 19 June 2017, in line with the indications contained in the business plan, Hera paid a dividend coming to 9 cents per share, the fifteenth in a series of uninterrupted increase since being listed.

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

The joint effect of the continuous payments made to shareholders through dividends and an increase in the price of the stock allowed the total shareholders' return accumulated since the company was initially listed to remain positive once again and to settle, at the end of the period in question, at over +225%.

+225%

total shareholders' return since the IPO

The financial analysts covering the company (Banca Akros, Banca IMI, Equita Sim, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) expressed a clear prevalence of positive judgements, with almost all recommendations defined as buy/outperform. At the end of the year, the consensus target price came to 3.15 euro, well above the 2.77 euro recommended at the end of 2016.

Breakdown of Group Shareholders at 31 December 2017

At 31 December, 49.5% of the corporate structure consisted of shares belonging to 118 public shareholders located across the geographical areas served and regulated by a stockholders' agreement, signed on 26 June 2015 and in force for three years, while 50.5% of the shares were floating.

49.5%:

the share capital pertaining to the public shareholders' stockholders agreement

On 23 June, in keeping with the agreement, 13 Municipality shareholders sold, in a coordinated and transparent way, through an accelerated book building operation, roughly 25.7 million shares, corresponding to 1.7% of the share capital, to over twenty Italian and foreign institutional investors. Thanks to a demand that reached over twice the amount put on sale, the placing occurred at a price of 2.79 euro per share, with the lowest discount seen on the market since the beginning of the year for similar operations, 3.3% of the price at closing time on the previous day. The placing led to a rise in floating stock, with clear benefits for trade liquidity.

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders Meeting of 27 April 2017 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 the main comparable Italian companies. At the end of 2017, Hera held 15.3 million treasury shares.

Dialogue with the market

as an intangible asset

In the period under review, Hera's senior management engaged in an intense dialogue with investors, with its business plan road show in the first quarter and its participation in sector conferences in the remaining quarters.
The intense dialogue cultivated by Hera with investors and all stakeholders has helped reinforce its market reputation and represents an intangible asset that favours Hera stock and its stakeholders.

As regards the information required by article 2428 comma 3, n. 2 and 3 of the Italian civil code, the number and nominal price of the shares making up the share capital of Hera S.p.A., the number and nominal price of treasury shares held at 31 December 2017, in addition to the changes in the above that occurred during 2017, see note 24 of paragraph 3.02.04 and the table of changes in net equity in paragraph 3.01.05, concerning the separate financial statements of the parent company.

1.05
Reference scenario and Group strategy

The utility sector and the Authority,

rationalising the industry and liberalising the market

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

In gas distribution, for example, tenders for renewing grants are foreseen within the next five years across the entire country. These competitive procedures have been designed to promote greater consolidation among operators, while at the same time favouring the more efficient ones and those able to sustain more wide-reaching investment plans. The areas concerned by the tenders have in fact been geographically widened, now covering provinces instead of municipalities, as was previously the case. It follows that, according to estimates made by sector professionals, a reduction should be seen in the number of companies, from over 200 to roughly twenty.

In late 2017, the government also established that regulations for the waste management sector were to pass over to the Authority for electricity, gas and the water service, which was thus renamed as the Regulatory authority for energy, networks and the environment (Arera, Autorità di regolazione per energia reti e ambiente). With this reform, the executive branch expects a higher degree of uniformity to be reached in tariffs and service quality nationwide, for example by defining the mechanisms used in tenders for granting concessions for street cleaning and urban waste collection. Thanks to this change, similar to the one introduced for water services, the government aims at achieving, over the medium term, a rationalisation of this sector, which is currently the only one lacking modern and rational regulations.

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

Hera's model of aggregation

In this context, marked in all sectors by various factors encouraging the consolidation of smaller operators, Hera operates with a development model that is geared towards making the most of scale economies and synergies (internal growth) and expanding the geographical extent of its own operations (external growth), by integrating sector enterprises. Since its establishment, 25 companies in bordering regions have been merged, allowing Hera to achieve nationally significant market positions and quintupling its EBITDA. This process has been favoured among other things by an amply diversified corporate structure that entrusts the Group's management to a governance inspired by an industrial and managerial type of rationale.

Hera grows in many directions

The results for 2017 also bear the mark of this strategic approach. As regards external growth, in the year in question Hera brought to conclusion a few important acquisitions in liberalised markets. In the energy sales business, Hera Comm Srl, the Group's trading company, completed its acquisition of a few customer packages (Verducci Servizi Srl) in the Abruzzo region, an increasingly interesting area, as is witnessed by the acquisitions made over the last three years (Alento Gas Srl, Julia Servizi Più Srl, Fucino Gas Srl and Gran Sasso Srl). In early 2018 Blu Ranton Srl, a gas and electricity sales company operating in the Marche and Abruzzo regions with roughly 17,000 customers, was added to the list of purchased companies. Thanks to this transaction, the Group is now the one of the foremost operators in these regions, with approximately 225,000 customers. In the same period, a customer portfolio was purchased from Eni in the province of Gorizia, where the group already provides gas and electricity distribution services.

Two acquisitions were completed in the waste treatment sector: Aliplast Spa and Teseco Spa. The latter meets the Group's need to enhance its industrial waste recycling plant capacity, allowing it to expand in one of Tuscany's most important industrial districts, where the Group was already present as of late 2015 con Waste Recycling Spa.
Aliplast Spa instead allowed a new link to be added to the value chain in this sector: thanks to it, Hera is now in fact able to create finished products starting with recovered raw materials. This operation furthermore allows the Group to reduce its exposure to the cyclically variable price of recycled materials, to pursue cross-selling of waste treatment services on the vast customer base of the newly acquired company (present across Italy) and to evolve its activities, moving towards a circular economy.

Internal growth was pursued through extracting efficiencies and synergies from the businesses managed, in line with the track record seen over the last five years, during which roughly 90 million euro in accumulated savings were recorded. This result was partially obtained thanks to the development of a few innovative projects, such as satellite searches for leakage in the water network or the digitalisation of the process of urban waste collection (HergoAmbiente project). Continued growth was furthermore seen in free markets, where a wider customer base was obtained through commercial actions and an enlargement of the regions involved in last resort services. 2017 was in fact the first year of the two-year grants in safeguarded electricity and default gas services, which the Group had been awarded in late 2016, gaining national co-leadership.

The Group's growth strategy, effectively and continuously pursued in 2017 as well, maintained a perfect balance between regulated and liberalised activities in its core businesses. This balanced portfolio mix heralds the sustained presence of a high risk diversification.

The new business plan to 2021

In early January 2018 the new business plan to 2021 was presented, the fifteenth since the Group's establishment, geared towards further growth. Thanks to a macroeconomic scenario expected to improve and the development opportunities offered by the rationalisation of the sector, EBITDA is anticipated to grow by 218 million euro, reaching in 2021 the target of 1.135 billion euro, higher than the one set down in the previous plan. Relying on the Group's current market position and the availability of accumulated financial resources, growth will also be fuelled by an ambitious investment program coming to roughly 2.9 billion euro, with a sharp acceleration (+62%) compared to the investments made in the last five years. The Group's strategy, indeed, calls for an efficient allocation of capital, fully financed by the generation of cash flow and largely dedicated to networks, which will allow the Group to conserve its current low risk profile.

The objective of maintaining financial solidity was also confirmed, with a target of a 2.9 net debt to EBITDA ratio. The 17% increase in dividends per share, to be implemented progressively until 2021, in any case leaves ample room with which to finance any possible opportunities for future growth.

Confirming the content of the previous business plan, this strategy will be supported by the usual five development levers: growth, efficiency, innovation, excellence and agility. This orientation, which has already proven its validity in recent years, is at the root of all projects envisaged for the next four years, which match the main directions in which the sector is evolving: circular economy, utility 4.0 and customer experience.

Circular economy

The strategy through to 2021 also proves to be in line with the idea of a circular economy, pushing sustainable management beyond simply reusing and recycling materials coming from sorted waste. The Group, that in this area has reached the targets set by supranational organisations (EU and UN) well ahead of time, will take a decisive step in the upcoming five-year period towards directly producing goods that can be relocated on the market, through the use of recycled materials.

Utility 4.0

The Group furthermore intends to move towards utility 4.0, through the use of digital technologies in all its business areas. Intelligent networks, big data analysis and the internet of things indeed represent opportunities to have the processes and infrastructures managed more efficient and concretely contribute to a smart development of the cities served.

Customer experience

A great deal of attention is expected to be given to customer experience and all related activities, which encourage customer relationship management tools to evolve. The target is an ever-increasing capacity and velocity in big data analysis in order to provide a structure for strategies aimed at improving the quality of the services offered, as well as to define the marketing offers that best meet customer requests.

Creation of shared value

The plan presents targets and projects that the Group wishes to pursue in a sustainable way, creating value for all stakeholders. The first to do so in Italy, in 2017 Hera reported its creation of shared value (Csv), which is inspired by the economic theory developed by Porter and Kramer in 2011. This indicator calculates the Group's EBITDA deriving from activities in line with the global objectives set out in the UN Agenda and, more specifically, those that meet the call to action of 10 of the 17 points presented, i.e.: efficient use of resources, intelligent use of resources, innovation and territorial development. In the previous financial year (2016), Csv accounted for roughly 30% of Group EBITDA, and this amount is expected to rise to 40% in 2021, considering that two thirds of the growth foreseen in the plan is related to projects in line with the UN's global Agenda.

1.06

Macroeconomic context and focus on the oil, gas and electricity sector

The macroeconomic context

In 2017 the world economy confirmed the recovery that had begun in 2016, with solider rates of development and a more widespread geographical distribution. Most of the world's economic areas, in fact, recorded in 2017 a growth rate higher than the average seen over recent years, in spite of a few global risk factors, including the geopolitical tension surrounding North Korea and the Brexit negotiations between the United Kingdom and the European Union.

The International Monetary Fund's most recent estimates show a 3.7% rise in global gross domestic product in 2017, up 0.5% compared to the growth pertaining to the previous year. For over 120 countries (amounting to 75% of world GDP), 2017 witnessed the highest annual growth rate since 2010. The rate of development continues however to be highly uneven, varying between different areas of the world. The Asian market, China and India in particular, continues to be the driving force in world growth, with rates reaching +6.5% compared to 2016. The area under Russian influence consolidated the signs of recovery seen during the previous year, with a rate of development exceeding 2%, for reasons including the recovery in the price of energy raw materials. The United States as well showed growth above 2%, increasing compared to 2016 but lower than forecasted by analysts. On the contrary, the British economy seems to be slowing down, showing a growth of 1.7% compared to 2016, 0.2% less than the increase in GDP recorded the previous year, ensuing from the uncertainty surrounding its choice to become independent from the European Union.

As regards the Euro area, according to the most recent estimates the economy has shown a remarkable upturn due to an increasing amount of investments and the fundamental contribution given by the ECB's expansive monetary policy: GDP for the Eurozone recorded a 2.4% growth over 2016, the highest figure seen since 2007. Contributions to this result came from the German (+2.5%) and Spanish (+3,1%) economies in particular. Inflation should settle at 1.5%, rising over the previous year, partially due to the recovery in the price of energy products. Excluding energy products from the market basket, indeed, the rise in consumer prices came to less than 1%. The unemployment rate in the Euro area is slowly but steadily declining, even though significant differences are still found among the single countries.

In 2017, the Italian economy underwent a remarkable reinforcement, with GDP growing by 1.5% over the previous year, the highest increase recorded since 2010. This growth was mainly driven by a recovery in final consumption and investments.

Consumption, and private consumption in particular, increased thanks to an improvement in the confidence shown by families and the positive trend in available income. Concerning businesses, industrial production increased and investments significantly accelerated in the second part of the year, stimulated by factors including the tax incentives tied to the "Industry 4.0" package.

As regards foreign trade, the volume of exports grew by 5.4%, in particular towards EU countries not belonging to the Eurozone and those outside the EU. After the drop seen in 2016, inflation showed positive figures once again and according to the latest estimates should settle at +1.3%, essentially in line with the data recorded elsewhere in the Eurozone. As regards the job market, the unemployment rate should come to 11% at the end of 2017, a gradual decrease compared to the 11.7% recorded at the end of 2016.

Referring in particular to the areas served by the Hera Group, it is interesting to note that the rate of economic growth in 2017 in the Veneto and Friuli Venezia Giulia regions was higher than the national average, and that in Emilia-Romagna regional GDP grew by no less than +1.8%, turning it into one of the country's two "locomotives", along with Lombardy.

The context in terms of competition

Utilities act within a context marked by a growing degree of competition. This evolution can easily be detected in regulated businesses, but also in the case of free market businesses.

In regulated businesses, tenders to award service concessions are approaching, and will introduce a greater drive towards competition through forms of "competition for the market". During 2017, the process involved in awarding service concessions for gas distribution took important steps forward, with various announcements for tenders published and the first grant recently brought to a conclusion. In the wake of this initial experience completed on a national level, it is reasonable to expect more announcements to be gradually published and procedures to get underway in most areas. In the case of urban hygiene, competitive procedures are expected during the upcoming years for assigning these services in the Emilia-Romagna region and in the last weeks of 2017 the first announcement was published, concerning service management in the Ravenna and Cesena areas.

Free market businesses, instead, are characterised by forms of "market competition" by their very nature, and in 2017 as well an intensification of competition among operators was witnessed.

As regards energy sales, Arera, in its latest report monitoring the retail market, noted that the number of operators active in the free market increased in the five-year period from 2012 to 2016, reaching 373 operators in both gas and electricity sales. Referring to the electricity market in particular, 47% of operators are active in over half of Italy's regions, confirming the intense competition among sales companies to acquire final customers. In 2017, a number of operators whose business models were founded on an excessive level of risk left the market, showing the outcome of a healthy process of selection among competitors.

As regards activities in waste disposal, treatment and recovery, the current context is marked by various factors creating complexity, some of which are international. As of early 2018, China lowered the minimum quantity of materials that can be imported into this country in order to be treated. This caused a reduction in flows towards China, and in Europe (but not only) had the effect of making more low-quality materials from sorted waste available, which must be sent to European treatment and disposal plants. The context in Europe is thus characterised by a sharp capacity gap, with demand for treatment in recent years above the actual availability of plants. Similarly, in the market sector of dangerous industrial waste a situation involving a "short market" can be observed, a consequence of the strong growth seen in the country's main driving industrial sectors (in particular, the chemical and pharmaceutical sectors).

1.06.01

Regulatory framework and regulated revenues

Relevant legislation

Among the legislative measures introduced in 2017 with the greatest consequences for the Hera Group, particular attention must certainly be given to the Consolidated Act on governance for companies with public shareholders and the approval, through a vote of confidence, of the 2018 Budget and the three-year budget covering 2018-2020.

Consolidated law on companies with public shareholders

On 26 June 2017, amendments to the "Consolidated law on companies with public shareholders" were published in the Gazzetta Ufficiale della Repubblica no. 147. This measure responded to a twofold need: on the one hand, to fully implement enabling Act 124/2015, which provided for the possibility that the Government finalize legislative decree 175/1206 by means of corrective decrees to be adopted within twelve months of the effective date of the latter; on the other, to adapt to the recent Constitutional Court ruling no. 251/2016, which declared the constitutional illegitimacy of Act 124/2015, regarding the part regulating the procedural rules for adopting decrees implementing the reform.
Issuing this Consolidated law created a unitary body of legislation concerning publicly held companies, whose merit consisted in its organically conceived rules covering a broad and complex subject matter, regulations for which had previously been fragmentary and, in no few cases, uncoordinated and irregular. The new Consolidated law, indeed, beginning with an analysis of the requirements to be respected in order for public administrations to acquire or hold shares in companies, extended its scope of application to virtually all aspects linked to managing these companies: from legitimate activities to pursuable goals, and from requirements for administrators to financial norms for public bodies.

Arera:

Regulating authority for energy, networks and the environment

On 29 December 2017, the 2018 Budget and the three-year budget for 2018-2020 were published in the *Gazzetta Ufficiale della Repubblica*. Commas 305 to 308 gave the Authority for electricity, gas and the water system the function of regulating and controlling the waste cycle, now expressly included among network services. As a consequence of these broadened responsibilities, the Authority took on the name of Regulating authority for energy, networks and the environment.
The tasks given to the Authority include: issuing directives for separate management accounting and administration; providing indications as to service quality levels and monitoring how services are dispensed; defining and updating methods for defining tariffs; approving tariffs proposed by the specific governing body for integrated services and by single managers of treatment plants; defining model contracts for services; verifying that specific plans are correctly drafted; presenting an annual report to the Italian parliament on the state of service regulations.

Gas, electricity and integrated water service regulations

Among the new features that appear in regulations approved by the Authority in 2017, those with the greatest consequences for the Group include: measures heralding the end of protected energy services; new ways of recognising the costs involved in gas measurement; a redefinition of the tariff structure for general charges for non-household electricity customers; the completion of regulations for the integrated water service.

The Authority continued in its adoption of measures aimed at bringing the sector to abandon protected services in retail markets, with their consequent complete liberalisation taking place as of 1 July 2019.
In particular, the Authority, by way of resolution 555/2017/R/com, approved regulations for Free price offers with conditions equivalent to protected services (so-called Placet offers), marked by general supply conditions fixed by the Authority except for the economic conditions that must necessarily be inserted by each single operator on the free market within its own list of offers. Arera furthermore redefined regulations for the minimal mandatory contractual conditions applicable to all free market offers not included among Placet offers. Lastly, these measures established that, for "Similar to Protected" contracts expiring after 12 months, if the customer does not choose otherwise, the contract may be prolonged for a further year under the same contractual and economic conditions (without however newly applying the non-recurring discount); only following this second year in which "Similar to Protected" conditions are applied will it be required, barring a different choice by the final customer, to apply a Placet offer, following the procedures set out by the Authority. With resolution 848/2017/R/com, the Authority furthermore provided for the launch of the Offer portal, whose functions will include collecting and comparing current offers on the retail market, through the integrated information system.

Transitory regulations for collecting general service charges in the electricity sector

Following the verdicts of the Tar and the State Council on appeals against the previous regulations for system charges set out in the Code for Electricity Transmission Networks (Cade), with resolution 50/2018/eel for transmitting companies and consultation 52/2018/R/eel for sales companies, the Authority implemented transitory regulations (given that indications from the legislature are lacking) for collecting general system charges in the electricity sector. Resolution 50/2018 confirms the current system for collecting general system charges, introducing a mechanism aimed at reintegrating system charges paid by transmission companies to Csea and Gse which have not been collected and cannot be recovered by sales companies. Similarly, with consultation 52/2018 the Authority illustrated its own orientation concerning the rules for reimbursing to sales companies all system charges that have already been paid to transmission companies but not collected and impossible to recover due to arrearage in final customers. The consultation proposes that safeguarded contracts be included in the mechanism as of 2019.

2018 – 2019: measures concerning the recognition of costs related to gas metering

With resolution 904/2017/R/gas, the Authority adopted measures for the recognition of costs involved in gas metering services for the two-year period 2018-2019. The main indications concerned, first and foremost, the capital and operating costs related to remote reading and remote management systems and concentrators, for which a cap on recognition of carrying amounts for 2018 coming to 5.24 euro/redelivery point provided with a functional electronic measurer has been foreseen, with a gradual decrease of 0.50 euro/year for the following years. Standard costs have furthermore been set to be applied to meters installed in 2018 and 2019, and the amount of sharing compared to the carrying amounts has been defined progressively and asymmetrically. The method for recognising costs involved in verifying meters has been revised, calling for a rationale in which costs are recognised in the final balance for 2018-2019, considering the impact of new regulatory obligations in this area. In the same resolution, the Authority also postponed to February 2018 the definition of the obligations through to 2020 involved in the project for substituting traditional meters with electronic meters. Lastly, the resolution postponed to the end of 2018 the Authority's definition of the method through which to refer to standard costs for recognising investments in distribution, which is therefore expected to be seen as of the 2020 tariffs, referring to investments made in 2019.

During 2017, the Authority held consultations for the initial orientation as to the new tariffary regulations for electricity transmission and distribution, focused around controlling overall expenses (Totex): according to consultation 683/17/R/eel, this would only apply to the top five distribution operators nationwide, thus excluding Group companies. The orientation expressed by the Authority in the aforementioned consultation involves, on the one hand, ensuring that the new approach is implemented gradually, conserving for the existing stock of capital the amount already recognised in the tariff and maintaining a building block tariffary structure (remunerating capital, amortisations and operating costs), and on the other, inserting innovative elements such as a system of incentives for operators who succeed in making accurate forecasts for expenses and who, above all, succeed in recording a total expense lower than the one defined by the Authority.

Once again concerning electricity transmission, the Authority postponed by one year, deferring it to 1 January 2019, the last phase of the tariff reform for household customers, which calls for tariffs

The completion of integrated water service regulations and the direction to be taken by future regulations

differentiated according to brackets of consumption to be abandoned as regards general system charges as well. The Authority concluded, instead, the general tariff structure for non-household customers, effective as of 1 January 2018, providing for two groupings: general charges related to sustaining renewable energy and cogeneration (Asos), separating the latter between high energy consuming customers and supported customers, and the remaining charges (Arim), for which a trinomial structure for costs will be applied, characterized by three rates: an energy rate, a fixed annual rate and a fixed power rate.

In 2017 the Authority virtually completed the process of regulating the integrated water service, bringing it into line in many ways with the fully mature energy regulations, but taking into account the specific features of this sector.
Resolution 917/2017/R/idr is highly significant for the integrated water service, and approves the consolidated text on technical quality for services (Rqti), effective as of 1 January 2018 for monitoring indicators and as of 2020 for the related system of incentives. The regulations call for both specific standards tied to programmed services suspensions, and six macro-indicators (associated with a few other general standards), each of which is subdivided into various clusters in which managers will be situated. For each class, a goal for improvement (or conservation) to be reached annually has been set, for which the investment plan concerning the necessary infrastructural interventions will be defined within 30 April 2018. Reaching these goals is linked to a system of bonuses/penalties, which can be accessed only after respecting a few prerequisites, which are valid at the level of single local areas. The system of incentives is sustained by a tariff equalisation component and, only partially, by a rate applied to operating costs, yet to be defined. The mechanism is based on two levels of bonuses/penalties: an initial level for operators who are already in the highest class (so-called conservation class, i.e. those operators whose performance already outdoes the others) and a second level of bonuses/penalties that follows variations in the operator's performance from year to year.

Regulations in technical quality are closely connected to tariffary regulations, which through resolution 918/17/R/idr define the ways in which two-year updates are introduced, as foreseen by the Mti-2 text, intended to update the tariffary multiplier in 2018 and 2019. The two-year balance will be based on adjustments involving operating and financial data based on 2016 balance sheets and 2017 provisional balance sheets, inflation rates for updating operating costs, and changes in the rate of deflation for fixed gross investments for updating capital costs. As regards the recognition of financial and fiscal charges, note the increase of the water utility risk premium, from 1.5% to 1.7%. The update furthermore takes into consideration current fiscal norms concerning taxes on yearly income, reducing the Ires rate from 27.5% to 24%, with an ensuing decrease in the T parameter, that reflects the overall tax rate, from 34.2% to 31.9%.
Once again regarding tariffs, and charges applied to service users, resolution 665/2017/R/idr approved the Integrated text on charges for the water service (Ticsi), with which local government bodies (Egato) are given the mandate of resolving on new tariff subdivisions within 30 June 2018, calling for a per capita tariff to be applied in all regions as of 1 January 2022, with a transitory period set as 2018-2022, regulated while waiting for a complete user registry to become available. This resolution also includes new methods for calculating tariffs for industrial waste water discharged into the public sewage system, moving towards a concrete and clear application of the EU principle that "those who pollute more pay more". The new subdivision of tariffs will also be influenced by the new social water bonus, introduced with resolution 897/17/R/idr (Tibsi), applied to resident household users. During the initial phase of the system, users will be able to request it as of 1 July 2018, with the bonus being valid as of 1 January 2018. The Sgate-Anci system, used for managing the social bonus in energy sectors, will be introduced to this purpose. The social bonus will be defined on the basis of the subsidised tariff set by each local government body and financed by an equalising component which increases charges for the aqueduct service. The bonus may be increased by an additional benefit, covered by a new Op social tariff component. The resolution furthermore granted operators the capacity to withhold the bonus for any unpaid amounts in arrears, communicating this capacity to the user in question. As regards regulations on arrears, the procedure is coming to a conclusion: consultation 80/2018/R/idr proposed orientations similar to those used in the energy sectors, for example in the default process, at the same time containing significant elements to protect customers in arrears.

Gas distribution: tariffary framework

2017 was the fourth year of the fourth regulatory period (2014-2019) of the gas distribution and metering tariff system, governed by reference text RTDG, updated for the three-year period 2017-2019 by resolution 775/2016/R/gas.
The tariff system is consistent with the previous year and entitles each distributor to certain revenues, defined by the Authority on the basis of recognised costs and expressed by both reference tariffs (according to the investments made and inflation), to which the average number of delivery points served during the year is applied; this mechanism ensures that revenues are independent from variations in volumes distributed. This result is obtained by specific tariff equalisation mechanisms whereby distributors, through the Energy and environmental services fund (CSEA), adjust the differences between their own permitted revenue and the revenue ensuing from invoicing to sales companies (defined by applying to customers the obligatory tariffs set by the Authority for the various macro-regional areas). In particular:
invested capital acknowledged in tariffs in year t (2017) covers investments made until year t-1 (2016), and takes into account updated inflation (the deflator for gross fixed investments in 2017 came to +0.3%). This capital is then remunerated by applying the rates of return set by the Authority, which are different for distribution and metering, and came to 6.1% and 6.6% respectively for the three-year period 2016-2018, in line with the regulations introduced by reference text Tiwacc (resolution 583/2015/R/com). Distributors are furthermore entitled to an amount of tariff amortisation calculated on the basis of the regulatory useful lives set for each type;
recognised operating costs are updated by the Foi inflationary indicator published by Istat, whose effect in updating the 2016 rates came to -0.12%. Unlike the components covering operating costs for measuring and sales (which are the same for all companies), those involved in distribution are differentiated according to the size of the enterprise and customer density. The annual production improvement factor (x-factor) differs according to the size of the company and was set at 1.7% for Inrete Distribuzione Energia Spa and AcegasApsAmga spa (large-scale distributors) and 2.5% for Marche Multiservizi spa (medium distributor).

Based on these principles, with resolution 220/2017/R/gas the Authority approved the provisional reference tariffs for 2017 (based on an estimate of investments made in 2016), while approval of the definitive reference tariffs, which will take into account investments recorded in 2016, is due to be completed within February 2018.
Within the consolidated scope of the Hera Group, at 31 December 2017 the companies Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa operate in gas distribution and metering.

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

Based on the elements described above, in 2017 revenues in gas distribution and metering for the Hera Group amounted to € 234.3 million, for 2.951 million m^3 of volumes distributed, with a corresponding revenue of 7.94 € cent/m^3. This revenue already includes an anticipation of the definitive reference tariffs and therefore reflects a reasonable estimate of the effects of tariff equalisation. Compared to 2016, and corresponding to a 0.5% rise in volumes distributed, a € 3.7 million increase in revenues was seen. This result is due to various factors, including an increase in the component covering commercialisation services recognised by Arera, the recognition of operating costs dating to previous years concerning remote reading systems and concentrators, and an increase in investments for measuring, which is associated with a shorter regulatory useful life than distribution.

Gas distribution and metering - Regulated revenue	31 Dec 17	31 Dec 16	% Change
Hera Group consolidated			
- revenue (mn€)	234.3	230.6	1.6%
Volumes (mn/m3)	2,951	2,935	0.5%
average revenue per unit (€cent/m3)	7.94	7.86	1.1%

Revenues here refer to a Rab at 31 December 2016 coming to roughly € 1,086 million, pertaining to assets owned by the Group.

Electricity distribution: tariffary framework

2017 was the second year of the fifth regulatory period governed by resolution 654/2015/R/eel, with which the Authority approved the comprehensive texts for electricity transmission, distribution and metering. The duration of the period was extended to eight years, subdivided 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, except for a few new elements: the regulatory lag has been reduced to one year as regards return on capital, the recovery of investments through tariffs has become slower for electricity lines and connections due to their longer useful lives, and lastly investments in commercialisation and low-tension metering are accurately recognised. Operating costs recognised for 2017 have been updated by applying the price-cap method to the 2016 figures, updated for inflation with a change coming to -0.12%, and an efficiency correction based on an x-factor coming to 1.9% for distribution and 1% for measuring. The x-factor rates were set by the Authority with the aim of gradually including the production recovery achieved in the third and fourth regulatory period.
In the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.

In the context described hereto, the Authority, for the Hera Group companies concerned (Inrete Distribuzione Energia Spa and AcegasApsAmga Spa):
with resolutions 188/2017/R/eel and 199/2017/R/eel, in March 2017, definitively set the reference tariffs for 2016 distribution and metering (completing them, compared to the provisional tariffs approved the previous year, by including definitive investments recorded for 2015 instead of the estimates priorly stated);
with resolutions 286/2017/R/eel and 287/2017/R/eel of 28 April 2017 approved provisional reference tariffs for 2017, respectively applied to distribution and metering (including the priorly stated estimates for 2016, communicated by operators to the Authority in November 2016).

By regulation, the definitive reference tariffs for 2017 distribution and metering are expected to be published within February 2018, brought to completion compared to the provisional ones by including investments recorded in 2016.
The rate of return on invested capital for distribution and metering services during the three-year period 2016-2018 came to 5.6%, in line with the regulations introduced by the Tiwacc (resolution 583/2015/R/com).

Within the context described above, Group revenues for electricity transmission, distribution and metering for 2017 amounted to € 92.8 million, up € 2.2 over 2016; volumes distributed also rose. Within a stable tariffary framework, increases in revenues are essentially tied to natural updates of the limit (recognition of investments and inflation and efficiency factors) and accrued remuneration.

Electricity distribution and metering - Regulated revenue	31 Dec 17	31 Dec 16	% Change
Hera Group consolidated			
- revenue (mn€)	92.8	90.6	2.5%
- volumes (mln kWh)	3,046	2,993	1.8%
- average revenue per unit (€cent/kWh)	3.05	3.03	0.7%

Revenues here refer to a Rab for electricity distribution and metering estimated at roughly € 379, predominantly related to assets owned by the Group.

Water cycle: tariffary framework

2017 was the second year of the four-year tariff period MTI-2, defined by the Authority with resolution 664/2015/R/idr. National tariffary regulation of the water system was introduced by the Authority

beginning in 2012, with an initial two-year period (2012-2013) consisting of transitory regulations (MTT), a following, fully functional two-year period (2014-2015; MTI) and a second regulatory period, 2016-2019 (MTI-2). Regulations for 2016-2019 are in line with those for 2014-2015; each operator is assured a revenue (VRG) defined on the basis of the operating and capital costs recognised by the aforementioned tariff method, making revenues independent from any changes in volumes distributed.
This is ensured by a tariff balancing mechanism that permits operators to recover (in the VRG of the two following years) the differences between recognised revenues (VRG) and the actual turnover resulting from volumes sold.
Recognised operating costs are subdivided into: a) endogenous costs (for which an efficiency factor has also been foreseen), b) exogenous and updatable costs, mainly concerning the cost of purchasing raw materials, electricity, and fees. The former are referred to 2011, applying the FOI inflation rate published by Istat; the latter are updated by referring to the appropriate tariffary year and act as a balancing element, to recover any deviations between the figures inserted within the VRG and that which was actually sustained and declared.
Capital costs refer to investments made until two years earlier, and cover the costs of amortisation as well as financial and fiscal charges.

In this financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.
In 2014, furthermore, owing to provisions included in the Authority's tariffary resolution 643/2013/R/idr, the Emilia-Romagna local agency for water and waste services (Atersir) has defined the tariff adjustment entries relating to periods prior to 2012 and not already considered in the calculation of previous tariffs; those entries are expected to be recovered as of 2015 and will end in 2018.
Revenues from tariffs rose compared to 2016 by 3.6%, as an effect of the tariff balancing provided for by the application of the resolved VRG, and bonuses for contract quality (operative beginning 1 July 2016) owing to commitments for standards superior to those set out in the Authority's resolution 655/2015/R/idr.

Hera Group Consolidated Water cycle - Revenue from tariff	31 Dec 17	31 Dec 16	% Change
Revenue from tariff (mn€)	625.5	603.9	3.6%
volumes (mn/m3)	303	300	1.0%
average revenue per unit (€cent/m3)	206.6	201.3	2.6%

Urban waste: tariffary framework
The service of urban waste management is offered on the basis of conventions established with provincially defined Agencies (which have now come together in the Regional agency for Emilia-Romagna water and waste services, Atersir), which regulate, in addition to the forms and organisation of the service, the economic aspects of contracts. The sum pertaining to the operator for services offered is defined annually, in line with the provisions of Dpr 158/1999, integrated, beginning in 2013, by regulations concerning first the Tares and then the Tari.

Acting through the Tari, single Municipalities purchase resources covering costs sustained by operators in carrying out services in sweeping, collection and disposal; as of the year in which the Tares was established (2013), control and payment collecting were assigned to Municipalities who, in some cases, entrusted them to Hera.
Out of respect for the principle of continuity in public services, and according to conventions currently in force, the operator is required to continue offering services in areas in which the deadline for assignment has already passed, until new assignments are made; for expired concessions, Atersir has already initiated the procedures for new assignments.

At December 2017, urban waste management services were offered in 188 municipalities, 32% of which chose to entrust Tari controls and payment collecting to the Hera Group.
A comparison between the uniform and consolidated data of the Hera Group shows the following figures:

Hera Group Consolidated Urban waste - Revenue from tariff	31 Dec 17	31 Dec 17	% Change
Revenue from tariff (mn€)	534.4	525.1	1.8%
Users reached	3,310	3,310	0.0%
Average revenue per unit (€/user)	161.4	158.7	1.7%

Revenues regulated by the SGRUA rose by 1.8%, mainly owing to the tariffary updating resolved by local agencies, owing in particular to developments in sorted waste services.

1.06.02

Trading and procurement policy

The recovery in demand for natural gas continued in 2017, settling at 74.7 billion m^3, up 6,1% compared to the 70.4 billion m^3 recorded the previous year, thus confirming the turnaround seen as of 2015. More specifically, this growth in gas consumption is due to a rise in demand from thermoelectric plants, which came to 25.3 billion m^3 compared to the 23.3 billion m^3 seen in 2016, with an 8.6% increase recorded mainly during the first quarter of the year, and due both to lower electricity imports coming from France and a drop in hydroelectric production. The recovery was significant in household consumption, which made up over 40% of overall demand, with a 3.5% increase from 31.7 billion m^3 in 2016 to 32.8 billion m^3 in 2017. Lastly, a significant rise was also seen in industrial consumption, coming to 1.1% and amounting to 14.3 billion m^3, confirming the solidity of the economic recovery.

Upturn in gas consumption: +6,1%

Trading operations were oriented on the one hand towards optimizing the portfolio, with a view to balancing short-term positions, and on the other towards negotiating and managing new supply contracts for the 2017/2018 thermal year.

An optimised portfolio

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

As of April, Hera Trading initiated gas procurement aimed at both filling the storage capacity purchased by auction, with roughly 0.33 billion m^3, and providing gas destined to the free market for the Group's sales companies for the 2017/18 thermal year, with roughly 0.6 billion m^3, sourcing it directly from the spot and futures markets.

During the month of April, as in the previous year, negotiations also took place for modulated gas intended for the protected market delivery points (so-called Remi) of the Group's sales companies. The total amount reached roughly 1.4 billion m^3 for the 2017/18 thermal year, as per the supply conditions resolved by Arera beginning in October 2013. This negotiation allowed particularly favourable terms to be obtained in terms of both prices and payment conditions.

Negotiation of modulated gas coming to 1.4 billion m^3

Electricity consumption returned to a phase of growth in 2017, reaching the highest amount seen since 2013. According to the preliminary data elaborated by the national network transmission company (Terna), the total amount of electricity requested in Italy in 2017 came to 320.4 billion kWh, with a 2.0% increase over 2016.

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

Domestic production accounted for 89% of the demand seen in 2017, up 1.9% over the previous year, coming to 285.1 TWh, while the foreign balance settled at 37.8 TWh (+2% over 2016). In particular, the contribution from thermoelectric plants grew to 199.5 TWh (+4.6%), as did photovoltaic production, even more significantly, coming to 24.8 TWh (+14%). Hydroelectric production, instead, dropped once again, falling by 14.3% to 24.8 TWh, while less remarkable decreases were seen in wind power, at

Electricity consumption begins to rise once again: +2.0%

17.5 TWh (-0.2%) and geothermal production, at 5.8 TWh (-1.4%). The percentage represented by renewable sources fell from 34% in 2016 to 32.3% in 2017.

Increase in earnings from power plants

Earnings coming from thermoelectric plants, in Teverola and Sparanise in particular, showed a significant increase compared to the figures seen in 2016. Contributions to this result came from both Terna's greater usage of the Dispatching services market (Msd) and the noteworthy increase in the National single price (Pun) seen over the year.

In August 2017 a fire broke out in the Sparanise plant, causing damage to one of the power station's two modules and leading the module itself to be non-operational until the repair works are completed, which is expected for the end of the first quarter of 2018. The Ortona plant's performance continues to be problematic, located as it is in an area with scarce demand on the Dispatching services market (Msd), even though results improved compared to the previous year.

Reform of the electricity market

During the first half-year, with resolution 300/2017 of 5 May 2017 Arera launched an initial phase of pilot projects for consumption units and non-authorised units participating in the Msd, including various forms of aggregation according to geographical parameters. The pilot projects define the forms of return for auxiliary services not currently remunerated.
Furthermore, with resolution 419/2017 Arera approved new transitory regulations for actual imbalances, which calls for the introduction of macro-zone no-arbitrage compensation as of 1 July 2017, the application of a new method for calculating the positive or negative zone aggregate imbalances as of 1 September 2017, and the reintroduction of "single pricing" mechanisms for dispatching points of non-authorised units, maintaining instead mixed "dual pricing" system for consumption units, in order to contrast programming strategies that are not diligent towards the system.

Electricity trading performance

As regards electricity and environmental certificate trading, a drop in earnings was seen in 2017 compared to 2016 due to the circumstantial effects of the unavailability of French nuclear plants in the fourth quarter of the previous year.
The management/optimisation of Hera Comm Srl's acquisition portfolio, through operations on the stock exchange and on over the counter (Otc) platforms, was particularly incisive.

Price risk management

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

Adaptation to MiFID II requirements

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

1.06.03
Financial policy and ratings

The macroeconomic condition of the eurozone is decidedly robust, marked by the impulsive trend created by the climate of trust confirmed in the area, leading to highs since 2011. The economic sentiment indicator (Esi) in the eurozone confirms the favourable positioning of the economic cycle, now in a phase of system expansion. The amenable orientation of fiscal policy, which intensified over the last year and is destined to persist over the upcoming two years, is a further factor that lends support to the economic situation.

Economic surveys confirm and excellent state of health in the eurozone

Italy as well recorded positive economic recovery, which accelerated thanks to reforms and a more solid banking system, as is confirmed by the upgrade given by rating agency Standard & Poor's (S&P) on 28 October.

Europe's economic system now appears to be unhampered by the deflationary risks affecting it until last year, but the rise in prices continues to fall short of the goals set by the Central Bank. Expectations for an appreciable recovery in inflation have not as yet been met, with the general inflation rate settling under 1.4% and the core inflation rate (not including more volatile components, such as oil and food prices) remaining even more moderate, coming to 0.9%. The resilient growth has not yet been followed up by pressure towards an increase in prices.

ECB: interest rates unchanged, gradual reduction in QE

This very moderate rise in prices justifies the extension of quantitative easing (QE) decided by the ECB: acquisitions will be protracted for 9 further months at the slower pace, as of January 2018, of € 30 billion per month until September. During the meeting held on 14 December, Draghi confirmed the path set out in October, underlining that progress in inflation must be able to sustain itself autonomously, without the help of monetary policy. Growth estimates have been corrected sharply upwards, while inflation is not forecasted to reach 1.7% before 2020.

In terms of interest rates, there will be no signs of increase until the normalization of monetary policy is completed.

The American Central Bank (Fed), instead, raised interest rates by 25 bps in its meeting held on 13 December, given that it is in a different cyclic position than the eurozone. Even though growth is now stronger and more solid in Europe than in the US, the latter is in a more advanced phase as regards nominal wages, which have responded to the increase in employment, a phenomenon that has not yet been seen in Europe.

The spread between European government bonds, in spite of being significantly tempered by QE, continues to continues to indicate a difference in sovereign risk among eurozone member countries. At the end of the year, the spread between the Italian BTP and the German Bund stayed at much the same level as the previous year, despite the increases seen over the first six months with peaks of over 200 bps.

In spite of this, Hera's 10-year spread did not suffer any consequences, thanks to the consolidated trust shown by investors and its stable creditworthiness, allowing it to remain approximately 73 bps lower than the Btp-Bund spread over the same period of time.

10-Year Btp-Bund Spread vs. Hera Spread

Pre-hedge to optimise the cost of debt

The Group gives constant attention to a financial management capable of maximising its yield profile while maintaining a cautious risk strategy. The average cost of debt has been optimised through forms of liability and financial risk management aimed at seizing favourable market opportunities. In particular, in March, a pre-hedge operation was carried out on the upcoming maturity date to be refinanced in 2019, allowing a particularly low rate to be set for the next issuance, lower than 1%.

To support liquidity risk indicators and optimise the costs/convenience of funding, the Group has obtained committed credit lines amounting to € 300 million, with an average age of two years and eight months.

Financial risk management strategy

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

Liquidity risk

Proactive liquidity management

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

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

Adequate liquidity for a worst case scenario

Worst case scenario	31 Dec 17			31 Dec 16		
(mn€)	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years
Bonds	38	76	471	38	76	76
Debts and other financial liabilities	191	63	59	76	77	57
Trade payables	1,396	0	0	1,271	0	0
Total	**1,625**	**139**	**530**	**1,386**	**153**	**133**

In order to guarantee sufficient liquidity to meet every financial obligation for at least the next two years (the time limit of the worst case scenario shown above), at 31 December 2016 the Group had € 451 million in liquidity, € 300 million in unused lines of credit and a substantial amount that can be drawn down under uncommitted lines of credit (roughly € 720 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 comes to 7.3%, and the amount of long-term debt comes to roughly 92.7% of total financial debt, of which approximately 78.6% consists in bonds with repayment at maturity. The average term to maturity is over seven years, of which 66% maturing beyond 5 years.

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

Debt nominal flow (mn€)	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22	Over 5 years	Total
Bonds	0	0	395	0	290	1,935	2,620
Bank debt/due to others	243	54	49	47	46	275	713
Total	**243**	**54**	**443**	**47**	**336**	**2,210**	**3,333**

Default risk and debt covenants

This risk is related to the possibility that loan agreements entered into contain clauses whereby the lender may demand accelerated repayment of the loan if and when certain events occur, thus giving rise to a potential liquidity risk.
At 31 December 2017, a significant portion of the Group's net borrowings was covered by loan agreements containing a number of clauses, in line with international practices, that place some restrictions. The main clauses guarantee equal treatment of all debt holders with respect to the company's other non-guaranteed debts (pari passu) and a commitment towards bondholders preventing it from granting to subsequent lenders, with the same seniority status, better security and/or liens on its assets (negative pledge).
As to acceleration clauses, there are no financial covenants on debt except a corporate rating limit, specifying that no amount of debt coming to roughly €150 million can be rated below investment grade (BBB-) by even one rating agency.
On the remainder of the debt, the acceleration clause is triggered only in case of a significant change of control of the Group that entails a downgrading to non-investment grade, or lower, i.e. the termination of the publication of the rating.

Interest rate risk

A model of active and prudential management of interest rate risk

The Group uses external funding sources in the form of medium- to long-term financial debt and various types of short-term credit facilities, and invests its available cash primarily in immediately realizable highly liquid money market instruments. Changes in market interest rates affect both the financial costs associated with different technical types of financing and the revenue from different types of liquidity investment, thus impacting the Group's cash flows and net financial charges.
The Group's financial policy has been designed to identify an optimal mix of fixed- and floating-rate funding, in line with a prudential approach to interest rate risk management. The latter aims to stabilize cash flows, so as to maintain the margins and certainty of cash flows deriving from its characteristic management.
Interest rate risk management entails, from time to time, and depending on market conditions, a specific combination of fixed-rate and floating-rate financial instruments as well as derivative products.
The Group's exposure to interest rate risk, including the effect of derivatives, comes to 14% of total borrowings, while the remaining 86% of debt is at fixed rates.

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

86% of debt at fixed rates

Gross borrowings (*)	31 Dec 17			31 Dec 16		
(mn€)	without derivates	with derivates	% with derivates	without derivates	with derivates	% with derivates
Fixed rate	2,692	2,714	86%	2,693	2,712	84%
Floating rate	454	431	14%	520	501	16%
Total	**3,146**	**3,146**	**100%**	**3,213**	**3,213**	**100%**

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

Exchange risk unrelated to commodity risk

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

Ratings

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

Hera Spa has been given a long-term 'BAA1 negative outlook' rating by Moody's and a 'BBB positive outlook' rating by S&P.
On 13 March 2018, as part of its annual review, S&P improved the Group's outlook from Stable to Positive, with no change in long- and short-term creditworthiness, defined as BBB/A-2. S&P noted that the Group's good prospects for growth, along with a correct implementation of its latest business plan,

could allow it to stably improve its rating, as long as Group management maintains its growth strategy with improvements in cash flow tied to a well-disciplined policy in remunerating shareholders and M&A operations paid in cash.

On 5 May 2017 Moody's released a credit opinion in which it confirmed the BAA1 rating and the negative outlook, positively evaluating the Group's risk profile in terms of the solidity and good balance of the portfolio of businesses managed, as well as the Group's good operating performance and its consolidated strategy. The negative outlook is a consequence of the deterioration of sovereign risk, in that most of the Group's EBITDA derives from domestic businesses, exposing it to the country's macroeconomic trends. However, the Group remains one notch above the sovereign rating thanks to the diversification and solidity of its portfolio of regulated activities with a low risk profile, its good liquidity profile and its resilient indicators as to creditworthiness.

Given the current context and the prolonged uncertainty as to the prospect of sovereign risk, the Group's actions and strategies are always particularly careful and aimed at guaranteeing the maintenance and improvement of adequate ratings.

1.07
Sustainability Results:

Once again this year the Group confirms its commitment to informing stakeholders about the results it has achieved in terms of sustainability by preparing the sustainability report, available at bs.gruppohera.it, which represents the consolidated non-financial statement of the Hera Group prepared in compliance with Legislative Decree no. 254/16 and which constitutes a report separate from this management report, as required by article 5 paragraph 3, letter b) of Legislative Decree 254/16. The sustainability report also includes indicators on and information about the environment, personnel and research and development activities. The following is a summary of the main results outlined in the 2017 sustainability report.

Over the year 2017 the Group further improved in terms of social and environmental sustainability, both in terms of the results it achieved and in terms of the number of initiatives and projects it launched.

Sustainability has had a key role in Hera's strategy since its establishment and the Group's approach provides for sustainability to be integrated into planning and control systems. This has been implemented through:

the Group's intense focus on value systems, a focus which led to approval of the fourth edition of the code of ethics by the Board of Directors in 2017 and the continuation of seminars for managers and executives to raise awareness about the code of ethics and corporate social responsibility;

the implementation of a balanced scorecard system linked to incentives and involving the entire management (on average, sustainability goals accounted for 25% of variable manager and executive remuneration in 2017);

further improvement of the Group's accountability profile, as attested by the sustainability report (which has been following the 2016 GRI-G4 guidelines since last year, two years ahead of time) approved as part of the financial statement beginning in 2007 (and thus 10 years before the introduction of recent regulations that made it mandatory) as well as by the thematic sustainability reports that were further expanded in 2017 to cover additional data and external verification while also having their graphic layout wholly overhauled.

Further evidence of the Group's strong focus on improving reporting is that, in 2017, a process was launched to make communication with stakeholders regarding the Group's environmental and social impact more effective. In fact, the 2017 sustainability report is presented with the data arranged in a new way that goes beyond the disclosure obligations set forth by Legislative Decree no. 254/16 and grants a central role to the results achieved in terms of CSV (Creating shared value).

The strategic approach to shared value: the central role of measurement and reporting

In 2016, Hera developed its own definition of CSV modelled after the indications offered by Porter and Kramer starting from 2011 and taking into account the EU's communication on the RSI from that same year: shared value is created when the business activities that generate operating margins for the company also match the drivers of the Global Agenda, that is to say the call to action for a shift towards sustainable growth laid out by the UN 2030 Agenda and other policies at the global, European, national and local levels. This definition of CSV forms the basis of a new, evolved approach to social responsibility and sustainability. In addition to having already enriched non-financial reporting with new views and perspectives, this approach also represents an important source of inspiration for future strategy and new projects.

Three drivers for the creation of shared value have been identified: (i) the intelligent use of energy, (ii) the efficient use of resources, and (iii) innovation and contribution to land development, which already represent a new point of reference for Hera also in terms of reclassifying economic results and objectives for the future and in terms of strategic investment choices.

In this perspective, the Hera Group continues its reporting of shared-value EBITDA that was launched for the first time in the 2016 sustainability report: in 2017 this amounts to 329 million euro, an increase of 10% compared to the previous year. This result is in keeping with the trajectory set forth by the 2017-2021 business plan, constructed so that around 40% of the EBITDA in 2021 will derive from business activities that match the Global Sustainability Agenda priorities which have relevance for the Group's activities. In keeping with this perspective, in 2017 the Hera Group set up new tools for dialogue and inspiration, joining programs such as the UNGCCEO Water Mandate and the Ellen MacArthur Foundation's CE100, the network of the 100 companies throughout the world most engaged in transitioning to a circular economy.

The intelligent use of energy: Energy efficiency among our priorities

The ISO 50001 measures developed by Hera Spa, AcegasApsAmga Spa and Marche Multiservizi Spa (incorporated into the energy improvement plan) and already implemented have enabled us to reduce energy consumption by about 8,300 Tep equalling a 3.6 decrease from 2013 levels. The improvement plan lays out further energy efficiency steps (of approximately 1,800 Tep) that will bring about an overall reduction of 4.4% as compared to energy consumption in 2013, very near the 5% target set for 2020. To grant weight to the Group's commitment in this regard, the 2015 "Valore all'Energia" report entirely dedicated to energy efficiency and extended to AcegasApsAmga and Marche Multiservizi in 2016, was subjected to verification by a third party, Dnv Gl, for the first time in 2017.

Numerous energy efficiency measures are also carried out with customer / partner companies, to which the Group offers its know-how: in 2017, seven new agreements were signed with sector associations and local companies. The initiatives to promote energy efficiency among customers include the new commercial offers launched in 2017 under the auspices of Welcome Hera, Hera led and Led business. Together with digital solutions for real-time consumption monitoring, these offers complement the set of commercial options that allow customers to analyse and reduce their consumption.

The framework of the Hera Group's contribution to the fight against climate change includes but is not limited to extending the purchase of 100% renewable electricity to power company activities to AcegasApsAmga Spa and Marche Multiservizi Spa, starting construction on a biomethane production plant in the province of Bologna, producing 615 GWh of renewable energy and reducing the carbon footprint of energy production by 16% as compared to 2015. The total tons of greenhouse gas emission avoided thanks to the Group's initiatives can be estimated at 2.0 million.

Efficient use of resources: Hera's commitment to transitioning to a circular economy and the sustainability of the sewage-purification sector

During 2017 there was a further drop in landfill use for urban waste disposal, bringing the level to 7% (Italian 2016 average: 28%). Concerning this aspect, Hera anticipates by nearly 20 years the EU target

on circular economy and is ranked with the best performing European countries. Separate collection came to 57.7% (Italian 2016 average: 52.5%).
Finally, in November of last year Hera issued the 7th edition of the "Tracing waste" report, certified by DNV-GL, providing citizens with factual evidence that separate collection is still on the rise and totals 94.6%. The report includes the positioning of the area served by Hera with respect to the recycling targets recently updated by the EU as part of the circular economy package: the overall rate of recycling, within which Hera occupies a good position in relation to the target of 55% set for 2020, and the recycling rate for packaging, where the Group's rate of 68% is already better than the target set for 2025.
As regards industrial waste, developments of note include the increase in the amount of waste recovered by Hasi Srl, up to 31% in 2017, and the acquisition of control over Aliplast Spa, which in 2017 produced about 103 thousand tonnes of recycled plastic.
The Group's strong commitment to enhancing the sustainability of the sewage-purification department continued in 2017 as well. The main actions were focused on Rimini and upgrading the Servola water treatment plant in Trieste (work started in March 2018). Furthermore, the Group continued its multi-year updating of urban centres: by the end of 2017, 91% of centres were judged up to date (100% in Emilia-Romagna).

Innovation and contribution to local sustainable development: engagement and results in four impact areas

The Group achieved significant results in 2017 in the CSV areas of local economic and employment development, innovation and digitization, and the protection of air and soil.
The total economic value distributed to the local area amounted to 1,840 million euros, equal to 78% of total economic value, marking a rise of 6% as compared to 2016. The share distributed to local providers amounted to 66% and totalled 592 million (up 6% from last year), while the estimated employment spin-off equals about 6,500 people, which confirms the Group's primary role in territorial development. In terms of employment spin-off, the degree of employment of disadvantaged people rose again in 2017 (amounting to 807) as a result of further growth in the value of supplies from social cooperatives, which reached 52.7 million euro (+ 10% compared to 2016).
In the field of innovation, investments amounted to approximately 78 million euro dedicated to projects in four areas: smart city, circular economy, utility 4.0 and customer experience. Among these, in terms of smart city results of note include smart waste separation and recycling areas, monitoring of environmental quality, video surveillance, information services and mobility. There are also three projects in terms of circular economy aimed at recovering materials or energy from sewage treatment sludge as well as the Biorefinery 2.0 project.
As regards digitalization, in addition to numerous projects aimed at further digitalizing operating processes to enhance the security and continuity of services, the quality of work and internal efficiency, in 2017 the Group continued its efforts in the development of digital communication channels with customers. After the launch of the apps Acquologo and Rifiutologo (which have been downloaded more than 195 thousand times, with approximately 30 thousand visual reports being sent in by citizens), in 2017 the new MyHera app dedicated to residential customers was launched. The digitalization of customer relations is also characterised by a constant rise in procedures managed via internet: customers registering for online Services rose to 18.9% in 2017, whereas applications for the electronic bill rose to 20.2%. in 2017 the Group's engagement on this front, together with its attention to local communities, manifested in the launch of a new campaign to promote electronic billing, called "Digi e Lode", with associated financial incentives for the digitalization of local schools.
As far as air protection is concerned, the Group's 10 waste-to-energy plants once again had positive results in terms of environmental performance, again in 2017 recording levels of atmospheric emissions that were very low and averaged 86% lower than legal limits; the same was true of the Imola cogeneration plant, with average PM10 concentrations 99% lower than legal limits. Fleet modernization also continues: vehicles powered by fuel with a lower environmental impact now account for 22%. Finally, as regards soil protection, it should be noted that the designs created by HeraTech in the 2016-2017 period involved land reuse totalling 75% of overall area.

The results achieved in terms of shared value generated by Hera complement results relating to the following areas, which round out the Group's social responsibility and sustainability profile.
Thanks to awareness-raising programs and the adoption of the OHSAS 18001 certification, which covers 87% of the Group's workers, in 2017 the injury frequency index dropped further, to 17.1 (it was 17.8 in 2016). This reduction took place in all the main companies of the Group; in the population of workers, instead, the frequency index underwent a slight increase, but it remains below the rate reported in the 2014-2015 two-year period. In 2017, the Hextra welfare system allocated 3.3 million euro (up 75% from 2016) and 98% of workers subscribed to it. Training maintained high levels: in 2017 an average of nearly 29 training hours were provided per capita, in line with the numbers from previous years.
Hera Comm's customer contact quality standards stayed high again in 2017: the average waiting time at the call centre equalled 34 seconds for residential and 38 seconds for business customers. The average waiting time at help windows was 10.6 minutes in 2017. In the Triveneto, contact channel performances have further improved, partly overcoming the issues originating from the transfer of the IT invoicing systems towards the Group's systems. The 2017 survey on the Group's service quality (about 6,200 interviews) recorded a high customer satisfaction rate (70/100) in line with the results of the previous year.
And finally, when selecting its suppliers in 2017, the Group prioritized the most profitable bid method in 92% of public calls for tenders (in terms of value). In the resulting contract awarded with the most profitable bid method, the average score for social and environmental aspects amounted to 25/100. Supplier monitoring under SA8000 regulations continued in 2017, as did the accident research monitoring for the leading suppliers (those involved in such monitoring account for 73% of the value of goods and services).

1.08 Information systems

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

Standardisation of systems in other companies

The activities of the multi-year plan for AcegasApsAmga continue, with particular focus on completing the roll-out of electricity network service systems; the project of rolling-out gas network service systems is in progress. For Amga Energia&Servizi Srl and Amga Calore&Impianti Srl, the project for harmonizing infrastructure services was launched.

Regulatory adjustment

Planned activities have been completed to adapt the Group systems to regulations for readings, invoices and indemnities; the project to recover VAT on receivables relating to discontinued contracts, split payment (Legislative Decree 96/17) and the delinquency of the electricity and gas sector (resolution 258/15) was also completed.

Support to business

This area includes the introduction of biometric signatures aimed at making the documentation associated with the contracting process digital; the launch of new commercial offers; the insertion of a service that provides the customer with a system to monitor the progress of their requests and alerts under specific conditions; the evolution of the commercial app, supplementing it with some backend system features to offer new services (customer meter readings, the status of bills and payments, presentation of offers, etc.)

Efficiency

Production has begun on the new CRM dedicated to companies and the development of various services on the online services portal; the planning and portfolio management system for the Information Systems Department has been introduced and a Vendor invoice management (Vim) option for the management of passive invoices has been released.

As part of the process of continuous technological innovation and improving the performance of the Group's information systems, various platforms were upgraded and the disaster recovery test was successfully carried out.

Reduction of technology risk

The IT and enterprise data safety systems, in compliance with data protection regulations, are among the main objectives of the Information Systems Division. Our commitment to preventing and monitoring potential cyber attacks is ongoing, conducted through the planning and implementation of a periodic risk analysis on the production systems (vulnerability assessment), updates of existing systems and measures to raise awareness among users.

Information system safety

The QSA audit on the delivery area was carried out and internal auditing activities were initiated for management.

Auditing

1.09
Personnel structure

Human resources

Hera Group's employees with open-ended contracts as of 31 December 2017 numbered 8,683 (consolidated scope) and are distributed by role as: executive managers (154), middle managers (537), office clerks (4,612), and workers (3,380). This structure ensues from 284 entries and 324 exits as well as changes in the company scope of Aliplast Spa, Sinergie Spa Ramo Sud e Isole, Teseco Spa and Verducci Srl, which introduced 356 new units, and the change in the scope of consolidation with the exit of SiGas, accounting for 7 units. Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

Organisation

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

Industrial and operational integration
The Hera model

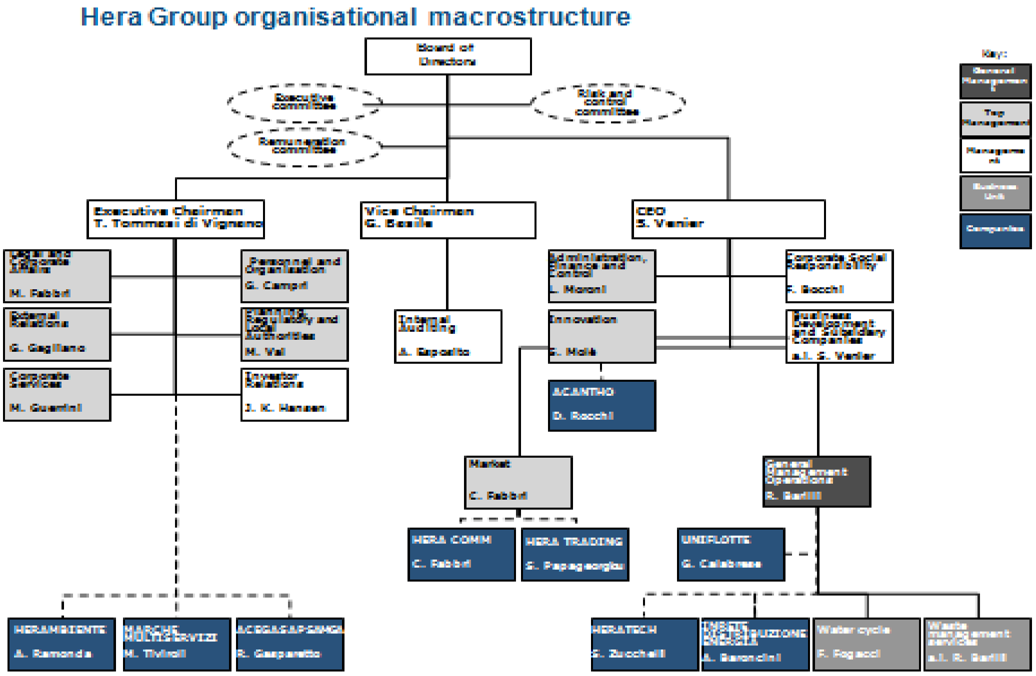
The utility sector is increasingly characterized by rapid changes, with competitive dynamics and a specialty-oriented regulatory setting, as well as other key elements such as water and environmental services legislation, service allocation tenders and regional regulations. In short, it is a field in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

In response to this competitive context and in line with the Group's strategic guidelines, organizational development initiatives were developed in 2017 that further consolidated our model through measures aimed at simplifying and streamlining processes, identifying possible opportunities for synergy, and continuously pursuing agility and service excellence.

Innovation and streamlining of operating processes

Below is the Group's organizational macrostructure as at 1 January 2018

Hera - organizational macrostructure



Specifically, in 2017 the organizational model of Heratech Srl was further rationalized by simplifying the basic organization of the company.

Main developments in the General Operations department

The main areas subject to intervention were the Engineering Department, with all the plant and network systems design and construction activities relocated there with the aim of improving customer service, and the Technical Customer Service department, which was reorganized to focus more specifically on all the distributor's activities in relation to customers linked to non-commercial services. Lastly, measurement and remote management activities were relocated to the company Inrete Distribuzione Energia Spa.

In the Environmental Services Division, a revision was carried out on the organizational model, establishing the Ravenna area and shifting all the activities and resources connected to the management of the collection centres to each individual area, according to territorial area of responsibility. With effect beginning 1 January 2018, Atersir has assigned the integrated urban waste management service in the Forlì-Cesena province basin area, managed by Hera Spa, to AleaAmbiente Spa according to a procedure of in-house providing.

Main developments in Herambiente

In the Herambiente Group, a review of the organizational model was carried out aimed at focusing company structures on two specific business segments: the first, headed by the Industry Market Department, focused on marketing products and services relating to industrial waste; the second, headed by to the Planning and Utilities Market Development Department, focused on the special urban waste market.

In the Industry Market Department in particular, with a view to favouring the most synergy possible between the structures operating in the industrial waste market, Herambiente Servizi Industriali Srl merged with Waste Recycling Spa, which had acquired the business unit "Plants" from Teseco Spa over the course of the year, and with the Herambiente Spa structures involved in reclamation and global operational services.

In the Planning and Utilities Market Development Department, sales structures relating to the urban and special waste market deriving from the utilities sector and those operating in the materials recovery

market were merged. In addition to sales structures, the Logistics department that operates across all business segments was also merged.
Lastly, starting from April 2017, it should be noted that Aliplast Spa will be included in the Herambiente Group.

Main developments in the Central Market Department

As regards the Central Market Department, the following changes of note occurred:
with effect beginning 15 September 2017, the overall reorganization of Hera Comm Srl aimed at furthering operational excellence with a view to the customer experience, the development of increasingly innovative processes and services and the adoption of a more agile operating model; the new structure includes: the Sales and Marketing Department (with a focus on marketing, transactional processes and sales to all markets), the Customer Experience Management Department (with a focus on processes of customer relationship management for all markets) and the Marche and Abruzzo Controlled Management department (with a focus on the management of companies in the Marche and Abruzzo regions);
with effect beginning 1 January 2018, the new structure of Hera Comm Marche Srl, associated with the fact that activities and resources relating to customer management for gas and electricity services, previously allocated to the Customers department of Marche Multiservizi Spa, have been relocated here.

Main developments in Central Bodies

In terms of Central Bodies, the following developments are worth mentioning:
with effect beginning February 2017, the organizational review of the Quality, Safety and Environment Department aimed at enhancing logics for the flexible resource use through internal mechanisms of integrated activities planning ;
the reconfiguration of service activities associated with processes supporting the above-mentioned corporate restructuring operation.

As regards the Central Innovation Department, the following changes of note occurred:
with effect beginning February 2017, the reorganization of the Information Systems Department, aimed at strengthening the focus on the management of individual information technology processes, improving their performance ("Business relationship management", "Delivery & maintenance" and "It operations"), as well as shifting the operating model towards the effective management of new technological trends;
with effect beginning May 2017, the redefinition of the organizational structure of Acantho Spa.

Uniforming the Group's organisational model

Lastly, during the second half of 2017 plans for Group corporate streamlining were finalized, completed with effect beginning 1 January 2018 and characterized by the following transactions:

1. The integration of activities relating to public lighting into Hera Luce Srl, with the company being transferred under the control of AcegasApsAmga Spa.
2. The integration of activities related to heat management into AcegasApsAmga, with Amga Calore&Impianti Srl merging into Sinergie Spa and the consequent establishment of AcegasApsAmga Servizi Energetici Spa.
3. The transfer of AcegasApsAmga Spa's market-area equity investments:
    - 33% of AdriaLink Srl to Hera Trading Srl;
    - 51% of Estenergy Spa and 100% of EnergiaBaseTrieste to Hera Comm Srl.

Committees: Management Review and Business Review

In addition to the internal committees, appointed directly by the Board to perform an advisory and proactive role in specific areas of expertise, the Group's management provides for two collegial committees:
Management Review, which deals with examining and sharing corporate policies, strategies, goals and operational planning group-wide, as well as with fostering integration between corporate entities.
Business Review, whose duty is to report on periodic operating performance to each of the corporate business areas, and to assess the progress of specific budget unit actions set forth under the budget and business plans.

1.10
Risk and uncertainty factors

Risk Corporate Governance in Hera

Hera's organizational structure is designed for optimal management of any risk exposure arising from its business; it benefits from an integrated approach, aimed to uphold management effectiveness and profitability across the entire value chain.
Hera's internal risk management auditing enables organisational strategies to be handled uniformly and consistently. According to such a system:
the Board of Directors plays a guiding role and assesses the adequacy of the internal auditing and risk management system;
the Chairman and CEO supervise - within their ambits -the internal auditing and risk management functionality;
the Vice Chairman oversees coordination between the Risk Committee and the Audit and Risk Committee;
the Audit and Risk Committee supports the Board of Directors in defining internal monitoring and risk management guidelines;
the Risk Committee is the main policy-making, auditing and reporting organ for risk management; besides setting the general risk management guidelines, it maps and screens business risk, ensures that Risk Policies are set forth and outlines the information protocols targeted to the Audit and Risk Committee, to the Internal Auditing Management and to the Statutory Auditors.

Risk monitoring and management are functionally separated roles in Hera, and risk owners are in charge of the different organizational sections that deal with governance and with the adequacy of assessment in risk management processes.
More specifically, the correct and effective functioning of the Internal Control and Risk Management System is monitored centrally ,through a broad mandate entrusted to the Internal Auditing department, which reports directly to the Vice Chairman of the Board.
The two main corporate bodies responsible for supervising the issue of risk in accordance with their responsibilities are described in more detail below.

The Audit and Risk Committee

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

The Risk Committee

The Risk Committee was appointed by the Board of Directors on 28th April 2014 and consists of: Hera Spa's Executive Chairman, Vice Chairman and Chief Executive Officer; the Central Director of Administration, Finance and Control; the Central Director of Market, and the Enterprise Risk Manager. In relation to specific pertaining issues, the Central Director of Legal and Corporate Affairs, the Central Director of Corporate Services, the Central Director of Innovation and the CEO of Hera Trading Srl are also expected to attend.
The Risk Committee is the principal policy-making, monitoring and reporting organ for risk management and is responsible for:
defining the general risk management process guidelines; mapping and monitoring business risk;
ensuring that risk policies and measurement parameters are defined and submitted for approval to the Hera SpA Board of Directors;

reporting to the Board on a half-yearly basis;
defining and securing the information protocols towards the Audit and Risk Committee, the Internal Auditing Direction and the Board of Auditors.

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

The risk management approach of the Group

Hera has adopted the Enterprise Risk Management best practice in order to establish a systematic, consistent approach to risk control and management, and to create an effective guidance, monitoring and representation model, aiming to the adequacy of management processes and to their consistency with the final administration targets.
This approach has been endorsed with the Board of Directors' approval of the Group Risk Management Policy, which defines the group's stance on risk issues and identifies its Risk Management Framework; this is detailed through
the Risk Model, identifying the reference scope for all risk management analysis carried out by the Group,
the Group's Risk Appetite, which defines acceptable risk levels consistently with a given risk management strategy, through the identification of key risk scales, risk metrics and their associated limitations,
Risk Management activities, classified as Enterprise Risk Management, aimed at examining the evolution of the Group's overall risk profile, developing mitigation strategies and monitoring their implementation, and Continuous Risk Management, which requires a persistent sector-specific risk management approach, entrusted to dedicated risk Specialists / risk Owners, in line with ad-hoc processes and methods which are developed and enacted within the relevant risk policies.

Following approval by the Board of Directors through the Group's Risk Management Policy, risk management strategies then translate into specific operational guidelines and into analysis, monitoring and control by the Risk Committee.

Risk type and applicable management

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

Internal Risks

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

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

Risks associated with regulations on workers 'health and safety

On-the-job injury risk has seen a steady reduction in accident rates, owing to measures promoting better monitoring as well as to the enhancement of protection and prevention practices.

Risks associated with logical and physical safety

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

Risks associated with service disruption

To manage these risks, the Group makes significant investments to ensure the effectiveness and efficiency of the distribution system and carried out constant monitoring and maintenance of networks in order to guarantee the safety, quality and continuity of services even in the event of a temporary breakdown in one or more distribution lines. To safeguard business continuity, the Disaster Recovery and Business Continuity project was completed in the ICT sector, to provide technology infrastructure hosting at a secondary site.

Finally, in matters of operational risk management, Hera has also resorted to external risk transfer, through optimal insurance coverage supplied by leading international insurance companies.

Strategic Risks

Such risks are associated with long-term planning, with the group's financial sustainability, with the involvement in strategic initiatives and with appropriate investment decisions. They involve Hera Group as a whole and affect the soundness of strategic planning. Hera has recently developed a well-planned strategic risk analysis model, designed to gauge the soundness of a business plan against a variety of adverse risk scenarios, which supports an integrated risk projection from an enterprise-wide viewpoint.

External Risks

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

Competitive-regulatory risks

These involve rate and market structure adjustments set forth by industry authorities and lawmakers, government incentives on renewables and industry laws, regulated businesses linked to local and national authority concessions, and failure to obtain authorizations, permits and licenses. They also ensue from the impact of macroeconomic changes, from market structure and liberalization, and from demand/supply evolution in the energy and environment industry, with all the potential impact these factors may have on the group's business.

With regard to the macro-economic scenario and the market components, risks affect mainly electricity and gas sales (resulting from competitive dynamics and an evolution of demand) and waste disposal, whose volumes depend on the variability of the economic cycle. To mitigate the risk, the Group has faced the liberalization challenge through an innovative, timely commercial offer, and by increasing its presence and customer base in the open market through cross selling. The Group has also gradually increased customer management proactivity, meeting customer expectations in terms of service quality.

To adequately address the macroeconomic risk impacting on energy consumption and on the volumes of disposed waste, the Group has maintained flexibility in the energy supply sources, at the same time as developing hedging activities to minimize exposure to operating risks from electric generation (not among the Group's core activities) and to long-term gas supply contracting ("Take or Pay" provisions). As to waste disposal, some older systems have been replaced with state-of-the-art plants with more efficient, better performing and less impactful technology, from an environmental standpoint.

With reference to regulations, competitive and regulatory risks arise when creating or altering the economic, organizational and IT requirements to be met by Hera; such risks stem from potential market structure changes induced by them. They have an impact on the network business (water, gas and electricity supply), where regulatory risks ensue from the Authority's definitions of rate processing and market criteria (electricity and gas sale). To address these risks, there is a Group structure that liaises with national and local authorities, carries out extensive consultation with institutional stakeholders,

actively partakes in working groups established by authorities and adopts a transparent, co-operative, proactive approach towards regulatory instability.
With regard to waste collection, electricity and gas distribution, integrated water supply and public lighting - whose concessions are granted by local or national authorities -risk stems from the failed renewal of expired licenses or from renewal in conditions other than those in force, entailing an adverse economic and financial impact. In the event of failed renewals, risk is limited by a refund mechanism in favour of the outgoing operator, out of the residual industrial value of the concession. Finally, risk associated with authorization processes is mitigated through regular monitoring activities of the above processes and by proactive partaking in working boards to ensure permits, licenses and authorizations are granted.

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

Financial risks associated with the energy market
These are related to variations in energy, gas and other fuel prices, which affect the final result in the purchase and sale of electricity and gas. To handle these risks, processes have been structured for effective procurement and hedging, with a clear-cut focus on the skills involved. The Group's approach provides for a single interface for `risk to market' management, i.e. Hera Trading, which covers the group's risk positions through specific portfolios for fuel and electricity, ensuring that risk management is unified under the terms of the respective policies. There are many advantages to the approach the Group has adopted in terms of higher levels of coverage, cost optimization by resorting less to the market (through position netting) as well as greater flexibility in structuring procurement and supplying customers. The implemented process continued to show adequate strength in 2016 as well, in terms of both risk assessment and risk control, while ensuring compliance with the limits set by the group's top management.

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

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

1.11
Corporate governance report

1. 1. Issuer profile

The Hera Group was born in 2002 out of the integration of 11 Emilia-Romagna public service companies, and in the subsequent years continued its territorial growth in order to expand its core business.
Hera is one of the leading Italian multi-utilities in the waste management, water, gas and electricity businesses, with more than 8,800 employees, both with short and long-term contracts.
The Company, the majority of whose share capital is owned by the State, has been listed on the Mercato Telematico of Borsa Italiana S.p.A. since 26 June 2003 and operates mainly in the territories of Bologna, Ravenna, Rimini, Forlì, Cesena, Ferrara, Modena, Imola and Pesaro-Urbino, and since 1 January 2013, following the integration of AcegasAps, in the territories of Padua, Trieste and Gorizia as well. Following the aggregation with Amga Azienda Multiservizi., which was completed as of 1 July 2014, Hera extended its activities to include the Municipality of Udine and the Province of Udine as well.
Hera's goal is to become the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates, while respecting the local environment.
As early as 2003, Hera included corporate social responsibility as part of its strategy, as an effective tool for increasing competitivity and as a key element for achieving sustainable development. The Mission and Values outline the guidelines for corporate behaviour already contained in the Code of Ethics and shape every action taken by and relationship maintained by the Group. Mission, values and shared conduct represent the strategic and cultural framework within which the industrial plan is formulated, results are reported transparently through the Sustainability Report, and economic planning is defined on an annual basis.
Hera grants special attention to dialoguing with its stakeholders and the local area in which it operates, consolidating positive results achieved in terms of creating value and demonstrating the Group's ability to grow despite the current complex economic conditions.

2. Information on the ownership structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Finance Act (TUF)) as at 27 March 2018.

a) Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the TUF)
The share capital is Euro1,489,538,745, fully subscribed and paid-up, and consists of 1,489,538,745 ordinary shares with a par value of Euro1 each.
Share Capital Structure:

Type of shares	Number of shares	Type of shares	Listed	Rights and obligations
Ordinary shares	1,489,538,745	100%	Mta Borsa Italiana	Ordinary shares grant those holding them all property and administrative rights foreseen by law

b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b) of the TUF)
Article 7 of Hera's Articles of Association to stipulate that the majority of voting rights in the company be held by Municipalities, Provinces and Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or by other Public Authorities, or consortiums or joint-stock companies including Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or other Public Authorities hold, even indirectly, the majority of

the share capital. 31 of Legislative Decree no. 267/2000, or by other Public Authorities, or consortiums or joint-stock companies including Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or other Public Authorities hold, even indirectly, the majority of the share capital. Article 8.1 of the Articles of Association prohibits the holding of more than 5% of the company's share capital by any shareholder other than those indicated above.

c) Significant equity interests (pursuant to Article 123-bis, paragraph 1, letter c) of the TUF)

Declarer	Direct shareholder	% of the share capital	Percentage on voting capital
Municipality of Bologna	Municipality of Bologna	9.731%	9.731%
Municipality of Imola	Con.Ami	7.288%	7.288%
Municipality of Modena	Municipality of Modena	6.519%	6.519%
Municipality of Ravenna	Ravenna Holding Spa	5.319%	5.319%
Municipality of Trieste	Municipality of Trieste	4.234%	4.234%
Municipality of Padova	Municipality of Padova	3.097%	3.097%

d) Shares that confer special rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)

The shareholder's meeting of 28 April 2015 authorized, pursuant to the limits established by Article . 6 the institute's Articles of Association, an increased vote, whereby individuals who are registered for a continuous period of at least 24 months in the special list established beginning in 1 June 2015, will be entitled, for every share they hold, to two votes in shareholders deliberations regarding: i) the amendment of Articles 6.4 and/or 8 of the Articles of Association, ii) the appointment and / or revocation of the Board or its members, iii) the appointment and / or revocation of the Board of Statutory Auditors or its members.

On 13 May 2015, Hera's Board of Directors in order to define the criteria and procedures for keeping the special list, approved the special list regulations for eligibility for increased voting rights, in implementation of the provisions of applicable law and Hera's Articles of Association.

e) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)

Article 8.6 of the Articles of Association stipulates that the voting rights of parties other than public authorities who hold more than 5% of the share capital will be limited to an overall maximum of 5%.

f) Shareholder agreements (pursuant to Article 123-bis, paragraph 1, letter g) of the TUF)

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

Additionally, the following are in force:

A Voting Trust Agreement between 22 public shareholders from the Modena area concerning the definition of the procedures for the exercise of voting rights, the transfer of Hera shares held by the signatories and appointment of the members of the Board of Directors. This agreement was signed on 25 June 2015 and is effective beginning 1 July 2015 and expires 30 June 2018.

A Voting Trust Agreement between 33 public shareholders from the Bologna area concerning the definition of the procedures for the exercise of voting rights, the transfer of Hera shares held by the signatories and appointment of the members of the Board of Directors. This agreement was signed on 22 November 2017 and is effective until 30 June 2018.

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

The shareholder's meeting of 27 April 2017 authorized, pursuant to the limits established by Article. 2357 of the Italian Civil Code, to purchase, within 18 months of the date of the resolution, on one or more occasions, up to a revolving maximum of 60 million ordinary Hera shares with a par value of Euro1 each, in accordance with the following conditions:

- **I.** unit purchase price not lower than the par value and not more than 10% higher than the reference price recorded on the stock-market trading day preceding each individual purchase;
- **II.** the purchases and all the deeds concerning the treasury shares may occur at a price that does not involve negative economic consequences for the company, and must occur in compliance with the laws, regulations and provisions established by the supervisory body and/or Borsa Italiana Spa, involving a maximum increase in investment of 180 million Euros;
- **III.** use of the treasury shares purchased within the scope of transactions representing investment opportunities or other transactions involving the allocation or disposal of treasury shares;

It is also stated that the number of treasury shares in the portfolio at the close of the 2017 financial year was 15,296,304.

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

Hera abides by the provisions of the Corporate Governance Code (hereinafter referred to as the "Code"), which contains a detailed series of recommendations concerning principles and rules for the management and control of listed companies, in order to increase the clarity and concreteness of persons and roles, particularly with regard to the independent directors and the internal committees of the Board of Directors.
Although adoption of the principles contained in the Code is not demanded by any legal obligation, the Company agreed to the principles of the Code, and to the modifications and integrations so as to reassure investors that a clear and well-defined organisational model exists within the company, with appropriate divisions of responsibility and powers and a correct balance between management and control, as an effective tool for enhancing and protecting the value of its shareholders' investment. The full text of the Code is available to the public on the Committee for Corporate Governance website:
http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf

4. Board of Directors

Hera is equipped with an ordinary/traditional system of governance The following sections outline the composition and functioning of the Board of Directors and the Board of Statutory Auditors.

a) Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter l) of the TUF)
The shareholder's meeting held 27 April 2017 appointed a Board of Directors for three terms, with a mandate lasting from now until the approval of the financial statement for the 2019 financial year and composed of 15 members, including:
11 members taken from the list that obtained the highest number of votes according to the rank order in which they were listed, of which at least 4 must be of the less-represented gender;
4 members taken from the lists that were not the one that obtained the highest number of votes and which were neither presented nor voted on by shareholders associated with the shareholders who presented or voted for the majority list, of which at least 1 must be of the less-represented gender;

This appointment was thus made on the basis of the list voting system, in order to ensures that at least 1/5 of the directors are appointed from the minority list in compliance with the provisions of Article 4 of Legislative Decree 332 of 31 May 1994, converted from Law no. 474 of July 30 1994. 4 del D.L..
Additionally, Article 17 of the Articles of Association stipulates that the lists, which must include at least two candidates satisfying the independence requirements established for the statutory auditors by Article 148, paragraph 3 of Legislative Decree no. 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana Spa, may be submitted by shareholders who represent at least 1% of shares with voting rights and must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting, together with the candidates' CVs, a declaration of the individual candidates stating that they accept the office and certifying the non-existence of any ineligibility and/or incompatibility provided by law, as well as the satisfaction of the requirements of integrity, and any applicable declaration of satisfaction of the independence requirements established for the statutory auditors by Article 148, paragraph 3 of the TUF and by the Code. .
These lists must be made available to the public at the registered offices and on the website www.gruppohera.it, no less than 21 days prior to the date of the Shareholders' Meeting.

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

Plans of succession

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

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

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

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

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

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

The Board of Directors met on 10 occasions in 2017. All the directors took part in 4 of these meetings, while almost all of them took part in the other 6; all the statutory auditors took part in 8 of the meetings, while almost all of them took part in 2. The average length of the meetings of the Board of Directors was approximately two hours and thirty minutes.

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

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

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

Regarding the current financial year, as of 27 March 2018, a total of three Board of Directors meetings have been held; All the directors and standing statutory auditors took part in 1 of these meetings, while the other meeting was attended by almost all of the current directors and all the standing statutory auditors . As of that date, 7 meetings of the Board of Directors had been planned for the remainder of the year.

Transactions with Related Parties

At its meeting of 10 October 2006, the Board of Directors of Hera S.p.A. approved, in compliance with the Corporate Governance Code then in force, the guidelines for significant transactions, transactions with related parties and transactions in which a director has an interest (Guidelines), in order to ensure that these transactions are conducted transparently and in conformity with the criteria of substantive and procedural correctness.

Subsequently, the Board of Directors of Hera Spa approved the new procedure for transactions with Related Parties (Procedure) in compliance with the provisions of the Consob Regulation adopted by virtue of Resolution no. 17221 of 12 March 2010 and subsequent amendments and integrations thereto (Consob Regulation), thereto subsequently updated on 21 December 215 ("Consob Regulation").

The Procedure cancels and completely replaces the rules on transactions with Related Parties contained in the Guidelines, but there is no change to the existing rules set out in the Guidelines concerning significant transactions and transactions in which a director has an interest.

In the Procedure, the Board of Directors fully adopted the definitions of related parties and transactions with related parties, as well as all the directly associated definitions, contained in the Consob Regulation and its annexes.

In particular, the following were identified:

1. the types of transactions with Related Parties to which the Procedure applies:
   - transactions of major importance, or transactions in which at least one of the indices of importance determined by the Consob Regulation exceeds the threshold of 5%;
   - transactions of minor importance, or transactions with related parties that are neither of major importance nor of negligible amount;
   - Transactions with Related Parties;
   - ordinary transactions, or transactions which (a) fall within the ordinary conduct of the company's operating activities or associated financial activities; and (b) are carried out under conditions: (i) similar to those normally applied to unrelated parties for transactions of a comparable nature, scale and risk, (ii) based on regularly applied tariffs or established

prices, or (iii) comparable with those applied to parties with whom the company is legally obliged to deal for a determined consideration;
- transactions of negligible amount, or transactions for which the maximum foreseeable amount of the consideration or of the value of the service does not exceed, for each transaction, the sum of Euro1 million;
- transactions with related parties carried out by subsidiaries.

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

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

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

The Board of Directors, in conformity with the provisions of Article 1.C.1. letter g) of the Code, evaluates on an annual basis the size, composition and functioning of the Board itself and its committees.
This evaluation was carried out with the support of the external consultancy Spencer Stuart, governance experts and administrative body consultancy services, and is based on the following criteria:
interviews with the members and chairman of the Board of Statutory Auditors;
analyses of international best practices;
an examination of company documents.

The interviews with the directors showed a very high overall level of appreciation for the way the Board operates: the responses, in keeping with the topics presented in the interview schedule, amounted to 96%.
The company Spencer Stuart, which supported the Board of Directors in this assessment, reported a very high level of appreciation overall, in comparison with other boards in Italy and abroad.

On 27 March 2018, the Board of Directors expressed a positive judgment with regards to the size, composition and functioning of the Board itself as well as its associated committees.
The table below shows the current composition of the Board of Directors. The personal and professional details of each director are available on the website www.gruppohera.it

Name and Surname	Office held	Qualification
Tomaso Tommasi di Vignano	Executive Chairman	Executive director
Stefano Venier	CEO	Executive director
Giovanni Basile	Vice Chairman	Non-executive director independent
Francesca Fiore	Director	Non-executive director independent
Giorgia Gagliardi	Director	Non-executive director independent
Massimo Giusti	Director	Non-executive director independent
Sara Lorenzon	Director	Non-executive director independent
Stefano Manara	Director	Non-executive director independent
Danilo Manfredi	Director	Non-executive director independent
Alessandro Melcarne	Director	Non-executive director independent
Erwin P.W. Rauhe	Director	Non-executive director independent
Duccio Regoli	Director	Non-executive director independent
Federica Seganti	Director	Non-executive director independent
Marina Vignola	Director	Non-executive director independent
Giovanni Xilo	Director	Non-executive director independent

Diversity Policies

The appointment of the Board of Directors took place during the Shareholders' Meeting held on 27 April 2017, following the presentation of three lists, a majority and two minority lists, which additionally ensured that the body's composition complies with the regulatory provisions on gender balance (five members of the less represented gender out of a total of fifteen directors).
The advisers, who have an average age of approximately 50, are professionals in financial, economic and legal areas as well as in sustainability, social and environmental issues.
The Board of Directors has expressed a high level of appreciation regarding its composition, the characteristics of its components and its operation.

Accumulation of positions in other companies

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

d) Delegated bodies

In Hera Board of Directors includes two executive directors, the chairman and the CEO, to whom various business sectors report and to whom have been granted the following powers, as further explained below.
Neither of the two executive directors can be described as the principal supervisor for the management of the company (chief executive officer).

Chairman of the Board of Directors

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

1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the CEO;
3. to oversee the deliberations of the Company's administrative bodies, without neglecting the reports presented periodically by the Internal Auditing Department;
4. to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;
5. in cases of urgency, in association with the CEO, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
6. in association with the CEO, to propose to the Board of Directors the appointment of Company representatives on the administrative and control bodies of affiliate companies;
7. to represent the company in relations with the shareholding Public Authorities;
8. to propose to the Board the candidates for membership of the Committees that the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or that it intends to establish;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. to supervise the Company's performance for the purposes of achieving the corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
12. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
13. to supervise the management of the Company and, as far as his authority permits, of its subsidiaries, reporting each month to the Board of Directors;
14. to draw up the Long-term Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
15. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
16. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies that do not constitute joint-stock companies, of which the Company is a member, with the power to issue special proxies;
17. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
18. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (Consob), the Ministry for Foreign Trade, and the Italian Exchange Office, and any other Public Administration or Authority; by way of example:
    1. a. to sign notices, including notices to the General Register of Shares and to Consob, and to fulfil the corporate obligations provided by law and regulations;
    2. to submit reports, motions and appeals, to apply for licences and authorisations;
19. to represent the Company in all active and passive lawsuits, in all degrees of civil and administrative proceedings, before arbitration boards, with the widest powers to:
    a) to bring jurisdictive, conservative, restraining and executive actions, request summary judgments and seizures of property and oppose the same, enter civil proceedings, file motions and appeals;
    b) request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
20. to stipulate and sign contracts and deeds to take on or dispose of shares, to constitute companies, associations and consortiums with a value not exceeding Euro 500,000 for each transaction;

21. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of Euro 300 thousand for each operation;
22. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
23. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of Euro 2 million for each transaction;
24. to provide for all the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
    3. works and supplies necessary for the transformation and maintenance of properties and plants up to an amount of Euro 20 million for each individual operation;
    4. purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, up to an amount of Euro 10 million for each individual operation, as well as finance leases and rentals of such assets, with the cost limit referring to the annual rental;
    5. purchases, including those under usage licence with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
    6. commercial information;
25. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
26. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international levels, both private and public, including those connected to state grants or calls for tenders, for awarding work projects or facility provision, including for turnkey contracts and/or study and/or research and/or services in general, from any national, EU or international body; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of Euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding Euro 25 million will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
27. to take out, modify and cancel insurance policies, with the cost limit referring to the annual premium, including for surety policies, up to the value of Euro500 thousand for each operation (this limit will not apply to transactions connected with participation in tenders);
28. to draw up, sign and implement deeds of sale, purchase, and expropriation of properties and to grant, modify or cancel the in rem rights associated with these properties, with the option of carrying out all the operations associated with and consequent to this, including paying and/or receiving, also in installments, the payment, and to pay out possible damages and waive statutory mortgages, up to a total of Euro 500 thousand for each operation;
29. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of Euro 500 thousand for each operation;
30. to rent or let out properties under leases or subleases and stipulate, amend and terminate the relative contracts;

31. to deliberate the cancellation, reduction or restriction of mortgages or liens registered in favour of the Company, as well as subrogations in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;

32. to establish, register and renew mortgages and liens on the account of third parties and to the benefit of the Company; permit mortgage cancellations and limitations on the account of third parties and to the benefit of the Company for return and reduction of obligations; waive mortgages and mortgage subrogations, including those of a legal nature, and effect any other mortgage transaction, always on the account of third parties and to the benefit of the Company, and therefore receivable, exonerating the competent property registrars from each and every responsibility;

33. to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of Euro 5 million for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;

34. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel hiring and management in compliance with the annual budget; propose the engagement of directors for each department to the Board of Directors, in consultation with the Executive Committee; engage, appoint and dismiss personnel in accordance with the provisions contained in the annual budgets; promote disciplinary sanctions, dismissals and any other measure in relation to personnel;

35. to represent the Company in all lawsuits pertaining to labour law, including the power to:

   7. settle individual labour disputes concerning the categories of officers, clerical workers, assistants and auxiliaries;

   8. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;

36. to represent the Company before Social Security and Welfare offices and entities for the settlement of issues relating to employees of the Company, and also before Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the related documents;

37. to grant and revoke powers of attorney within the scope of the aforesaid powers, for individual deeds or categories of deeds, to both employees of the Company and to third parties including legal entities;

38. as far as his authority permits, to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than Euro300 thousand for each operation;

39. the Chairman is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of 30 June 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;

40. the Chairman, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is charged, as far as his authority permit, with the establishment and maintenance of the Internal Control and Risk Management Systems. To this end, as far as his authority permits, he:

   a) ensures that the Risk Committee identifies the main business risks, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors;

   b) implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their overall appropriateness, effectiveness and efficiency;

   c) and ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context;

   d) may ask the Internal Auditing Structure to perform checks on specific operational areas, and on compliance with internal rules and procedures in carrying out corporate operations,

   e) promptly informs the Control and Risks Committee (or the Board of Directors) regarding problem areas or issues that emerge in carrying out his activities or of which he has been informed, in order that the Committee (or Board) may take appropriate actions.

In relation to the powers listed above, and in conformity with Article 2 of the Code, it is noted that the Board of Directors has granted management authority to the Chairman due to the organisational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's business and strategies.

CEO

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

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. in cases of urgency, in association with the Chairman, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
3. to implement corporate and Group strategies, within the context of the directives established by the Board of Directors, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
4. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
5. to draw up the annual budget to be submitted to the Board of Directors;
6. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
7. to make monthly reports to the Board of Directors, as far as his authority permits, as regards the specified subsidiary companies;
8. to sign company correspondance and deeds associated with the exercise of the powers attributed to him and the functions he holds;
9. to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to Euro1 million for each individual transaction;
10. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising available funds or lines of current account credit;
11. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
12. to draw bills on customers, endorse also for discount promissory notes, bills and drafts, as well as cheques of any kind, and effect any consequential transaction;
13. to grant credit and accept credit transfers from suppliers (reverse factoring and/or indirect factoring contracts) on behalf of the Company, with and/or without recourse, up to a maximum amount of Euro 250 million for each individual transaction, and to work with factoring companies and institutions, signing all related deeds;
14. to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank, as well as before the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, and Post and Telegraphic Offices; by way of example:
    a) to sign tax and VAT returns and to fulfil any other tax-related obligations;
    b) to submit reports, motions and appeals, to apply for licences and authorisations;
    c) to issue receipts, in particular for payment orders in relation to credits subject to factoring operations;
    d) to perform any transaction at the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for the shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages or registered and insured letters, issuing receipts for the same;
15. to issue guarantees and grant loans, and sign bank surety agreements up to the value of Euro500 thousand for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
16. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;

17. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international levels, both private and public, including those connected to state grants or calls for tenders, for awarding work projects or facility provision, including for turnkey contracts and/or study and/or research and/or services in general, from any national, EU or international body; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of Euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding Euro 25 million will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;

18. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;

19. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of Euro 2 million for each transaction;

20. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of Euro 300 thousand for each operation;

21. to conclude transactions up to an amount of Euro 5 million for each individual operation, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;

22. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of Euro 500 thousand for each operation;

23. to grant and revoke powers of attorney within the scope of the aforesaid powers, for individual deeds or categories of deeds, to both employees of the Company and to third parties including legal entities;

24. as far as his authority permits, to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than Euro300 thousand for each operation;

25. the CEO is assigned the role of employer pursuant to and for the purposes of Article 2 of Legislative Decree 81 of 9 April 2008 and subsequent amendments and integrations, with the duties provided for therein and with the power to delegate, as far as is permitted by said decree, the performance of any activity useful and/or necessary for ensuring compliance with the provisions of the law, with the exception of the following Sectors/Structures, for which the role of Employer is attributed as indicated below:

   a) Mr. Marcello Guerrini, as Corporate Systems Central Director.
   b) Mr. Roberto Barilli, as General Operations Director and in particular for the regulated services planning and coordination department and as director of the Environmental Services department (for the latter office, beginning in 2018 the role of employer will be filled by the new Environmental Services director).
   c) Mr. Salvatore Molè, as Innovation Central Director;
   d) Mr. Franco Fogacci, as Director of Water;
   e) Mr. Cristian Fabbri, as Director of the Central Market Department (especially for activities regarding district heating, the Imola cogenerator productive unit and all the plants and activities falling under this authority).

26. the CEO is responsible for managing activities relating to the Register of Freight Carriers, with the power of delegation;

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

Information to the Board

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

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

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

e) Executive Committee

The Board of Directors, appointed during the Shareholders' Meeting of 27 April 2017, in office until the natural expiration of the administrative body's term, and therefore until the approval of the financial statements as of 31 December 2019, as provided for by Article 23.3 of the Articles of Association, at its meeting of 10 May 2017, appointed the Executive Committee consisting of the following members:

Tomaso Tommasi di Vignano	Chairman of the Executive Committee
Giovanni Basile	Vice Chairman of the Executive Committee;
Stefano Venier	member of the Executive Committee;
Federica Seganti	member of the Executive Committee.

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

1. as to contracts and agreements in any way pertaining to the corporate purpose with a value exceeding Euro2 million for each individual contract;
2. in the interests of the Company, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, with a value exceeding Euro 300 thousand and up to Euro 1 million for each operation;
3. as to the Company's subscription to bodies, associations and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the said entity and where participation in the same involves an outlay of more than Euro 300 thousand and up to Euro 1 million for each operation;
4. to settle disputes and/or waive credits of an amount exceeding Euro 5 million;
5. as to the activation, amendment and termination of contracts for the opening of lines of credit or loans of any type and duration involving a cost commitment of more than Euro1 million and up to Euro5 million for each operation;
6. as to issuing calls for tender and/or the stipulation, amendment and termination of contracts for investments relating to:

- works and supplies necessary for the transformation and maintenance of properties and plants for an amount exceeding Euro 20 million for each operation;
- purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding Euro 10 million for each operation.

Furthermore, the Committee has the task of:

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

The Board of Directors met on 4 occasions in 2017, and all of the meetings were attended by all members. The average duration of the meetings of the Executive Committee was approximately one hour and forty minutes.

f) Independent directors

There are currently 13 directors qualifying as non-executive independent members of the Board; Giovanni Basile, Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Stefano Manara, Danilo Manfredi, Alessandro Melcarne, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola e Giovanni Xilo satisfy the requirements of independence established by the Code of Self-Discipline and article 148, paragraph 3 of the TUF.

The Board of Directors assessed the independence of the aforementioned directors was assessed, at the time of their appointment and announced the outcome through a press release issued to the market

The following circumstances do not invalidate the requirements of independence of a director: the appointment of the director by the shareholders or group of shareholders controlling the Company; the holding of the office of director of a subsidiary of the Company and receiving the related remuneration; the holding of the office of member of one of the advisory Committees cited below.

Although none of the current directors has a office lasting over nine years, the Board of Directors, in keeping with what occurred in previous financial periods, reserves the right to gauge the independence of its members, as far as the duration of their position is concerned, on a case by case basis, prioritising substance over form.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 3 of the Code, has checked the correct application of the criteria and assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.

Lead independent director

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

Induction

As occurred in the past, steps were taken to organise several training events, both specific and as part of the Board's meeting, intensifying this activity in order to ensure that the directors acquire adequate knowledge of the main issues related to the company as quickly as possible.

After the specific induction sessions carried out in 2017 to provide the board members with an appropriate understanding of the main sectors of activity (networks, energy and environment), several training events were organized, as part of the Board of Directors' meetings, regarding business issues, investments, organization, market scenario, regulatory developments, next calls for tenders and risk management.

Further studies were carried out during the strategy day, which gave the opportunity to develop a number of key topics in relation to the future of society.

5. Handling of corporate information

For the purposes of governing the communication to the sector Authorities and to the public of notices, data and privileged information pertaining to the management and activities carried out, whose dissemination might have an impact on the processes used for valuing the Company's shares, and

consequently on the levels of demand and supply of those shares, the Board of Directors updated the specific Group procedure, coming into effect beginning July 3, 2016, adopting the new legislation introduced by the European regulation on Market Abuse Regulation (Mar) (EU regulation 596/2014, directive 2014/57/EU, EU Execution regulation 2016/347 and 2016/1055).
This procedure aims at:

I. identifying privileged and confidential information;
II. defining procedures for authorization and management within the Group;
III. governing the procedures for external communication in terms of documentation, notices issued, interviews given, statements made and meetings conducted.

Consequently, in application of the new procedure with regard to internal dealing updated by Hera Spa on July 3, 2016 of the Mar (EU regulation 596/2014, directive 2014/57/EU, EU Execution regulation 2016/523 and 2016/522) the following individuals have been identified as significant parties obliged to inform Consob of the transactions they have carried out on Hera S.p.A.'s financial instruments, the members of the Board of Directors, the Statutory Auditors and the Executive Director as well as the holders of shares, calculated in keeping with article 118 of the Consob Issuers' Regulation, equal to at least 10% of the Company share capital, comprising shares with voting rights as well as the individuals directly associated with the latter.
This procedure governs the timescales and modes for communicating the operations carried out by the significant parties. Hera Spa has identified the Legal and Corporate Affairs Department as the entity responsible for receiving, managing and disseminating this type of information to the market.
The responsible entity will utilize the External Relations Department for disseminating the information to the market.
With effect beginning 3 July 2016, Hera Spa also updated the procedures for drafting and maintaining, as well as the content of the list of people with access to confidential information in compliance with the provisions introduced by Mar (EU Regulation 596/2014, Directive 2014/57 / EU, EU implementation Regulation 2016/347), which, in particular, expanded the concept of privileged information, establishing that it is an information with a precise nature which has not been made public, relating, directly or indirectly, one or more issuers or one or more financial instruments and which, if made public, could have a significant effect on the prices of such financial instruments or associated derivative financial instruments, and introducing the concept of privileged information gradually developing.

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

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

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

b) Remuneration Committee
The remuneration committee regularly evaluates the adequateness, overall consistency and concrete application of the policy adopted for the remuneration of Executive Directors and the Managers carrying out strategic tasks, on the basis of the information disclosed by the CEOs; the committee also reports suggestions for improvement to the Board of Directors .
The Committee additionally submits to the Board of Directors suggestions or expresses opinions on the remuneration of the executive directors and other directors holding particular offices as well as on setting performance targets related to the variable component of remuneration; it also monitors the actual achievement of the performance targets.

In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.
This Committee, initially set up at the meeting of the Board of Directors on 4 November 2002 and most recently renewed, in its latest format, on 10 May 2017, comprises the following non-executive, independent directors: Giovanni Basile acting as Chairman, Francesca Fiore, Massimo Giusti and Stefano Manara.
Note that the Chairman Giovanni Basile as well as the member Massimo Giusti have experience in accounting and financial matters, judged adequate by the Board of Directors at the time of the appointment. At the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO can attend the Committee's meetings.
The Executive Committee met on 3 occasions in 2017. All the members took part in 2 of these meetings, while almost all of them took part in the remaining 1. The meetings of the Remuneration Committee lasted, on average, of one hour and thirty minutes.
In 2017, the Remuneration Committee handled matters relating to remuneration policies, subject to approval by the Board of Directors at the time of the 2017 financial statements.
The Remuneration Committee proposed the introduction, after the renewal of the Board of Directors which will take place during the Shareholders' Meeting scheduled for 27 April 2017, of a claw-back clause for executive directors, as well as the introduction of a clause providing, in case of resignation, dismissal or termination of the position, a claim for compensation in the amount of 18 monthly salaries.
For additional information, please see the Remuneration Report pursuant to Art.123-ter Tuf.

c) Controls and Risks Committee

Composition and functioning of the Controls and Risks Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the Tuf)

As established by the Code, the Board of Directors, at its meeting of 4 November 2002, passed a resolution to establish the Internal Controls Committee: Subsequently, during the course of the Company's Board of Directors meeting that took place 17 December 2012, in application of updates to the Code of Self-Discipline, the Internal Control Committee took on the additional function of Risk Management Committee in order to manage the Company's risks and support the administrative body in associated assessments and decisions. This Committee, which was renewed on 27 April 2017, comprises the directors Giovanni Basile as Chairman, Erwin Paul Walter Rauhe, Duccio Regoli and Sara Lorenzon. Note that the Chairman Giovanni Basile as well as the member Massimo Giusti have experience in accounting and financial matters, judged adequate by the Board of Directors at the time of the appointment.
The Board of Directors met on 7 occasions in 2017, and all of the meetings, in which the minutes were regularly taken, were attended by all members. The average length of the meetings of the Internal Controls Committee was approximately one hour and thirty minutes.

Functions assigned to the Controls and Risks Committee

The control and risk Committee is responsible for supervising the functionality of the internal control system, the efficiency of business processes, the reliability of the information provided to the corporate bodies and the market, as well as compliance with laws and regulations and on protection of company assets.
The Controls and Risks Committee is tasked with supporting the decisions and assessments of the Board of Directors in relation to the internal control and risk management system and concerning the approval of periodic financial reports through adequate surveying and evaluative activities.
In carrying out its supportive role in relation to the Board of Directors, the Committee therefore expresses its judgment concerning:

a) the definition of the guidelines of the internal control and risk management system in such a way that the primary risks faced by HERA and its subsidiaries are identified correctly and properly measured, managed and monitored, determining moreover the compatibility criteria of such risks with healthy and proper corporate management;
b) at least on a bi-annual basis, the adequacy and effectiveness of the internal control and risk management system in relation to the characteristics of the enterprise and the risk profile it has assumed;
c) at least on an annual basis, the work plan drafted by the Supervisor of the Internal Auditing Structure in consultation with the Board of Statutory Auditors and the Directors in charge of the internal control and risk management system.

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

d) together with the Appointed Manager in charge of drafting corporate financial documents and in consultation with the legal auditor and Board of Statutory Auditors, evaluates the proper use of accounting principles and their homogeneity in relation to drafting balance sheets and financial statements more generally;
e) expresses its judgment regarding specific aspects of the identification of primary corporate risks;
f) analyses periodic reports concerning the assessment of the internal control and risk management system as well as those drafted on at least a bi-annual basis by the Supervisor of the Internal Auditing Structure;
g) communicates to the Board of Directors its preventative judgment regarding the proposals developed by the Directors in charge of the internal control and risk management system in relation to measures regarding the appointment and dismissal of the Supervisor of the Internal Auditing Structure, allotting this figure adequate resources for the completion of his or her responsibilities as well as establishing appropriate remuneration in keeping with corporate policies;
h) monitors the autonomy, effectiveness and efficiency of the Internal Auditing Structure;
i) evaluates the findings of the Internal Auditing Structure Supervisor's reports, of statements from the Board of Statutory Auditors and each of its individual members, of reports and any possible management letters from Independent Auditors, and of surveys and investigations carried out by other committees of the company and third parties;
j) may ask the Internal Auditing Structure to perform checks on specific operational areas, contextually communicating the results to the president of the Board of Statutory Auditors;
k) communicates to the Board of Directors about the activities performed by and the adequacy of the internal control and risk management system at least on the occasion of the annual and bi-annual approval of the financial statement.

During the course of the meetings held during 2017 financial year, which were duly recorded, the following measures were carried out:
assessment and approval of periodic reports;
assignment of the Controls and Risks Committee;
update of ongoing and completed audits;
illustrating the new Erm map.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman and, at the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO, attend the Committee's meetings.
In the performance of its functions, the Controls and Risks Committee had access to the information and business functions necessary for carrying out its duties.
In relation to the 2017 financial year and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy, efficacy and effective functioning of the internal control and risk management system in relation to the features of the company and the type of risks it takes on.

d) Ethics Committee

Composition and functioning
During its meeting of 12 September 2007, the Board of Directors of Hera Spa established the text of the mission and values and working principles of the Group, and consequently approved the updated version of the Code of Ethics that constitutes a social responsibility tool for the Company in implementing ethical principles inspired by good practices and aimed at the pursuit of the Company's mission.
Consequently, in application of Article 60 of the aforementioned Code, the Board of Directors, at its meeting of 8 October 2007, set up a suitable Committee, in compliance with what is set forth in article 66 of the code requiring that the Ethics committee be composed of at least 3 members, including at least one director of the company as well as two experts in social responsibility and the topics dealt with in legislative decree 231/01, additionally specifying that at least one member must be external.
This Committee comprises a director of Hera Spa in the person of Massimo Giusti, Mario Viviani, and a manager with expertise in matters of social responsibility.

In the 15 February 2017 meeting, Hera Spa's Board of Directors decided that the code had to be updated again in its fourth edition, in keeping with a process of sharing with the social partners, as well as benchmarking of similar companies and a forum involving executives and directors of the Company.
The Ethics Committee met on 7 occasions in 2017, and all of the meetings were attended by all members. The average duration of the meetings of the Ethics Committee was approximately two hours.

Functions of the Ethics Committee
The Ethics Committee is responsible for monitoring the dissemination and implementation of as well as compliance with the principles of the code of ethics. Since 2008, the year the Code of Ethics came into effect, an ethics committee was established for which Whistleblowing policies are in effect, designed to provide a confidential and direct channel of communication with the committee for all the stakeholders interested in reporting any possible conduct in violation of the code and the values promoted by the Group.
In the meetings held during the course of the financial year the Committee closely examined the notices and related preliminary inquiries carried out with the relevant departments.

7. Internal Control and Risk Management System

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

The corporate governance of risks in Hera
Hera has adopted an organizational structure to manage properly the risk exposures originating from the Group's business, through an integrated approach designed to preserve the effectiveness and profitability of the management across the entire value chain.
The system of corporate governance for risk management implemented in Hera enables a unified and coherent approach of the management strategies (Enterprise Risk Management). According to this system:
The Board of Directors has a role of guiding and assessing the effectiveness of the internal control and risk management system;
The Chairman and CEO oversee, within their scope of responsibility, the functionality of the internal control and risk management system;
The vice Chairman oversees the coordination between the Risk Committee and the Controls and Risks Committee;
The Controls and Risks Committee supports the Board of Directors in defining the guidelines of the internal control and risk management system;
The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of risk management, identifies the general guidelines for the process of risk management, carries out the mapping and monitoring of corporate risks, defines the risk policy and information protocols toward the Controls and risks committee, the Internal Audit Department and Board of Statutory Auditors.

Within Hera there is an appropriate separation between the role of control and risk management, assigned to risk owners in the various organizational parts and the role of assessing the adequacy of the risk management processes.
Specifically, monitoring the correct and effective functioning of the internal control and risk management system is centralized and carried out through a mandate by the Internal Auditing Department, reporting directly to the Vice chairman.
The additional corporate body in charge of overseeing the risks is described below.

Risks Committee
The Risk Committee, appointed by the Board of Directors on April 28, 2014, comprises the Chairman, the Vice Chairman and the CEO of Hera Spa, the Central Director of Administration, Finance and Control, the Central Market Manager and the Enterprise risk manager. Additionally, in relation to specific domains of responsibility, the Central Legal and Corporate Director, the Central Corporate

Services Director, the Central Innovation Director and the General Director of Hera Trading Srl may also participate.
The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of risk management and is responsible for:
defining the general guidelines for the Risk Management process;
providing for the mapping and monitoring of corporate risks;
ensuring the definition of the risk policies, risk profile and risk limitations to be submitted for approval by the Hera Spa Board of Directors;
ensuring a bi-annual reporting concerning risk trends and management;
defining and ensuring information protocols directed to the Controls and Risks Committee, the Internal Auditing Management and the Board of Statutory Auditors.

Relevant risks handled by the Risk Committee pertain to the following areas: strategic, energy, finance, credit, insurance, information and communication, technology, safety and the environment, and business continuity.
In 2017 the Risk Committee met four times and provided information on risk management to the Board of Directors during its meetings on 15 February and 26 July 2017.

The Group's risk management structure
In the overall design of the risk management process, Hera has adopted a structured approach, in line with the industry best practices, through the introduction of the Enterprise Risk Management (Erm). This move is aimed at defining a systematic and consistent approach to their control and management, creating an effective model for guiding, monitoring and representing, aimed at rendering management processes more efficient and consistent with the objectives of top management.
In particular, this approach is intended to provide the Board of Directors with the elements useful to the assessment of the nature and level of business risk, particularly in the medium to long term, in order to enable the definition of a risk profile compatible with the strategic objectives of the group. The definition of such profile is made explicit through the approval of the Group risk management policy and the risk limits set out therein by the Board of Directors. More specifically, the policy defines the Group's direction on risk issues by identifying the risk management framework, expressed through three fundamental elements:
The risk model, which identifies the scope for the risk management analyses carried out by the Group. It defines the universe of risks, or the different types of risk which the Group is potentially exposed to, subject to periodic revision depending on the evolution of the Group's mission, strategic objectives and business perimeter, as well as the socio-economic context.
The Group's risk propensity, which defines the acceptable level of risk coherently with the risk management strategy. It is defined through the identification of:

- the key risk dimensions, that is of the most significant risk factors in relation to which the Group intends to make explicit its own risk propensity;
- risk metrics, which are necessary for the measurement of the exposure arising from a specific risk factor;
- limits associated with each key risk dimension, outlining the maximum risk level tolerated by the Group in achieving its goals;
- monitoring, escalation and update processes aimed at ensuring the timely identification of possible instances in which the defined risk limits were exceeded, the identification and implementation of corrective actions, the correct monitoring of all areas of significant risks and the alignment of the limits to group risk propensity.

risk management activities, expressed

- in enterprise risk management, aimed at analyzing the evolution of the Group's overall risk profile, providing results that constitute the tool supporting the conscious assumption of risk and the definition of strategic objectives;
- in the management of risk in ongoing operations, which involves specific sectoral management of specific risks in ongoing operation entrusted to dedicated risk specialist/risk owner, according to ad hoc processes and developed methodologies and formalized as part of the relevant risk policies that guarantee an effectively oversee the entire universe of the main risks to which the Group is potentially exposed, as well as the

overall management of the exposure of the Group in keeping with the views expressed in the risk propensity of the Group and the industrial plan objectives.

On January 20, 2016 the Board of Directors was presented with the first Erm report containing the mapping of the Group risks, accompanied by the appropriate evaluation measures for each risk and consolidated risk (impact, probability, severity, levels of control) and in that occasion, the Board of Directors approved the Group risk Management Policy and risk limits for the year 2016.
On 15 February, 2017 the Board of Directors was presented with the second Erm report containing the enlargement of the scope, the risk universe to be assessed and the types of risk and in that occasion, the Board of Directors approved the limits for 2017 and updated the Group risk Management Policy..
On 27 September 2017, a report was submitted to the Board of Directors regarding risk management activities within the Group.
In particular, the following were identified:
the lines of defense of risks and the structure of governance;
compliance with law 262/2005 and compliance with legislative decree 231/2001, outlining the role of the appointed Manager and the Supervisory Body in the respective reports to the Board of Directors;
the risk management governance, explaining the role of the Risk Committee, in particular in communicating information to the Board of Directors, the Board of Statutory Auditors, the Control and Risk Committee and Internal Auditing, and the governance system implemented through the adoption of the ERM by assigning the strategic role to the Board of Directors, which is responsible for the decision on the Group's risk profile and the approval of the Hera Group Guideline "Group risk management policy".

On 10 January, 2018 the Board of Directors was presented with the third Erm report containing the enlargement of the scope, the risk universe to be assessed and the types of risk and in that occasion as well as the Erm maps differentiated by business branch; in the same date, the Board of Directors approved the risk limits for 2018 and updated the Hera Group Guideline "Group risk Management Policy".

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

Introduction
The internal control and risk management system specific to financial reporting is designed to ensure the reliability, accuracy and timeliness of company information on financial statements and the ability of the relevant business processes to produce such information in accordance with the Group's accounting principles.
The internal control and risk management system in relation to Hera's financial information process is inspired by the Coso Framework (issued by the Committee of Sponsoring Organizations of the Treadway Commission), an internationally recognized model.
The definition of the internal control and risk management system was established in keeping with applicable norms and regulations:
Legislative decree. Legislative Decree no. 58 of 24 February 1998 (Tuf) - article 154-bis of the TUF;
Law 262 of 28 December 2005 (and subsequent modifications, including Legislative Decree to assimilate the so called directive 2004/109/EC on the harmonization of transparency requirements regarding the information on listed companies, approved on 30 October 2007) regarding the drafting of corporate financial documents;
Consob Issuers' Regulation of 4 May 2007 Statement of the Appointed Manager in charge of drafting corporate financial documents and of the designated administrative authorities in relation to financial and consolidated financial statements as well as to the biannual report, in compliance with article 154-bis of the Tuf;
Consob Issuers' Regulation of 6 April 2009, Assimilation of the Transparency Directive 2004/109/CE concerning the harmonization of transparency requirements in relation to information about the issuers whose movable value are permitted to enter negotiations in a regulated market, modifying directive 2001/34/EC;
the Civil Code, which extends responsibility to the Appointed Managers in charge of drafting corporate financial documents (Article 2434 c.c.) for corporate management, for disloyalty crime originating from conferred or promised utility (Article 2635 c.c.) and for the crime of obstructing the functions of public and surveillance authorities (Article 2638 c.c.);

Legislative decree. 231/2001 that references the above-mentioned regulations of the Civil Code and the administrative responsibility of legal subjects for crimes committed against the Public Administration and includes the Appointed Manager in charge of drafting corporate financial documents among the Apical Subjects.

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

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

As part of the internal control and risk management system pertaining to the financial information process, the Appointed Manager has set up an administrative and financial control Model - Regulation of the Appointed Manager for drafting corporate financial documents (hereafter also "The Model") approved by the Hera spa Board of Directors in the meeting held 27 March 2018, outlining the adopted method and associated roles and responsibilities in relation to defining, implementing, monitoring and updating the financial-administrative procedural system over time and in assessing its adequacy and effectiveness.

Hera's administrative and financial control Model defines a methodological approach for the internal control and risk management system in relation to financial information processes that is structured through the following steps:

Risk assessment for the identification and evaluation of risks regarding company information;

identifying controls and updates for the financial-administrative procedures in view of the identified risks;

Evaluation of the identified risks.

Step 1: Risk Assessment

Represents the process of identifying the risks connected to the financial statement (risks of unintentional errors or fraud) that might have an effect on the financial statement, and is carried out under the supervision of the Appointed Manager, at least on an annual basis.

This process aims at identifying the set of objectives that the system seeks to pursue in order to ensure a truthful and accurate representation. Risk Assessments, carried out according to a top-down approach, concentrates on those areas of the financial statement wherein potential effects on financial information have been located in relation to the failure to achieve these control objectives.

As part of the process of Risk Assessment, the following tasks are carried out:

identifying the Group companies considered relevant in view of the proper functioning of the Group's control system for corporate reporting;

identifying the list of corporate processes that have been identified as relevant in view of the proper functioning of the Group's financial and administrative control system;

a review of the overall adequacy of the current Financial and Administrative Control Model.

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

Step 2: Identifying controls and updates for the financial-administrative procedures

An identification of the necessary checks for mitigating the risks that were identified in the previous step is carried out taking into consideration the control objectives associated with the financial statement.

Based on the above, Hera Spa has established an internal control system under which the directors of corporate functions verify the design and operating effectiveness of control activities on an annual basis, each for the areas under his or her jurisdiction.

The results of periodical updates applied to procedures and associated controls are communicated to the Appointed Manager by the directors of corporate departments. The directors of corporate departments provide for updating/modifying the financial-administrative procedures in relation to the areas under their managerial responsibility on a regular basis.

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

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

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

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

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

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

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

c) Internal auditing department manager

Over the course of 2017, steps were therefore taken to appoint, waiting to define the final organizational structure and in order to ensure proper operation of the internal control and risk management system, a new Internal Auditing director who reports to the Vice Chairman.
The Internal Auditing Department provides a report on his or her activities, every three months or whenever he or she considers it necessary, to the CEO, the Chairman of the Board of Directors, the Internal Controls and Risk Management Committee and the Board of Statutory Auditors. It is hierarchically independent of the heads of operational divisions and may have direct access to all information necessary for the performance of his or her duties.
Through the establishment of an adequate Risk Assessment and three-yearly Audit Plan:
provides a synthetic and comparative assessment of the primary risk areas and associated control systems, performing updates through the meetings that take place with management;
according to the varying level of risk of corporate processes, prioritizes the duties of the Internal Auditing department.

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

Legislative Decree 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. Legislative Decree no. 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. In particular, the law introduced the criminal liability of entities for certain offences committed in the interest or to the advantage of those entities by persons fulfilling roles of representation, administration or management of the entity or of one of its organisational units with financial and operational independence, or by persons who exercise management and control thereof, including on a de facto basis, and lastly, by persons subject to the direction or supervision of one of the above-mentioned parties. Significant offences are those committed against Public Administration and corporate offences committed in the interest of the companies. Significant offences are those committed against Public Administration and corporate offences committed in the interest of the companies.
However, Articles 6 and 7 of Legislative Decree no. 231/2001 provide for a form of exoneration from liability where (i) the entity proves that it adopted and efficiently implemented, prior to the commission of the act, appropriate organisational, management and control models for preventing the perpetration of the offences considered by the said decree; and (ii) the duty of supervising the functioning of and compliance with the models, as well as providing for their updating, is entrusted to a body of the entity that is vested with autonomous powers of initiative and control.
To this end, on 16 February 2004, the Board of Directors of Hera Spa approved and subsequently updated, also in the light of the provisions introduced by Law no. 81/2008 and Legislative Decree no. 97/2016, the organisational, management and control model pursuant to Legislative Decree no. 231/2001, with the aim of creating a structured and organic system of control procedures and activities to prevent commission of the offences referred to in the aforementioned decree, by identifying the activities exposed to a risk of offence and implementing suitable procedures for those activities.
As of today, the organizational, managerial and control model pursuant to Legislative Decree 231/2001 includes 22 protocols, implemented over time and associated to the individual sensitive areas.
The risk factors and critical points are identified and weighed through the risk assessment against the business areas of the Group and the processes of infrastructure. The specific risks concerning the issues of 231 are defined by the supervisory body in an annual audit plan that takes into account risk assessments, coverage of new processes, regulatory changes and the extension of the business scope of the Group's companies.
An integral part of the model is the six-month review by the supervisory body of information flows regarding risk activities.
Every three years, the risk analysis document with its audit plan is drawn up for the entire Group, the last of which covers the period 2016-2018.
The organisational, management and control model pursuant to Legislative Decree no. 231/2001 has also been adopted by subsidiaries with strategic importance.
The Board of Directors also sets the surveillance body, by approving the relevant regulation.
This body, which today comprises an external member with the role of Chairman, Hera Spa's Legal and Corporate Central Director and the director of Internal Auditing of Hera Spa as Chairman, specifically has the task of periodically reporting to the corporate bodies of the parent company on the implementation of said model, as pursuant to Legislative Decree 231/2001 and its mandate will

continue until the date of the next Shareholders' meeting for the approval of the financial statement as of 31 December 2019.
The supervisory board met on 7 occasions in 2017 and all these meetings were attended by all the members.
The average length of the meetings of the supervisory board was approximately one hour and thirty minutes.
The Supervisory Body approved and updated the 231 protocols comprising the organizational model, examined the system of information flows that allow it to supervise the functioning of and compliance with the models, as well as examining the reports that followed from the audits and examining legislative developments pursuant to Legislative Decree 231/2001 and planning further activities.
In order to carry out the checks and controls, the Supervisory Body drew up a schedule of measures for verifying compliance with the protocols adopted.

e). Independent Auditors

The Hera Spa Shareholder's meeting of 23 April 2014 appointed Deloitte&Touche Spa to the role of independent auditor for the 2015-2023 financial years.

f) Appointed Manager in charge of drafting corporate financial reports and other corporate roles and functions.

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

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

g) Coordination among the subjects involved in the internal control and risk management system.

The Issuer has established the following systematic coordination modes for the various subjects involved in the internal control and risk management system:
periodic coordination meetings focused in particular on the process of drafting financial information and the activities of assessing, monitoring and containing (economic-financial, operational and compliance) risks;
information flows among the subjects involved in the internal control and risk management system;
periodic reports to the Board of Directors;

establishment of a Risk Committee with the aim of outlining guidelines for monitoring and informing about risk management strategies.

In particular, the following types of coordination meeting are specified:
the Board of Statutory Auditors with the Controls and Risks Committee, the Independent Auditor, the Appointed Manager in charge of drafting corporate financial reports, and the Internal Auditing Manager;
the Board of Internal Auditors with the Supervisory Board pursuant to Legislative Decree no. 231/01;
the Directors in charge of the internal control and risk management system with the Chairman of the Controls and Risks Committee.

8. Appointment of the Statutory Auditors

The Statutory Auditors are appointed by the Shareholders meeting using the list voting mechanism established by article 26 of the Articles of Association. Specifically, (i) municipalities, provinces, consortia established pursuant to article 31 of legislative decree no. 267/2000 or other entities or public authorities, as well as consortia or joint-stock companies controlled, directly or indirectly, by these may present a single list and (ii) the shareholders not indicated in (i) may submit lists provided that they represent at least 1% of the shares with voting rights or the percentage established by current regulation and indicated in the notice concerning the meeting.
The composition of the Board of Statutory Auditors, beginning from the first renewal of this board following the effective date of Law 120/2012, and therefore with effect beginning from the shareholders' meeting called to approve the Financial Statement as at 31 December 2013, and with reference to its first three consecutive terms, complies with current regulations relating to gender balance.
The lists must be delivered to the registered office at least 25 days before the date set for the meeting, together with the curriculum vitae of the candidates and a declaration from each individual candidates stating that he or she accepts the office and certifying that there are no causes of ineligibility, incompatibility or revocation as established by law, and the existence of the requirements of integrity and professionalism required by law for members of the Board of Statutory Auditors. The lists must also be accompanied by a statement certifying that there are no agreements or connections of any kind with other shareholders who have presented other lists, and a list of the administrative and control positions held by the candidates in other companies. These lists must be made available to the public at the registered offices and on the website www.gruppohera.it, no less than 21 days prior to the date of the Shareholders' Meeting.
In the event of the replacement of a sitting Statutory Auditor, he or she will be succeeded by the alternate Auditor belonging to the same list as the Auditor to be replaced, respecting the principles of minority representation and gender balance.
For the purposes of the provisions of legislation in force concerning the requirements of professionalism for members of the Board of Statutory Auditors of listed companies, "business matters and sectors strictly pertaining to the activities performed by the Company" means the business matters and sectors associated with or pertaining to the activity performed by the Company and cited in Article 4 of the Articles of Association.
The office of Statutory Auditor is incompatible with the offices of councillor or alderman in regional public authorities, as well as with that of Statutory Auditor in more than three listed companies other than subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code and Article 93 of Legislative Decree no. 58/98. 58/98. In the latter case, a Statutory Auditor who subsequently exceeds this limit will automatically forfeit the office of Statutory Auditor of the Company.

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

The shareholder's meeting held 27 April 2017 appointed a Board of Directors comprising three standing members and two alternates, with a mandate lasting from now until the approval of the financial statement for the 2016 financial year.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 8 of the Code, has checked the correct application of the criteria and assessment procedures adopted for ascertaining the independence of its members including for the purposes of Article 144-novies of the Issuer's Regulation. 144-novies of the Issuers Regulation.

Table 2 below shows the current composition of the Board of Statutory Auditors, noting that the personal and professional details of each member are available on the website www.gruppohera.it

The Board of Directors met on 19 occasions in 2017, and all of the meetings were attended by all members. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours.

There is a voting trust and share transfer rules agreement in place between the public shareholders which governs the procedures for drawing up the list for the appointment of two statutory members and one alternate member of the Board of Statutory Auditors.

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

Diversity Policies;

The appointment of the Board of Directors took place during the Shareholders' Meeting held on 27 April 2017, following the presentation of three lists, a majority and two minority lists, which additionally ensured that the body's composition complies with the regulatory provisions on gender balance (five members of the less represented gender out of a total of five members).

The members of the Board of Statutory Auditors, with an average age of approximately 47, possess the requisites of eligibility, independence, integrity and professionalism as established by current legislation, also in relation to the sectors of activity connected or inherent to the activities of Companies referred to in art. 4 of the Articles of Association.

9. Relations with shareholders

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

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

Ordinary and extraordinary shareholders' meetings are called in the circumstances and manner provided for by law. They are held at the registered offices or elsewhere in Italy.

The right to take part in shareholders' meetings is enjoyed by shareholders with legitimate entitlement under the rules applicable at any given moment.

Ordinary and extraordinary shareholders' meetings and the related resolutions are valid if the quorum and majority conditions established by law are satisfied.

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

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

During the 2017 financial year, one shareholders' meeting was held on 27 April, which was attended by 9 directors.

11. Observations concerning the letter of 13 December 2017 of the President of the Committee for Corporate Governance.

The Board of Directors assessed the observations of the President of the Committee for Corporate Governance of 13 December 2017, and specifically:
The Chairman, so as to guarantee the timeliness and completeness of pre-council briefing, ensured that each director and statutory auditor has at their disposal all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors at least three days before the meeting, with the exception of cases of necessity and urgency. Both the members of the Board of Directors, in carrying out self-evaluation, and the company Spencer Stuart, which aided the board in carrying out such process, expressed positive opinion about the timeliness of making this document available;
guaranteed that the remuneration policies include variable, long-term components and introduced a claw-back clause that provides for correction mechanism ex-post for the remuneration of the executive directors, as well as a clause providing, in case of resignation, dismissal or termination of the position, a claim for compensation in the amount of 18 monthly salaries.
evaluated the independence of its members in compliance with the requirements established by the self-regulatory code and current legislation, reserving the right to verify on a case-by-case basis, where necessary, the duration of the mandate, to follow the principle of the prevalence of substance over form;
expressed a positive opinion about its size, composition and functioning, specifically about the definition of strategic plans and the monitoring of the activities performed by and the adequacy of the internal control and risk management system at least on the occasion of the annual and bi-annual approval of the financial statement.

Table 1: structure of the Board of Directors and committees

Board of Directors													Control and risk committee		MGMT Remuneration committee		Appointments Committee		Executive Committee		Ethics Committee	
Office held	**Members**	**Year of birth**	**Date of first nomination ***	**In office since**	**In office until**	**List ****	**Exec.**	**Non exec.**	**Indep. Code**	**Indep. Tuf**	**N. other offices *****	**(*)**	**(*)**	**(**)**	**(*)**	**(**)**	**(*)**	**(**)**	**(*)**	**(**)**	**(*)**	**(**)**
Chairman	Tomaso Tommasi di Vignano	1947	04-nov-02	27-apr-17	Appr. F.S. 2019	M	X				-	10/10							4/4	P		
CEO	Stefano Venier	1963	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X				-	10/10							4/4	M		
Vice Chairman	Giovanni Basile	1965	23-apr-14	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	9/10	7/7	P	3/3	P			4/4	M		
Director	Francesca Fiore	1967	27-apr-17	27-apr-17	Appr. F.S. 2019	m		X	X	X	-	7/7			1/1	M						
Director	Giorgia Gagliardi	1982	23-apr-14	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	10/10										
Director	Massimo Giusti	1967	23-apr-14	27-apr-17	Appr. F.S. 2019	m		X	X	X	2	10/10	2/2	M	1/1	M					7/7	P
Director	Sara Lorenzon	1981	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	7/7	5/5	M								
Director	Stefano Manara	1968	28-ago-13	27-apr-17	Appr. F.S. 2019	M		X	X	X	2	10/10	2/2	M	1/1	M	Not present					
Director	Danilo Manfredi	1969	23-apr-14	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	10/10	2/2	M								
Director	Alessandro Melcarne	1984	08-nov-17	08-nov-17	Next Assembly	M		X	X	X	-	2/2										
Director	Erwin P.W Rauhe	1955	27-apr-17	27-apr-17	Appr. F.S. 2019	m		X	X	X	-	7/7	5/5	M								
Director	Duccio Regoli	1961	27-apr-17	27-apr-17	Appr. F.S. 2019	m		X	X	X	-	7/7	5/5	M								
Director	Federica Seganti	1966	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	1	6/7							3/3	M		
Director	Marina Vignola	1970	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	7/7										
Director	Giovanni Xilo	1962	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	7/7										
Member of the BoD no longer in office during the year in question																						
Director	Aldo Luciano	1951	27-apr-17	27-apr-17	05-ott-17	M		X	X	X	-	3/5										
Director	Mara Bernardini	1957	01-gen-06	23-apr-14	27-apr-17	m		X	X	X	1	3/3			2/2	M						
Director	Forte Clò	1951	23-apr-14	23-apr-14	27-apr-17	M		X	X	X	-	3/3										
Director	Riccardo Illy	1955	23-apr-14	23-apr-14	27-apr-17	M		X	X	X	2	3/3					**Not present**		1/1	M		
Director	Luca Mandrioli	1967	29-apr-11	23-apr-14	27-apr-17	M		X	X	X	4	3/3			1/2	M						
Director	Cesare Pillon	1953	01-gen-13	23-apr-14	27-apr-17	M		X		X	1	3/3			2/2	M						
Director	Tiziana Primori	1959	23-apr-14	23-apr-14	27-apr-17	M		X	X	X	-	1/3										
Director	Bruno Tani	1949	27-apr-06	23-apr-14	27-apr-17	m		X	X	X	-	3/3										
Indicate the quorum required to present lists for the last appointment : the lists can be presented by sharehoders who hold at least 1 % of the voting shares in the ordinary shareholders' meeting (art 17.5 of the Corporate By-laws).																						
Number of meetings held during the year in question									CRC: 8			RC: 2			Cn: /				EC: 6		Ethics C:7	

* The date of first appointment of each director refers to the date on which the director was appointed for the first time (ever) to the company's Board of Directors.
** This column shows the list from which each director was taken ("M": the majority list; "m" minority list; "CdA": the list submitted by the Board of Directors).
*** This column indicates the number of offices as director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large enterprises. For the list of these companies, with reference at each director, see Table 3.
(*) This column indicates the percentage of attendance by directors at the meetings of the Board of Directors and of the Committees (indicate the number of attended meetings as compared the total number of meetings that he or she could have attended, e.g.. 6/8; 8/8 etc..).
(**) This column indicates the role played by the director on the Board: "P": Chairman, "M": member.

Table 2: structure of the Board of Statutory Auditors

Board of Statutory Auditors										
Office held	**Members**	**Year of birth**	**Date of first nomination ***	**In office since**	**In office until**	**List ****	**Indep. Code**	***** (%)**	**N. other offices ******
Chairman	Myriam Amato	1974	27-apr-17	27-apr-17	Appr. F.S. 2019	m	X	12/12	-
Standing statutory auditor	Girolomini Marianna	1970	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X	19/19	-
Standing statutory auditor	Gaiani Antonio	1965	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X	19/19	-
Alternate statutory auditor	Gnocchi Stefano	1974	27-apr-17	27-apr-17	Appr. F.S. 2019	m	X	-	-
Alternate statutory auditor	Bortolotti Valeria	1950	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X	-	-
Auditors no longer in office during the year in question									
Chairman	Santi Sergio	1943	16-ott-03	23-apr-14	27-apr-17	m	X	7/7	-
Alternate statutory auditor	Frasnedi Violetta	1972	23-apr-14	23-apr-14	27-apr-17	m	X	-	-
Indicate the quorum required to present lists for the last appointment : the lists can be presented by sharehoders who hold at least 1 % of the voting shares in the ordinary shareholders' meeting (art 26.2 of the Corporate By-laws).									
Number of meetings held during the year in question: 19									

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

Table 3: offices held by the directors in other companies.

Name and Surname	Office held	Other offices (*)
Tomaso Tommasi di Vignano	Executive Chairman	
Stefano Venier	CEO	
Giovanni Basile	Vice Chairman	
Francesca Fiore	Director	
Giorgia Gagliardi	Director	
Massimo Giusti	Director	Member of the BoD of Cassa di Risparmio di Rimini Vice chairman of Nadia Spa Società Imm.re (Bper Banca Spa Group)
Sara Lorenzon	Director	
Stefano Manara	Director	Chairman of Con.Ami BoD Chairman of Rest Srl BoD
Danilo Manfredi	Director	
Alessandro Melcarne	Director	
Erwin P.W. Rauhe	Director	
Duccio Regoli	Director	
Federica Seganti	Director	Independent member of the BoD of Eurizon Capital Sgr Spa
Marina Vignola	Director	
Giovanni Xilo	Director	

*** The list outlines the offices as director or statutory auditor held by each director in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large enterprises.

1.12

Parent company management report

The following table provides a summary of the main indicators representing management trends over the reporting period, as foreseen by article 2428 of the Italian civil code:

(Mn€)	2017	2016 adjusted*	Abs. Change	% Change
Revenues	1378.9	1476.4	-97.5	-6.6%
EBITDA	233.6	294.9	-61.3	-20.8%
Operating profit	99.1	139.4	-40.3	-28.9%
Net profit	170.4	144.7	+25.7	+17.8%

In order to understand these trends, and the changes with respect to the previous year (see paragraph 1.02 for a description), one must take the current structure of the Parent company into account, which directly manages some businesses (urban hygiene, integrated water service, district heating) and is at the same time a holding company with shares in Group companies, in addition to carrying out the main corporate functions on their behalf.
In particular, the increase in net profits over the previous year is due to the income ensuing from financial management of these holdings, following the brilliant results achieved by the main subsidiaries; see chapter 3, "Parent company separate financial statements".
Moreover, an overview is provided below of the reclassified financial data at 31 December 2017, and a comparison with 31 December 2016:

Analysis of invested capital and sources of financing (mn€)	31-Dec-17	%	31-Dec-16 adjusted	%	Abs. Change	% Change
Net non-current assets	3,426.4	110.3%	3,400.4	108.9%	26.0	0.8%
Net working capital	(165.0)	-5.3%	(121.3)	-3.9%	(43.7)	36.0%
Gross invested capital	**3,261.4**	**105.0%**	**3,279.1**	**105.0%**	**(17.7)**	**-0.5%**
Provisions for risks	(156.1)	-5.0%	(157.3)	-5.0%	1.2	-0.7%
Net invested capital	**3,105.3**	**100.0%**	**3,121.8**	**100.0%**	**(16.5)**	**-0.5%**
Overall net equity	2,313.3	74.5%	2,260.9	72.4%	52.4	2.3%
Net financial debt	792.0	25.5%	860.9	27.6%	(68.9)	-8.0%
Sources of financing	**3,105.3**	**100.0%**	**3,121.8**	**100.0%**	**(16.5)**	**-0.5%**

* The comparative data has been adjusted in order to reflect the modifications contained in "Changes in evaluation criteria" in paragraph 3.02.02, "Hera Spa explanatory notes".

Further information required by article 2428 of the Italian civil code is provided below.

Research and development: regarding activities in research and development, see paragraph 1.07, "Sustainability results".

Relations with subsidiaries, affiliates, parent companies and enterprises controlled by the latter: regarding information about relations with subsidiaries, affiliates, parent companies and enterprises controlled by the latter, as required by article 2428, comma 3, point 2 of the Italian civil code, see the balance sheets contained in paragraph 3.04, drafted pursuant to Consob resolution 15519/2006, concerning the separate financial statements of Hera Spa; note, lastly, that these statements do not contain atypical or unusual transactions.

Treasury shares: regarding the information required by article 2428, comma 3, points 3 and 4 of the Italian civil code, the number and nominal value of the shares constituting the share capital of Hera Spa, the number and nominal value of the treasury shares held at 31 December 2017, in addition to the changes in said shares that occurred during 2017, see note 24 of paragraph 3.02.05 and the outline of changes in net equity, paragraph 3.01.05, concerning the separate financial statements of Hera Spa.

Foreseeable evolutions in management: regarding trends in the businesses which are part of the current breakdown of the Parent company's structure, see the content of paragraph 1.05, above.

Use of financial instruments by the Company: regarding the Company's objectives and policies in financial risk management, including policies intended to cover each main type of transaction foreseen and the Company's exposure to price risk, credit risk, liquidity risk and the risk of changes in financial flows, see the content of paragraph 1.06.03, above.

Secondary offices: the Company has no secondary offices.

Significant events that occurred after the reporting period: in implementation of the binding agreement signed on 21 December 2017, Hera Spa, within the end of March 2018, will transfer to Italgas Spa all of its shares held in Medea Spa.

1.13
Shareholders Meeting resolutions

The Hera Spa Shareholders Meeting:
having acknowledged the Board of Directors' report on corporate governance;
having acknowledged the Statutory Auditors' report;
having acknowledged the Independent Auditors' report;
having examined the financial statements at 31 December 2017, which closes with profits totalling € 170,415,558.87;

resolves:
to approve Hera Spa's financial statements as at 31 December 2017 and the corporate governance report prepared by the Board of Directors;
to allocate profits for the 1 January 2017 – 31 December 2017 financial year, for a total of € 170,415,558.87, as follows:

- € 8,520,777.94 euro to the legal reserve; and
- € 0.095 gross distributed to each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio) on the day of payment for said dividend; and
- € 20,388,600.15 to the extraordinary reserve.

The total dividend paid out therefore amounts to € 141,506,180.78, corresponding to € 0.095 for each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio);

to establish 20 June 2018 as the initial date for dividend payment, and 18 June 2016 as ex-dividend date for coupon no. 16, dividends being paid to shares recorded at 19 June 2018.
to grant a mandate to the Board of Directors, and its Chairman, to ascertain in due time, in accordance with the definitive number of shares outstanding, the exact amount of profits to be distributed, and therefore the exact amount of the extraordinary reserve.

1.14
Notice convening the Shareholders Meeting

Dear Shareholders, you are called to an Ordinary Shareholders' Meeting at the registered office of Hera S.p.A. – Viale C. Berti Pichat no. 2/4, Bologna – at the "Spazio Hera" – on 26 April 2018 at 10.00 in a single call to discuss and resolve on the following:

Agenda

1. Financial statements as of 31 December 2017, Directors' Report, proposal to distribute profits and report of the Board of Statutory Auditors and Independent Auditors: related and consequent resolutions. Presentation of the consolidated financial statements at 31 December 2017.

Presentation of the Sustainability Report – Consolidated non-financial statement drafted pursuant to legislative decree no. 254/2016.

2. Presentation of the corporate governance report and non-binding resolution concerning remuneration policy.

3. Renewal of the authorisation to purchase treasury shares and procedures for arrangement of the same: related and consequent resolutions.

4. Appointment of one member of the Board of Directors.

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

Right to attend and participation by proxy

Those who are entitled to vote at the end of the accounting day of 17 April 2018 (record date) and those from whom the Company has received the relevant notification from an authorised intermediary by the end of the third day the market is open prior to the date set for the Meeting, i.e. 23 April 2018, are eligible to attend the Shareholders' Meeting. Legitimacy to participate and to vote in any case remains if the communications are received after said term, as long as this occurs before the start of the proceedings of the Meeting. Those who only become Shareholders following 17 April 2018 will not have the right to take part in and vote at the Meeting.

Each person entitled to take part can nominate a representative to attend the Shareholders' Meeting, pursuant to the law, with the right to use the proxy form available on the Company's website (www.gruppohera.it) for this purpose. Details as to how the company can be notified electronically about proxies are also available.

The Company has appointed Computershare S.p.A. as a representative whom Shareholders with voting rights can, by 24 April 2018, nominate as a proxy with instructions for voting on all or some of the proposals on the agenda. The proxy for the above-mentioned representative must be conferred using the methods in the dedicated proxy form available on the Company's website (www.gruppohera.it).

The proxy for the appointed representative is not effective with regard to proposals for which voting instructions have not been given.

Other Shareholders' rights

Shareholders may also submit questions on agenda items before the date of the Meeting, provided this is done by 23 April 2018 and in accordance with the procedures set forth on the Company's website (www.gruppohera.it).

Shareholders who, even jointly, represent one fortieth of the share capital, can request, within 10 days of the publication of this notice, the inclusion of subjects to be discussed, indicating the further topics proposed in the request, or can submit proposals for approval on the items already on the agenda. Requests should be submitted in writing through the methods indicated on the Company's website (www.gruppohera.it).

Bologna, 23 March 2018

The Executive Chairman of the Board of Directors

(Mr. Tomaso Tommasi di Vignano)

2

Consolidated Financial Statements of the Hera Group

2.01
Financial statement formats

2.01.01
Income statement

mn€	notes	2017	2016 as adjusted
Revenues	1	5,612.1	5,131.3
Other operating revenues	2	524.8	430.2
Use of raw materials and consumables	3	(2,606.8)	(2,176.8)
Service costs	4	(1,952.3)	(1,896.7)
Personnel costs	5	(551.6)	(524.1)
Other operating costs	6	(84.6)	(75.0)
Capitalized costs	7	43.0	27.8
Amortisation, depreciation and provisions	8	(523.7)	(459.6)
Operating profit		**460.9**	**457.1**
Share of profits (losses) pertaining to join ventures and associated companies	9	14.7	13.8
Financial income	10.	105.0	80.1
Financial expenses	10.	(221.2)	(211.3)
Financial management		**(101.5)**	**(117.4)**
Pre –tax profit		**359.4**	**339.7**
Taxes	11	(92.6)	(119.3)
Net profit for the period		**266.8**	**220.4**
Attributable to:			
Shareholders of the parent company		251.4	207.3
Minority shareholders		15.4	13.1
Earnings per share	**12**		
basic		**0.171**	**0.141**
diluted		**0.171**	**0.141**

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

2.01.02
Statement of comprehensive income

mn€	notes	2017	2016
Net profit (loss) for the year		**266.8**	**220.4**
Items to be reclassified to profit and loss			
fair value of derivatives, changes in the period	19	6.6	0.6
Financial effect associated with other items that may be reclassified to profit and loss		(1.9)	(0.2)
Other items of comprehensive income statement assessed according to net equity.		0.1	-
Items to be reclassified to profit and loss			
Actuarial profit (losses) benefit funds for employees	27	(3.2)	(4.1)
Financial effect associated with other items that may be reclassified to profit and loss		0.9	(0.1)
Total comprehensive income/ (loss) for the year		**269.3**	**216.6**
Attributable to:			
Shareholders of the parent company		253.8	203.5
Minority shareholders		15.5	13.1

2.01.03
Statement of financial position

mn€	notes	31 December 17	31 December 2016 as adjusted
Assets			
Non-current financial assets			
Property, plant and equipment	13	2,015.7	2,019.2
Intangible assets	14	3,127.0	2,968.0
Goodwill	15	384.1	375.7
Equity investments	16	148.8	148.5
Non-current financial assets	17	125.2	110.2
Deferred tax assets	18	150.5	80.3
Financial instruments - derivatives	19	66.1	109.5
Total non-current financial assets		**6,017.4**	**5,811.4**
Current financial assets			
Inventories	20	121.2	104.5
Trade receivables	21	1,760.9	1,645.2
Current financial assets	17	41.5	29.4
Current tax assets	22	29.8	33.9
Other current assets	23	303.3	252.7
Financial instruments - derivatives	19	40.2	56.5
Cash and cash equivalents	17.30	450.5	351.5
Total current financial assets		**2,747.4**	**2,473.7**
Assets held for sale	24	22.9	-
TOTAL ASSETS		**8,787.7**	**8,285.1**

mn€	notes	31 December 17	31 December 2016 as adjusted
Shareholder's equity and liabilities			
Share capital and reserves	25		
Share capital		1,473.6	1,468.1
Reserves		820.2	742.5
Net profit (loss) for the year		251.4	207.3
Net equity of the Group		**2,545.2**	**2,417.9**
Non-controlling interests		160.8	144.2
Total equity		**2,706.0**	**2,562.1**
Non-current liabilities			
Non-current financial liabilities	26	2,892.2	2,933.1
Post-employment and other benefits	27	142.3	145.8
Provisions for risks and charges	28	432.5	397.6
Deferred tax liabilities	18	45.5	27.2
Financial instruments - derivatives	19	34.5	44.1
Total non-current financial liabilities		**3,547.0**	**3,547.8**
Current liabilities			
Current financial liabilities	26	279.6	182.3
Trade payables	29	1,395.9	1,274.1
Current tax liabilities	22	37.9	21.0
Other current liabilities	30	769.4	633.0
Financial instruments - derivatives	19	46.0	64.8
Total current liabilities		**2,528.8**	**2,175.2**
TOTAL LIABILITIES		**6,075.8**	**5,723.0**
Liabilities associated with assets held for sale	24	5.9	-
TOTAL EQUITY AND LIABILITIES		**8,787.7**	**8,285.1**

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

2.01.04
Cash flow statement

mn€	notes	31 December 17	31 December 2016 as adjusted
Result before taxes		**359.4**	**339.7**
Adjustments to reconcile net profit to the cash flow from operating activities:			
Amortisation and impairment of property, plant and equipment		167.2	157.1
Amortisation and impairment of intangible assets		216.3	189.0
Allocations to provisions		140.2	113.5
Effects of evaluation using the net equity method		(14.7)	(13.8)
Financial (income) expense		116.2	131.2
(Capital gains) Capital losses and other non-monetary items (including evaluation of commodity derivatives)		21.2	4.4
Provisions for risks and charges		(30.2)	(22.1)
Changes in provision for employee benefits		(9.3)	(10.0)
Total cash flow before changes in net working capital		**966.3**	**889.0**
(Increase) / Decrease in inventories		(7.8)	10.7
(Increase) Decrease of trade receivables		(205.7)	(199.8)
(Increase) Decrease of trade payables		99.7	141.7
Increase/ Decrease of other current receivables/ payables		92.8	36.6
Change in working capitals		**(21.0)**	**(10.8)**
Collected dividends		11.1	9.9
Interest income and other financial income collected		74.9	64.1
Interest expense and other financial expenses paid		(129.0)	(151.2)
paid taxes		(147.5)	(137.9)
Cash flow from (for) operating activities (a)		**754.8**	**663.1**
Investments in property, plant and development		(150.3)	(133.2)
Investments in intangible assets		(290.2)	(251.2)
Investments in companies and business units net of cash and cash equivalents	32	(116.3)	(19.0)
Sale price of property, plant and equipment and intangible assets		7.8	20.5
Disposals of equity investments and contingent consideration		0.2	0.4
(Increase) Decrease of other investment activities		(10.0)	5.3
Cash flow from (for) investing activities (b)		**(558.8)**	**(377.2)**
New issuing of long-term financial liabilities		-	88.2
Reimbursement and other net changes in financial payables		33.0	(401.9)
Finance lease paid		(3.1)	(3.3)
Acquisition of shares in consolidated companies		(1.6)	-
Dividends paid for Hera shareholders and minority shareholders		(140.9)	(145.4)
Changes in treasury shares		15.4	(13.4)
Other minor changes		0.2	(0.2)
Cash flow from (for) financing activities (c)		(97.0)	(476.0)
Effect of change in exchange rates on cash and cash equivalents (d)		-	-
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)		**99.0**	**(190.1)**
Cash and cash equivalents at the beginning of the period		**351.5**	**541.6**
Cash and cash equivalents at the end of the period		450.5	351.5

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

2.01.05
Statement of changes in net equity

mn€	Share capital	Reserves	Reserves for derivatives instruments recognized at fair value	Reserve actuarial income/(losses) post-employment benefits	Profit for the year	net equity	Non-controlling interests	Total
Balance as of 31 December 2015	**1,474.2**	**729.8**	**(0.6)**	**(25.5)**	**180.5**	**2,358.4**	**144.7**	**2,503.1**
Profit for the year					207.3	207.3	13.1	220.4
Other items of the comprehensive income as of 31 December 2016:								
fair value of derivatives, variation for the period			0.2			0.2	0.2	0.4
Actuarial income (losses) post-employment benefits				(4.0)		(4.0)	(0.2)	(4.2)
Other items of comprehensive income statement assessed according to net equity.						-		-
Net profit for the year	**-**	**-**	**0.2**	**(4.0)**	**207.3**	**203.5**	**13.1**	**216.6**
Changes in treasury shares	(5.9)	(7.6)				(13.5)		(13.5)
Minority shares deposit						-		-
Changes in equity investments		2.1				2.1	(2.1)	-
Changes in the scope of consolidation						-		-
Other operations	(0.2)	0.1				(0.1)	(0.1)	(0.2)
Allocation of profit:								
Paid out dividends		-			(132.5)	(132.5)	(11.4)	(143.9)
allocation to reserves		48.0			(48.0)	-		-
Balance as of 31 December 2016	**1,468.1**	**772.4**	**(0.4)**	**(29.5)**	**207.3**	**2,417.9**	**144.2**	**2,562.1**
Net profit for the year					251.4	251.4	15.4	266.8
Other items of the comprehensive income as of 31 December 2017:								
fair value of derivatives, variation for the period			4.5			4.5	0.2	4.7
Actuarial income/(losses) post-employment benefits				(2.2)		(2.2)	(0.1)	(2.3)
Other items of comprehensive income statement assessed according to net equity.		0.1				0.1		0.1
Net profit for the year	**-**	**0.1**	**4.5**	**(2.2)**	**251.4**	**253.8**	**15.5**	**269.3**
Changes in treasury shares	5.5	9.9				15.4		15.4
Minority shares deposit						-	0.2	0.2
Changes in equity investments		(9.5)				(9.5)	7.9	(1.6)

Changes in the scope of consolidation						-	1.0	1.0
Other operations						-		-
Allocation of profits for 2016:								
Paid out dividends					(132.4)	(132.4)	(8.0)	(140.4)
allocation of reserves		74.9			(74.9)	-		-
Balance as of 31 December 2017	**1,473.6**	**847.8**	**4.1**	**(31.7)**	**251.4**	**2,545.2**	**160.8**	**2,706.0**

2.02
Explanatory notes

2.02.01
Accounting standards

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

The consolidated financial statement as of 31 December 2017, comprised of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity and explanatory notes, have been prepared in compliance with Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of International Accounting Financial Reporting Standards (hereinafter IFRS), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no.38/2005

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

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

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

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of and for the year ended 31 December 2016. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results.

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

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

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

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

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

These consolidated financial statements as at 31 December 2017 were drawn up by the Board of Directors and approved by the same at the meeting held on 27 March 2018. This financial statement underwent limited auditing by Deloitte&Touche Spa.

2.02.02
Early adoption of IFRS 15 and changes in the evaluation principles

As set forth in paragraph C1 of IFRS 15 "Revenue from contracts with customers", the Group opted to early adopt this principle, rendering it applicable beginning from the current financial year. Furthermore, the Group chose as a transition method the one set forth in paragraph C3 letter b), taking into account the cumulative effect of the initial application as adjustment of the opening balance of retained earnings as at 1 January 2017.

The new international accounting standard IFRS 15, issued by the IASB on 28 May 2014, was applicable after having been included in the Community legislation through the approval of the Regulations 1905/2016 and 1987/2017 (the latter includes the amendments "Clarifications to the IFRS 15" published by the IASB on 12 April 2016). This document replaces the IAS 18 - Revenues, the IAS 11 - Work to order, as well as the interpretations SIC 31, IFRIC 13 and IFRIC 15.

The standard, establishing a new model for measuring revenue, applies to all contracts with customers except for: leases within the scope of IAS 17 - Leases, contractual rights and obligations, and other financial instruments. The fundamental steps for accounting revenues according to the new model are:
- identifying the type of contract with the customer;
- identifying the performance obligations set by the contract;
- determining the price;
- identifying the price of the performance obligations set by the contract;
- criteria for recording the revenue when the amount satisfies each performance obligation.

The analysis of the effects deriving from applying the IFRS 15 has shown that the following transaction categories have been affected:
- sale of electricity and gas in particular market segments regulated by Arera, with reference to the recognition of revenues in cases when the consideration is expected to be collected;
- contracts that simultaneously impose on the Group obligations to carrying out and managing plants and energy supplies, with reference to the methods for recording revenues for the different performance obligations taken on by the Group;
- contracts for the provision of electricity and gas establishing that the Group must simultaneously provide accessory services, with reference to the methods for recording revenues for the different performance obligations taken on by the Group;

The analysis carried out revealed that only in relation to the first point, the effects on the financial statements were to be considered significant. In particular, in the case of these specific segments of the regulated market, according to the provisions of the new standard, revenues were recorded taking into account the real probability of collection of contractual fees (calculated on the basis of historical or sector data).. However, since the riskiness of this particular market is already known, in previous fiscal years the receivables related to these types of revenues were appropriately written down in the same year of recognition. The adoption of IRFS 15, therefore, had no effect on the revenues. With reference to the current year, the adjustment relating to possible non-collection of invoiced revenues or recognized on an accrual basis amounted to € 19.1 million.

Evalutation criteria changes
Beginning with this biannual report as of 31 December 2017, the Group recorded the system costs incurred for the period associated with the electricity and gas services in the income statement under the heading "service costs", in relation to charges from third party distributors, and under "Revenues" in relation to the corresponding instalments included in the bill to be paid by end customers, to whom such fees are applied in keeping with current regulations. Previously, these tariff components were accounted as payables and receivables among other "current assets / liabilities".

This way of accounting in the income statement was adopted with the aim of improving the accuracy of representation of these components which, as a result of the increasing scope of the free market and depending on the different business profiles of customers, could have effects on the EBITDA as a consequence of sales policies involving the solely partial or absent recharging of these components to end customers. It should also be noted that this adjustment will allow the Group to align its accounting policy with the one used by the main market operators thus rendering their respective financial statements more easily comparable.

Given this and in accordance with the relevant principles, the Group restated the income statement for 2016, as well as the balance sheet as of 31 December 2016, with the same criteria outlined above, in order to render the two periods comparable and the appropriately commensurable. In particular, with regard to the income statement for 2016, its restatement led to an increase of the items "revenues" and "service costs" in the amount of 697.9 million euros, while with regard to the balance sheet, 6.5 and 3.3 million euros respectively were reclassified from "current assets" to "trade receivables" and from "current liabilities" to "trade payables".

Finally, beginning from this consolidated financial statements as of 31 December 2017, the incentives for the production of electricity using the feed in-premium mechanism were accounted for under "Other operating revenues", recording the receivable from the Energy Services Operator among the item "Other current assets ". In the previous fiscal year, these incentives were classified under "Revenues" recording the corresponding receivable under the line "Commercial receivables". The different classification was aimed at increasing the consistency in the financial statements of these incentives, which, in substance, represent contributions paid by the GSE (subject to the tax deductions provided for by current legislation).

Given this, the Group restated the income statement for 2016, as well as the balance sheet as of 31 December 2016, with the same criteria outlined above, in order to render the two periods comparable and the appropriately commensurable. In particular, with regard to the income statement for 2016, its restatement led to an increase of the items "other operating revenue" and a decrease of "revenues" in the amount of 26.8 million euros, while with regard to the balance sheet, the same amount was reclassified from "Trade receivables" to "other current assets".

The following shows the statements outstanding as at 31 December 2016.

mn€	2016 issued	Adjustments	2016 adjusted
Revenues	4,460.2	671.1	5,131.3
Other operating revenues	403.4	26.8	430.2
Use of raw materials and consumables	(2,176.8)		(2,176.8)
Service costs	(1,198.8)	(697.9)	(1,896.7)
Personnel costs	(524.1)		(524.1)
Other operating costs	(75.0)		(75.0)
Capitalized costs	27.8		27.8
Amortisation, depreciation and provisions	(459.6)		(459.6)
Operating profit	**457.1**		**457.1**
Share of profits (losses) pertaining to join ventures and associated companies	13.8		13.8
Financial income	80.1		80.1
Financial expenses	(211.3)		(211.3)
Financial operations	**(117.4)**		**(117.4)**
Pre-tax profit	**339.7**		**339.7**
Taxes	(119.3)		(119.3)
Net profit for the year	**220.4**		**220.4**

mn€	31 December 17 issued	Adjustments	31 December 17 adjusted
Assets			
Non-current assets			
Property, plant and equipment	2,019.2		2,019.2
Intangible assets	2,968.0		2,968.0
Goodwill	375.7		375.7
Equity investments	148.5		148.5
Non-current financial assets	110.2		110.2
Deferred tax assets	80.3		80.3
Financial instruments - derivatives	109.5		109.5
Total non-current assets	**5,811.4**		**5,811.4**
Current assets			
Inventories	104.5		104.5
Trade receivables	1,665.5	(20.3)	1,645.2
Current financial assets	29.4		29.4
Current tax assets	33.9		33.9
Other current assets	232.4	20.3	252.7
Financial instruments - derivatives	56.5		56.5
Cash and cash equivalents	351.5		351.5
Total current assets	**2,473.7**		**2,473.7**
TOTAL ASSETS	**8,285.1**		**8,285.1**

mn/euro	31 December 17 issued	Adjustments	31 December 17 amended

Shareholder's equity and liabilities			
Share capital and reserves			
Share capital	1,468.1		1,468.1
Reserves	742.5		742.5
Net income (loss) for the period	207.3		207.3
Net equity of the Group	2,417.9		**2,417.9**
Non-controlling interests	144.2		144.2
Total equity	**2,562.1**		**2,562.1**
Non-current liabilities			-
Non-current financial liabilities	2,933.1		2,933.1
Post-employment and other benefits	145.8		145.8
Provisions for risks and charges	397.6		397.6
Deferred tax liabilities	27.2		27.2
Financial instruments - derivatives	44.1		44.1
Total non-current liabilities	**3,547.8**		**3,547.8**
Current liabilities			-
Current financial liabilities	182.3		182.3
Trade payables	1,270.8	3.3	1,274.1
Current tax liabilities	21.0		21.0
Other current liabilities	636.3	(3.3)	633.0
Financial instruments - derivatives	64.8		64.8
Total current liabilities	**2,175.2**		**2,175.2**
TOTAL LIABILITIES	**5,723.0**		**5,723.0**
TOTAL EQUITY AND LIABILITIES	**8,285.1**		**8,285.1**

2.02.03

Scope of consolidation

The consolidated financial statements as at 31 December 2017 include the financial statements of the Parent Company Hera Spa and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Small-scale subsidiaries are valuated at cost and excluded from overall consolidation.

Equity investments in joint ventures, in which the Hera Group exercises joint control with other companies, are consolidated with the equity method. The equity method is also used to evaluate equity investments in companies over which a significant influence is exercised. Small-scale subsidiaries are carried at cost. Subsidiaries and associated companies that are not consolidated, or are accounted for with the equity method, are reported in Note 16.
Companies held exclusively for future sale are excluded from consolidation and valued at their fair value or, if fair value cannot be determined, at cost. These investments are recorded as separate items.

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2017 financial year as compared to the consolidated financial statement at 31 December 2016.

Gaining effective control	losing control / deconsolidation
Aliplast Spa (1)	
AlimpetSrl(1)	
AlipackagingSrl(1)	
Aliplast France RecyclageSarl(1)	
Aliplast Iberia SL (1)	
AliplastPolska SP O.O. (1)	
CerplastSrl(1)	
UmbroplastSrl(1)	
VariplastSrl(1)	
VerducciServiziSrl	
"Teseco" branch	
"Enerpeligna" branch	

(1): companies acquired in the business combination with the Aliplast Group

On 11 January 2017, Herambiente Spa signed a binding agreement with Aligroup Srl for the acquisition of the Aliplast Group, active in Italy and abroad in the sector of plastic waste recycling and regeneration through the production of polymers and films. To implement this agreement, which also provides for a deferred payment of part of the consideration, on 3 April 2017, the transaction was completed, allowing the Hera Group to gain full control over the companies. This condition is a consequence of the varied framework established with the counterparty for carrying out the company's governance, allowing the Hera Group to exercise "power" in accordance with the provisions of IFRS 10. The cost of the acquisition was approximately 113.4 million euros and the merger led to recording a client list to be registered for 70.6 million euros, know-how for 13.9 million euros and, marginally, goodwill for 25 million euros. It should also be noted that, considering the unavailability of interim reports at the date of acquisition, the revenues and costs of Aliplast Group have been consolidated taking effect beginning from 1 January 2017. The effects deriving from this simplification are to be considered not relevant for the 2017 income statement, in particular with reference to the indicators of margins.

On 1 February 2017, Waste Recycling Spa purchased from the company Teseco Srl the business unit called "Plants Business Unit", comprising the set of organized assets for carrying out waste treatment operations in the provinces of Pisa and Livorno. The cash outlay for the acquisition was approximately 8.6 million euros.

With effect beginning 1 May 2017, the share capital increase of Gran Sasso Srl, a Group company held by Hera Comm Srl, was approved, fully subscribed by the third party company Enerpeligna Srl by the transfer of a business unit concerning the sale of natural gas and other energy sources. At the same time, Enerpeligna Srl sold its interest, amounting to 9.1% of the share capital, to Hera Comm Srl. The cost of the acquisition was approximately 0.9 million euros and the merger led to a client list to be registered for 1.3 million euros.

On 6 July 2017 Hera Comm Marche Srl acquired all the shares of the sales company Verducci Servizi Srl, active in the market of natural gas and electricity supply, mainly in the region of Abruzzi. The cost of the acquisition was approximately 1.4 million euros and the merger led to a client list to be registered for 1.8 million euros.

Changes in equity investments

On 27 June 2017 AcegasApsAmga Spa acquired the remaining shares of the Bulgarian company Aresgas AD, becoming the sole shareholder.

On 27 June 2017, Aliplast Spa, which was acquired during the first half of 2017, purchased the entirety of the minority shares held by the remaining shareholders of UmbroPlast Srl (10% of the share capital), Cerplast Srl (40% of the share capital), Variplast Srl (10% of the share capital) and Alipackaging Srl (20% of the share capital). Subsequently, on 28 September, the entire minority shares were acquired in the companies Aliplast France Recyclage Sarl (10% of the share capital) and Aliplast Iberia Sl (approximately 1% of the share capital). The operation involved an overall cash outlay of approximately 1.6 million euros.

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

Other corporate operations

With effect beginning 1 January 2017, Biogas 2015 Srl was merged by incorporation into the controlling company Herambiente Spa.

With effect beginning 1 January 2017 HeratechSrl, a company wholly held by the parent company Hera Spa, became operational by virtue of the transfer of company branches concerning the engineering activities and analysis laboratories.

With effect beginning 1 January 2017 Marche Multiservizi Falconara Srl, a company wholly held by Marche Multiservizi Spa, became operational by virtue of the transfer of the business branch carrying out public utility services in the Municipality of Falconara (AN).

On 29 December 2017, Marche Multiservizi Spa sold its interest held in Hera Comm Marche Srl, amounting to 29.5% of the share capital, to Hera Comm Srl. The operation led to an increase of the Group's interest in the company going from 72.01% to 86.88%.

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting principle IFRS3 revised. Specifically, the management conducted analyses of the fair value of assets and liabilities and contingent liabilities, on the basis of information concerning facts and events available at the date of acquisition. The evaluation period, except for Verducci Servizi Srl net assets, ended on 31 December 2017.

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

	Aliplast Group	Verducci Servizi Srl	branch "Teseco"	branch "Enerpeligna"	Total business Combination operations
Non-current assets					
Property, plant and equipment	18.5	0.2	14.9		33.6
Intangible assets	84.5	1.8		1.3	87.6
Deferred tax assets	1.8				1.8
Current assets					
Inventories	9.5		0.1		9.6
Trade receivables	30.6	0.6		0.4	31.6
Current financial assets				0.1	0.1
Current tax assets	0.3				0.3
Other current assets	0.9				0.9
Available liquidity or equivalent means	7.9	0.1		0.1	8.1
Non-current liabilities					
Non-current financial liabilities	(4.8)	(0.1)	(0.1)		(5.0)
Post-employment and other benefits	(0.8)		(0.2)		(1.0)
Provisions for risks and charges	(0.6)		(5.8)		(6.4)
Deferred tax liabilities	(23.7)	(0.5)		(0.3)	(24.5)
Current liabilities					
Current financial liabilities	(6.8)		(0.1)		(6.9)
Trade payables	(22.3)	(0.6)		(0.7)	(23.6)
Current tax liabilities	(2.0)				(2.0)
Other current liabilities	(3.6)	(0.1)	(0.2)		(3.9)
Total net assets acquired	**89.4**	**1.4**	**8.6**	**0.9**	**100.3**
Fair value of fees/payment	113.4	1.4	8.6	0.9	124.3
Non-controlling interests	1.0				1.0
Total value of the aggregation	**114.4**	**1.4**	**8.6**	**0.9**	**125.3**
(Goodwill) / Badwill	**(25.0)**	**-**	**-**	**-**	**(25.0)**

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

	Aliplast Group	Verducci ServiziSrl	branch "Teseco"	branch "Enerpeligna"	Total business Combination operations
Total net assets acquired	**28.4**	**0.1**	**8.6**	**-**	**37.1**
Adjustments for item evaluated at fair value					
Property, plant and equipment	0.2				0.2
Intangible assets	84.4	1.8		1.3	87.5
Financial liabilities					-
Deferred tax assets/(liabilities)	(23.6)	(0.5)		(0.4)	(24.5)
Fair value of net assets acquired	**89.4**	**1.4**	**8.6**	**0.9**	**100.3**
Cash payment	91.7	1.1	7.6	0.6	101.0
Potential fees/payment	21.7	0.3	1.0	0.3	23.3
Fair value of fees/payment	**113.4**	**1.4**	**8.6**	**0.9**	**124.3**

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

- 70.6 million euro derived from the evaluation of the client list. This amount was established on the basis of both the characteristics of the reference area using the incremental cash flow method (MEEM). The useful duration of the client list, following the analysis of the evolution of the client base and its average churn rate, was estimated at 29 years;
- 13.9 million euros deriving from the know-how evaluation, that is the competitive advantage enjoyed by the company. The know-how evaluation was carried out using the relief from royalty method. The effective life of this asset has been estimated at 5 years, in line with the business planning period.

On the other hand, the evaluation of the of the fair value of the tangible assets acquired did not reveal significant variations as compared to the values previously recorded in the financial statements of the companies of the Aliplast Group. Therefore, the corresponding balance sheet items have not been adjusted nor have other assets been recorded. Based on the information available at the date of acquisition, i.e. at 1 July 2017, the management's evaluations did not lead to the identification of any contingent liabilities. The deferred taxation corresponding to these evaluations led to recording liabilities in the amount of 23.6 million euro.
As of the date of this annual financial report, the cash outlay for the acquisition of the Aliplast Group amounts to 91.7 million euros (equal to 80% of the total price), of which 3.3 million related to dividends paid out to previous shareholders. The remaining amount, equal to 21.7 million euros, will be paid in compliance with contractual provisions by June 2022 . This value also includes the valuation of the contingent considerations related to the future profitability of the Aliplast Group companies estimated at 4.3 million euros.

As regards the evaluation of the fair value of the tangible and intangible assets acquired from other business combination operations carried out during the financial year, the management's evaluations identified the following significant differences between carrying amounts and fair value:

- "Enerpeligna" branch, 1.3 million euros derived from the evaluation of the gas and electricity client list in the areas served;
- Verducci Servizi Srl, 1.8 million euros derived from the evaluation of the gas and electricity client list in the areas served.

The previous assessments led to recording differed liabilities in the amount of 0.9 million euros. Note that, in relation to the acquisition of Verducci Servizi Srl the evaluation period is currently ongoing.

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

2.02.04
Accounting policies and consolidation principles

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

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

On first-time consolidation, the positive difference between the book value of the equity investments and the fair value of the assets and liabilities acquired, was allocated to the asset and liability items and on a residual basis to goodwill. The negative difference was immediately recorded in the income statement, as illustrated in the following section "Business combinations". This negative difference was recorded in equity only if it related to acquisitions prior to 31 March 2004.

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

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

In preparing these consolidated financial statements, the accounting policies and principles were the same as those adopted in the previous year, considering the new accounting standards reported in the paragraph "Accounting standards, amendments and interpretations applied as of 1 January 2017". As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

The transactions with minority shareholders are recognised as "equity transactions". Therefore, for purchases of additional shares after control is attained, the difference between the cost of acquisition and the book value of the shares purchased from non-controlling interests is recognized in equity.

The assets and liabilities of foreign companies denominated in currencies other than the euro which are included in the scope of consolidation are translated using the exchange rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rate for the year. Exchange rate differences are included in a reserve until the relevant foreign operation is sold. The main exchange rates used to translate the value of the investees outside the Euro zone are as follows:

	2017	31 December 17	2016	31 December 17
	Average	Accurate	Average	Accurate
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.257	4.177	n.a.	n.a.
Serbian Dinaro	121.356	118.639	123.106	123.403

The criteria and principles adopted are outlined here below.

Property, plant and equipment - Property, plant and equipment are recorded at cost or production cost, including accessory costs, or at the value based on expert appraisals of the business assets, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of direct and indirect costs reasonably attributable to the asset (e.g. personnel costs, transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). Cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. The cost also comprises the costs for reclamation of the site which houses the item of property, plant and equipment, if it complies with the provisions of IAS 37. Ordinary maintenance costs are charged in full to the income statement. Improvement, upgrading and transformation costs which increase the value of the assets are capitalized to the assets concerned.

The book value of property, plant and equipment is subject to assessment so as to identify any losses in value, particularly when events or changes in circumstances indicate that the book value cannot be recovered (for details, see the section "Losses in value").

Depreciation starts to be applied when the assets enter the production cycle. Work in progress includes costs relating to property, plant and equipment for which the process of economic use has not yet commenced. The property, plant and equipment are systematically depreciated in each accounting period using the depreciation rates considered representative of the remaining useful lives of the assets. The following tables contain the depreciation rates taken into account for the depreciation of the assets.

General Services	**min %**	**max %**
Buildings	1	3.33
Light buildings	5	10.
General plants	7.5	15
Laboratory equipment & tools	5	10.
Office equipment and machines	6	12
Data processing machines	10.	20
Motor vehicles and vehicles for internal transportation	10.	20
Cars	12.5	25
Remote control	2.5	20
Public lighting	1.25	8

Water treatment service	**min %**	**max %**
Building civil works	1.5	3
Civil works purifiers	1.66	3.33
Purification plants	3.33	6.67
General and specific plants	5	15
Lifting plants	6	12
Network	2.5	5
Laboratory equipment & tools	5	10.

Gas service	**min %**	**max %**
first stage pressure reducer stations	2.5	15
Second stage pressure reducer stations - district - specific plants - user stations - reducers	3.13	10.
Steel distribution network	1.75	8
Outlets/intakes	2.33	8
Meters	4	10.
Cathodic protection	3.7	8

District heating service	min %	max %
Buildings	1.92	5,5
General and specific plants	3.85	9
Distribution network	2.7	8
Meters	2.5	6.67
Thermal exchange units	4.5	9
Equipment	5	10.

Water service	min %	max %
Building and civil works	1.75	3.5
Wells	1.43	10.
Captation	1.25	2.5
Production, lifting and purification power plants	1.43	15
Tanks	1.11	5
Ducts and distribution network	1	5
Plugs and connections	2.22	5
Meters	4	10.

Environmental Services	min %	max %
Buildings	1.5	3
General plants	7.5	15
Specific lir plants		
Buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinence	1.66 - 2	3.33 -4
External construction work	1.66	3.33
- electricity production plants	2	4
General plants	2.5	5
-waste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.5	5
- waste-to-energy line control systems	5	10.
Specific biogas plant storage +lre		
Buildings	1 - 1.25	2 - 2.5
- fixed plant with real estate pertinence	1.66 - 2	3.33 - 4
External construction work	1.66	3.33
- electricity production plants	2.5	5
- Cdr packing	2.5	5
- selection, chopping, feeding and sorting plant	2.5 - 3.33	5 - 6.67
- ventilation plant	3.3	6.67
- general plant - stabilization plant - storage tanks	2.5	5
- control systems	5	10.
- containers and bins	5 - 10	10 - 20
- internal handling equipment	4.16	8.33
Specific waste composting plants		
Buildings	1 - 1.25	2 - 2.5

- fixed plant with real estate pertinence	1.66 - 2	3.33 - 4
External construction work	1.66	3.33
General plants and lifting equipment	3.33	6.67
- pre-selection plants	2.5	5
- mixing plants	3.33 - 5	6.67 - 10
- palleting plant	5	10.
- energy recovery plant	2.5	5
- screening and refining plant	3.33 - 4.16	6.67 - 8.33
- weighing plant	2.25	5
- deoxidisation/organic treatment systems	3.33	6.67
- second maturing	5	10.
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10.	25
Equipment	5	10.

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

As required by IAS 16, the estimated useful lives of property, plant and equipment are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives do not provide a truthful representation of the expected future economic benefits, the relative depreciation schedule must be redefined according to the new assumptions. These changes are made prospectively to the income statement. During the financial year ended 31 December 2017 no amortization schedules were changed for any of the categories of tangible fixed assets.

Land is not depreciated, with the exception of land in which landfills are located, which is depreciated based on the quantity of waste disposed of with respect to the total conferrable capacity.

Gains and losses on disposal of assets are calculated as the difference between proceeds from the sale and the book value of the relevant investment and are recognized in the income statement as the ownership of the good is transferred.

Investment property - An item of property is recognized as investment property when it generates cash flows largely independently of the other assets held by the Company, as it is held to earn rentals or for capital appreciation or both, not to be utilized in production of for the provision of goods or services or in connection with company operations. As permitted by IAS 40, investment property has been recognized at cost. As such, these assets are reported at cost minus depreciation and any impairment.

Leasing - Leases are classified as finance leases when the terms of the agreement are such that they essentially transfer all the risks and benefits of ownership to the lessee. The assets covered by finance leases agreements are recorded among property, plant and equipment and stated at their fair value as at the date of acquisition or, if lower, at the present value of the minimum lease payment; they are depreciated on the basis of their estimated useful life, just like the assets owned are. The corresponding debt with the lessor is recorded in the statement of financial position. Lease payments include the principal portion and the interest portion and the financial charges are booked directly to the income statement for the period. All the other leases are considered to be operating leases and the related lease payments are recorded on the basis of the conditions set forth in the agreement.

Intangible assets - Intangible assets which are identifiable and can be monitored, and whose cost can be reliably determined based on the assumption that said assets will generate future economic benefits, are recorded in the accounts. These assets are stated at cost in accordance with the policies indicated for property, plant and equipment and, if they have a definite useful life, they are amortised systematically over the period of the estimated useful life. The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business. Work in progress includes costs relating to intangible assets for which the process of economic use has not yet commenced. If the Intangible assets have an indefinite useful life, they are not amortised but subjected to an annual impairment test, even in the absence of indicators signalling losses in value.

Research costs are recorded in the income statement; any development costs for new products and/or processes are booked to the income statement in the year they are incurred, unless their use extends over several years.

Industrial patent rights and know-how are representative of assets that are identifiable and capable of generating future economic benefits under the Company's control; these rights are amortised over their remaining useful lives.

The concessions mainly comprise the rights associated with networks, plants and other facilities related to gas and integrated water cycle services managed by the Group and are instrumental to the management of these services. These concession were listed as intangible assets even before the IFRIC 12 - Agreements for concession services- interpretation was first applied.
As for depreciation, they are calculated on the basis of the provisions of the respective conventions, and namely: i) according to a constant rate for the shorter of the following two periods: the useful life of the assets granted in concession and the duration of that same concession, provided that, when this concession expires, the outgoing operator is not granted any compensation value (Salvage value, or "SV"); ii) according to the useful life of the individual assets if, at the moment the concessions expire, the assets in question are expected to pass into the hands of the operator.

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

This category also includes improvements made and infrastructure constructed on the goods instrumental to the management of these services, which are the property of the Holding Companies (so called "Asset companies" established according to Article 113 of Legislative Decree 267/00), but managed by the Group by virtue of business unit leasing contracts. These contracts, in addition to establishing the fees due, also include clauses governing the restitution of assets, normally maintained, upon payment of a balance corresponding to the net book value or the Industrial Residual Value (also taking into account the recovery funds) of these assets.

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

The depreciation commences when the asset is ready for utilisation, according to the intensions of corporate management.

The intangible assets recognised following a business combination are recorded separately from goodwill if their fair value can be reliably determined.

Gains or losses on disposal of intangible assets are calculated as the difference between proceeds from the sale and the carrying amount of the asset and are recognized in the income statement when the ownership of the asset is transferred to the buyer.

Business combinations - Business combination operations are accounted for by applying the acquisition method foreseen by IFRS 3 revised, as a consequence of which the buyer acquires the equity and takes over the assets and liabilities of the acquired company. The cost of the operation is shown as the fair value of the transferred assets, liabilities assumed and equity instruments issued in exchange for the control of the acquired company, as at the date of acquisition. The expenses related to the business combination are generally recognised in the income statement at the time they are incurred.
Any positive difference between the cost of the transaction and the fair value at the date the assets and liabilities are obtained is attributed to goodwill (subject to impairment test, as indicated in the paragraph below). If the process of allocating the purchase price shows a negative difference, such difference is immediately charged to the income statement at the date of acquisition.

Any consideration subject to conditions set forth in the business combination contract is measured at fair value on the acquisition date and considered in the value of the consideration paid for the business combination, for the purposes of calculating the goodwill.

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

In the case of business combinations that take place in phases, the equity investment previously held by the Group in the acquired company is valued at the fair value on the date control was acquired and any resulting profit or loss is recognised in the income statement.

Losses in value - impairment - As of each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, the Group takes into consideration the book value of property, plant and equipment and intangible assets in order to assess whether that said assets have suffered an impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total write-down. The recoverable amount is either the fair value , less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the cash flows to which said assets belong. Future cash flows are discounted to present value at a rate (net of taxation) that reflects the current market value and takes into account the risks associated with the specific business activities.

If the recoverable amount of an asset (or of a cash generating unit) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

Treasury shares - Treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement

Investments valued with the equity method - Investments entered in this item refer to long-term investments, that is affiliated companies and joint ventures. An affiliated company is a company over which the Group is able to exercise significant influence, but not control, by means of participation in the decisions on the financial and operating policies of the investee company. A joint venture is a jointly controlled arrangement in which the entities that share joint control have rights to the net assets of the arrangement. Investments in associated companies are accounted for with the equity method, except in the cases where they are classified as "held for sale", or when they are not of a significant value; in such an event they are carried at cost, with writedowns if necessary based on the results of the impairment test. Under the equity method, investments are recognised at cost, as adjusted for any changes following acquisition in the associated companies' net assets, minus any impairment to the single investments. The excess price over the share of the fair value of an associated company's identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is tested for impairment.

Other investments - Other investments and financial instruments are accounted for according to IAS 39 "available-for-sale financial assets" (as discussed in the specific section). They comprise equity instruments and are evaluated at fair value in equity and allocated in the company's comprehensive

income statement. If the reasons for the write-down cease to exist, the investments carried at cost are revalued through profit or loss, or in equity if the investments are held as available for sale.
If the reasons for the write-down cease to exist, the investments carried at cost are revalued through profit or loss. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

Receivables and financial assets - The Group classifies financial assets in the following categories:

- assets valued at fair value with matching entry in the income statement;
- receivables and loans
- financial assets held to maturity;
- financial assets available for sale.

The management determines their classification when they are first recorded.

Assets valued at fair value with matching entry in the income statement - This category includes the financial assets acquired for short-term trading purposes, in addition to the derivatives, which are described in the specific paragraph below. The fair value of these instruments is determined by referring to the market value on the date the registration period ends. Changes in fair value of the instruments belonging to this category are immediately recorded in the income statement.
Classification under current and non-current reflects management 's expectations regarding their trading: current assets include those whose trading is expected within 12 months or those identified as held for trading.

Receivables and loans - This category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. These assets are valued at amortised cost on the basis of the effective interest rate method. Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: losses in value determined through impairment test are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment test had not been carried out. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.
This category also includes, as provided for by the IFRIC 12 interpretation, the financial assets related to the public concession services for which the Group has the unconditional contractual right to receive liquid assets from the grantor for construction services rendered. The application of the "Financial Asset Model" was adopted by the Group in 2016 for new contracts signed for the provision of public lighting services, in consideration of the fact that the characteristics of these services had changed, with the grantor more and more frequently guaranteeing the concessionaire a determined amount, or in any case a reliably determinable amount that does not depend on the exploitation of the infrastructure by the end customer. In applying this model, a financial asset owed to the grantor is recorded in the financial statement for an amount equal to the fair value of the construction services rendered.

Held-to-maturity financial assets - These are non-derivative financial assets with fixed or determinable payments that the Group intends to and is able to hold to maturity. These are stated at cost, represented by the fair value of the initial consideration, increased by transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method. They are classified as current assets if their contractual maturity is expected within the next 12 months. Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: losses in value determined through impairment test are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment test had not been carried out.

Available-for-sale financial assets - These are any non-derivative financial assets designated on initial recognition as available for sale or that are not classified under the previous items. These assets are valued at fair value, the latter determined by referring to the market prices at the balance sheet date or using financial measurement techniques and models, recording their change in value in equity ("Reserve for available-for-sale financial assets"). This reserve is released to income only when the financial asset is actually sold or, in the case of negative changes, when the value reduction already recorded in the shareholders' equity is found to be unrecoverable. Classification as a current or non-current asset depends on management's plans and on the real tradability of the security. Those whose sale is expected during the next 12 months are recorded as current assets.
Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future. The

impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

Environmental bonds - The Group complies with the various regulations issued in relation to the environment that require meeting pre-established restrictions through the use of certificates or bonds. Therefore, the Group is obliged to meet a need in terms of grey certificates (emission trading) and white certificates (energy efficiency instruments). The development of markets in which these bonds/certificates are traded has also made it possible to initiate a trading activity. These bonds are valued according to the intended use.
The certificates held to meet the company's requirement are recorded as assets at cost. If the certificates in the portfolio prove to be insufficient to meet the need, a liability is recorded to guarantee adequate coverage when the certificates are delivered to the operator. Certificates held for trading are recognised as assets and are measured at fair value through profit or loss.

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

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

Contract work in progress - Where the outcome of a construction contract can be estimated reliably, contract work in progress is measured on the basis of revenues accrued with reasonable certainty, according to the percentage of completion method of accounting (i.e. cost to cost), so as to apportion revenues and costs to the relevant financial years in proportion to the stage of completion of the work in question. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the statement of financial position assets or liabilities. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives to the extent it is probable that they represent effective revenues which can be determined reliably.
When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred. When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

Inventories - Inventories are recorded at cost, including directly attributable costs, or net estimated realizable value, whichever is the lower. The cost configurations used for the valuation of stocks are the average cost measured on a continuous basis (used for raw materials and consumables) and the specific cost of other inventories. The net realisable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.
Non-controlling interests on the acquisition date are measured at fair value or according to the pro rata amount of the net assets of the acquired company. The valuation method selected is stated for each transaction.
Inventories of work in progress are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

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

Financial liabilities - This item is initially stated at cost, corresponding to the fair value of the liability net of the transaction costs which are directly attributable to the issue of said liability. Following their initial recognition, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method**.**

Post-employment benefits - Liabilities related to defined-benefit plans (such as the employee severance accrued until 1 January 2007) are reported net of any plan assets on the basis of actuarial assumptions and on an accrual basis, in keeping with the service necessary to obtain benefits. The assessment of the liability is verified by independent actuaries. Actuarial gains and losses are reported as other comprehensive income/losses. Following Financial Law 296 of 27 December 2006, for companies with more than 50 employees, the severance amounts accruing after 1 January 2007 qualify as a defined-benefit plan**.**

Provisions for risks and charges - The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the

basis of the best estimate of the costs required to meet the obligation, as of the balance sheet date (assuming that there are sufficient elements for being able to make this estimate) and are discounted to present value when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting to present value the future cash flows at a pre-tax discount rate that reflects the current market valuation and takes into account the risk associated with the business activities**.**
When the discounting to present value is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability relates to property, plant and equipment (e.g. restoration of sites), the contra-entry to the provision made is an increase of the asset to which the liability refers; on the other hand, the financial charges are expensed out through the depreciation process of the item of property, plant and equipment to which the charge refers. The methods envisaged by IFRIC 1 are adopted if liabilities are recalculated.

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

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

Trading activities - Within the Group, commodity (with particular reference to electricity) and environmental securities trading activities are carried out. Trading operativity is governed by specific procedures and segregated from characteristic activities. The assets, consisting of physical contracts and financial derivatives on commodities and environmental bonds, are valued at fair value with the changes recorded in the financial statement.

Derivative financial instruments - The Group holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate and exchange rate fluctuations and the risk of changes in methane gas and electricity prices. In relation to said activities, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities. Specifically, the Group uses instruments for handling price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the aforementioned market conditions.

The transactions which, in observance of the risk management policies, satisfy the requisites laid down by the accounting standards for hedge accounting treatment are classified as "hedging" (recorded in the terms indicated below), while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as "trading". In this case, the fair value changes of the derivative instruments are recognized through profit or loss during the period when they take place. Il fair value is determined on the basis of the market reference value.

For recording purposes, the hedging transactions are classified as fair value hedges if they cover the risk of fluctuations in the market value of the underlying asset or liability; or as cash flow hedges if they cover the risk of changes in cash flows deriving both from an existing asset or liability, or from a future transaction, including transactions on commodities.

As far as derivative instruments classified as fair value hedges are concerned, which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are recognized through profit or loss. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge are also recognized through profit or loss.

For instruments classified as cash flow hedges and that qualify as such, the fair value changes are recorded, only as far as the "effective" amount is concerned, in specific reserve of net equity called "cash flow hedge reserve" through the statement of comprehensive income through the statement of comprehensive income. This reserve is reversed to income whenever underlying hedged instrument is realized. The change in fair value referring to the ineffective portion is immediately recorded in the income statement of the period. If the underlying transaction should no longer be considered highly probable, or the hedging relationship can no longer be demonstrated, the corresponding portion of the "cash flow hedge reserve" is immediately reversed to income.
If, on the other hand, the derivative instrument is sold and therefore the hedging of the risk for which the transaction was created no longer qualifies as effective, the amount of "cash flow hedge reserve" relating to it is kept until the economic effects of the underlying contract arise.

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

The Group applies the fair value option where conditions exist.
Assets and liabilities held for sale - Assets and liabilities held for sale are those whose value will be recovered mainly through sale rather than use. Assets and liabilities are classified as held for sale the moment the sale of assets is considered highly likely and the assets and liabilities are immediately available for sale in their current condition. These assets are stated at par value, and possibly adjusted for any losses in value corresponding to the amortised cost".

Grants - Capital grants are recognized in the income statement over the period necessary for correlating them to the related costs. They are represented in the statement of financial position by recording the grant as deferred revenue. . Operating grants, including those received from users for connection purposes, are considered to be revenues for services rendered during the accounting period and are therefore recorded on an accruals basis.

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

- the revenues from energy, gas and water sales are recognized and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- the revenues to be distributed are registered on the bases of rates established by the Authority and are subject to equalisation at the end of the fiscal period in order to reflect the compensation set by the Authority in relation to the investments that has been made;
- the revenues are recorder when (or as soon as) the positive duty to act has been fulfilled transferring the promised good or service to the client.
- the transferring occurs when (or as soon as) the client gains control over the good or service.
- the recorded earnings correspond to the price of the positive duty to act subject to measurement.
- the revenues are recorded only fi it the consideration for the goods or services transferred to the client will likely be collected;
- costs are accounted for in accordance with the accruals principle.

Financial income and expense - Financial income and expense are recognised on an accrual basis. Dividends from "other companies" are recorded in the income statement, at the time the right to receive payment is established.

Income taxes for the year - Income taxes for the year represent the sum of current and deferred taxes. Current taxes are based on the taxable income for the financial year. Taxable income differs from the result recorded in the income statement, as it excludes positive and negative components which will be taxable or deductible in other years, and excludes components which will never be taxable or deductible. The item "Current tax liabilities" are calculated on the basis of the tax rates applicable on the balance sheet date.

In determining tax rates for the period, the Group took into consideration the effects of the IAS/IFRS tax reform introduced by law no. 244 of 24 December 2007 and in particular the reinforced derivation principle established by Article 83 of the TUIR. This standard provides for entities that use IFRSs to apply, including in a departure from the provisions of the TUIR, the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards.

Deferred taxes are calculated having regard to timing differences in taxation, and are recorded under item "Deferred tax liabilities". "Deferred tax assets" are recognized to the extent that the existence of a taxable income at least equal to the amount of the differences to be offset is considered probable when the timing differences will reverse.

Deferred tax assets and liabilities are determined on the basis of the tax rates foreseen to be in force during the financial year in which the tax asset will be conferred or the tax liability will be extinguished, on the basis of tax rates established by provisions in force or substantively in force at the date of the financial statements. These changes are charged to the income statement, or equity, depending on how the difference in question was originally charged.

Criteria of foreign currency balances translation - The functional and reporting currency adopted by the Group is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities are recorded using the exchange rate in force as at the period end date and the associated gains and losses are recognized through profit or loss. Any net gain that might arise is set aside in a specific restricted reserve until the date of realization.

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

Transactions with related parties - Transactions with related parties take place on an arms'-length basis, in observance of efficiency and cost-effectiveness criteria.

Risk management

Credit risk

The credit risk the Group is exposed to stems from the wide variety of the client portfolio of the main business areas in which it operates; for this same reason, the risk appears to be divided among a large number of clients. With the aim of managing its credit risk, the Group has defined procedures for selecting, monitoring and assessing its own cline portfolio. The reference market is the Italian market. Assets are recognised in the financial statements net of any write-downs determined on the basis of the default risk of the counterparties, taking into account the information available on solvency and the historical data.

Liquidity risk

The liquidity risk to which the Group is exposed may arise from difficulties in obtaining, in a timely manner, loans in support of operations. Cash flows, financing needs and the liquidity of the Group Companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.
The financial planning of requirements, focused on medium-term borrowings, and the availability of abundant funds in credit facilities, allow effective management of liquidity risk.

Exchange rate risk and interest rate risk

The Group is not subject to exchange rate risk as it operates almost exclusively in the Italian market, both in relation to the sale of its services and the procurement of goods and services. As for interest rate risk, the Group regularly assesses its exposure to the risk of interest rate fluctuations and manages this risk by means of derivative financial instruments, in accordance with its risk management guidelines. Under these guidelines, the use of derivative financial instruments is restricted to the management of exposure to interest rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out.

Fair Value Hierarchy

Financial instruments measured at fair value in a three-level hierarchy based on the way the fair value was determined, i.e., with reference to the factors used in determining the value:

- level 1, financial instruments the fair value of which is determined on the basis of quoted prices in active markets;
- level 2, financial instruments the fair value of which is determined using valuation techniques that employ parameters that are directly or indirectly observable on the market. Instruments valued on the basis of the market forward curve and short term differential contracts are classified in this category;
- level 3, financial instruments the fair value of which is determined using valuation techniques that employ parameters that cannot be observed on the market, using internal estimates exclusively. As of 31 December 2017, the Group owns only financial instruments on commodities that fall into this category of level 3.

Significant estimates and valuations

Use of estimates

Preparation of the consolidated financial statements and related notes requires the use of estimates and valuations by the directors, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.
Specifically, information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

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

Impairment test
The Group carries out an analysis of the recoverable value of goodwill and (non-controlling) shares in companies owning assets for generating thermo-electrical energy, carrying out an impairment test at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates as specified in paragraphs 15 and 16 of these explanatory notes.

Provisions for risks
These provisions were made by adopting the same procedures as in previous years, with reference to reports by the legal advisors and consultants that are following the cases, as well as on the basis of developments in the relevant legal proceedings and the updated hypothesis regarding future outlays for post-mortem landfill fees, following the update of estimates carried out by external consultants.

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

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

Depreciation 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.

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.

2.02.05
Changes in international accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2017

Starting 1 January 2017, the following accounting standards and associated amendments as issued by the IASB and endorsed by the European Union, apply:

Amendments to the IAS 12 – Accounting for deferred financial assets for losses that did not occur (1989/2017 regulation). 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 (1990/2017 regulation). 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.

On 8 December 2016 the IASB published the document **"Improvements to the International Financial Reporting Standard 2014-2016 Cycle**" (182/2018 regulation). These improvements include amendments to three existing international accounting standards: **IFRS 12** - Report on investments in other entities (applicable beginning 1 January 2017), **IFRS 1** - First adoption (applicable beginning 1 January 2018) and **IAS 28** - Investments in associates and joint ventures (applicable beginning 1 January 2018). These amendments clarify, correct or remove redundant statements or formulations in the text of the relevant standards.

With reference to the application of other amendments introduced, there were no observable effects on the Group financial statements. Please note that the Group has chosen early adoption of IFRS 15 "Revenues from contracts with clients", as illustrated in paragraph 2.02.02 "Early adoption of IFRS 15 and changes to evaluation criteria" which can be consulted for further information.

Accounting standards, amendments and interpretations endorsed by the European Union which are not yet applicable and have not been adopted early by the Group.

Beginning 1 January 2018, or in some cases 1 January 2019, the following accounting standards and amendments of accounting standards will be obligatorily applied, having also already concluded the process of community endorsement:

IFRS 9 - Financial Instruments (2067/2016 Regulation). 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 new standard is to be applied to the financial statements beginning 1 January 2018 and following.
The standard provides for new criteria for classifying and assessing financial assets and liabilities. Specifically, in relation to financial assets the new standard uses a unique approach based on the way financial instruments are managed and the features of contractual cash flows of the financial assets in question aimed at determining the assessment criterion, replacing the various rules provide for by IAS 39. In relation to financial liabilities, the main changes occurred concerns the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value through the income statement, if these changes are due to changes in the credit worthiness of the issuer of the liability. According to the new standard, these changes must be recognized in the statement of comprehensive income and no longer in the income statement. Another significant change also concerns the methods for detecting valuation differences in the event that estimates of payments or collections are updated in relation to financial assets and liabilities measured at amortized cost.. The new approach provides, in fact, that the adjustment is recorded as income or expense in the profit (loss) for the financial year.
The new standard mandates that the estimate of credit losses be made on the basis of the expected loss model (rather than on the incurred loss model used by IAS 39) using information that can be supported, available without unreasonable charges or efforts that include historical, current and future prospective data. The standard requires that this valuation criterion be applied to all financial instruments, i.e. financial assets measured at amortized cost, financial assets valued at fair value through other components of comprehensive income, loans deriving from rental contracts as well as trade receivables..
Finally, the standard introduces a new model of hedge accounting in order to adapt the provisions of the current IAS 39, which have sometimes been considered too strict and not suitable for reflecting the company's risk management policies. The main new elements introduced in the document concern:

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

The greater flexibility of the new accounting rules is counterbalanced by additional requests for information on the company's risk management activities.
The Group does not expect to significantly modify the criteria for classifying and assessing its financial assets and liabilities due to the nature of its activities and plans to apply the new principle with a retrospective approach. The following table shows the assessments made on the potential impacts deriving from the application of the new principle on shareholders' equity as at 31 December 2017:

- The recalculation of the amortized cost value of financial liabilities to reflect the new methods of recording the adjustments due to the payment estimates review (in relation to restructuring operations carried out in previous years) will involve recording a greater amount of liabilities for 5.3 million euros. This implies that in future financial years, a decreased number of financing for the same amount will be recorded in line with the duration of the loans.

- With reference to the impairment model based on the expected credit loss prescribed by IFRS 9, the Group has developed a new model of credit management in previous years, which has made it possible to analytically determine the different risks associated with the due date of loans towards customers as soon as they arise and progressively as a function of their increasing seniority. This information was used by the Group in determining the doubtful debt provision according to the impairment model based on the expected credit loss, which will result in an increase in the same, with particular reference to those not yet due, for an amount estimated at 15 million euros.

In addition to the above, there are no other significant effects on the Group's shareholders' equity as of 31 December 2017 deriving from the adoption of the new standard.
Lastly, the Group believes that the hedging relationships that currently meet the definition of effective hedging will not be affected by the new hedge accounting criteria of IFRS 9. In particular, as allowed by this principle, the Group plans to maintain the hedging hedge accounting at 31 December 2017 designated in accordance with IAS 39.

IFRS 16 – Leases (1986/2017 regulation)**.** 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.
The standard establishes a unique model for recording and evaluating leasing contracts for the lessee, which provides for recording the good subject to the lease also, including operating leases, under assets, with a financial debt offset, additionally providing the possibility of not recording as leases the contracts concerning low-value assets and leases with a contract term of 12 months or less. In contrast, the standard does not include significant changes for landlords.
This standard will be applied beginning 1 January 2019, early adoption is permitted, only for the entities that will apply the IFRS 15 - Revenues from contracts with clients.
The Group has begun analysing contracts and collecting information on leases classified as operating on the basis of the current IAS 17. The analysis was still ongoing at the end of 2017 and the Group is assessing the impacts resulting from adopting the new standard. The approach to be adopted in the transition phase will be defined once the analysis is complete.

Amendments to IFRS 2 - Share-based Payments (289/2018 regulation). On 20 June 2016 the IASB published the document "Classification and measurement of share-based payment transactions". The amendments provide some clarification regarding the accounting for the effects of vesting conditions in cases of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and regarding the accounting for changes to the terms and conditions of a share- based payment that modify the classification from cash-settled to equity-settled. The amendments are applicable beginning 1 January 2018, but early application is allowed. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

Amendments to IAS 40 - Real estate investments. Document issued by the IASB on 8 December 2016. The amendments, applicable beginning 1 January 2018, clarify the requirements concerning sale or purchase transfers of real estate investments.

Amendments to IFRS 9 - Financial Instruments. Document issued by the IASB on 12 October 2017, applicable beginning 1 January 2019 and early application is also allowed. The amendments allow companies to evaluate specific prepaid financial assets with the so-called "negative compensation" at amortized cost or at fair value with changes in the other components of the comprehensive income statement when a specific condition is met, rather than at fair value through profit or loss.

Amendments to IFRS 4 - Application of IFRS 9 "Financial instruments" and IFRS 4 "Insurance contracts" (1988/2017 regulation). The document, published by the IASB on 12 September 2016, includes a series of amendments aimed at clarifying the issues related to the temporary volatility of the results outlined in the financial statement arising from the application of the new standard IFRS 9, before the IASB replaces of the current IFRS4 which is still being drafted. The amendments are applicable beginning 1 January 2018, but early application is allowed. The introduction of these amendments is expected to have no effects on the Group's consolidated financial statement.

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

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

IFRIC 22 – Foreign currency transactions and advanced consideration. This interpretation, published by the IASB on 8 December 2016 and applicable beginning 1 January 2018, establishes the exchange rate to be used in foreign exchange transactions that involve considerations paid or received in advance.

IFRIC 23 – Uncertainty over income tax treatment. This interpretation, published by the IASB on 7 June 2017 and applicable beginning 1 January 2019, aims at clarifying the requirements concerning the recognition and measurements established by IAS 12 in cases of regulatory uncertainty surrounding the treatment of income taxes.

On 12 December 2017 the IASB published the document **"Improvements to the International Financial Reporting Standard 2015-2017 Cycl**e". These improvements include amendments to the following existing IFRSs:

- **IFRS 3 -** Business combination. The amendment specifies that a new evaluation of the shares previously held in a joint operation must be carried out when control is gained;
- **IFRS 11 -** Jointly controlled agreements The amendment specifies that the review of the value of shares previously held in a joint operation should not be carried out when joint control is gained;
- **IAS 12 -** Income Taxes. the improvement clarifies that an entity is required to account for the taxes related to the payment of dividends with the same procedure as the one used for the latter;
- **IAS 23 -** Financial expense Any loan originally agreed-on to obtain a specific asset when the asset is available for its intended use or sale should be considered as part of general indebtedness.

These amendments, which will be applied beginning 1 January 2019 and for which early application is also allowed, clarify, correct or remove redundant statements or formulations in the text of the relevant standards.

Amendments to IAS 28 - Investments in Associates and Joint Ventures. Document issued by the IASB on 12 October 2017, applicable beginning 1 January 2019 and early application is also allowed. The amendments clarify that companies must account for long-term holdings in an associate or joint-venture to which the equity method is not applied using the provisions of IFRS 9.

Amendments to IAS 19 - Amendment to the plan, reduction or liquidation. Document issued by the IASB on 7 February 2018 and applicable beginning 1 January 2019. The amendments specify how the charges must be determined when changes to a defined benefit pension plan occur.

With reference to the new amendments and the new interpretations described above, at the moment the directors are evaluating the possible effects on the Group's consolidated financial statements associated with their introduction

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

Amendments to IFRS 10 and IAS 28 - Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. Document published by the IASB on 11 September 2014 in order to resolve a conflict between the two standards mentioned, regarding the sale of assets or subsidiaries to an associate in a joint venture, effective for annual periods beginning on or after 1 January 2016. The amendments introduced foresee that in case of sales or contributions of assets or subsidiaries to an associate or a joint venture, the value of the profit or loss to be recognised in the balance sheets of the sold/contributed entity is to be put in relation with the classification of the assets or the subsidiary sold/contributed as a business, as defined by IFRS 3. In the event that the sale/contribution represents a business, the entity must recognise the profit or loss for the entire interest previously held; while, if this is not the case, the entity must recognise the amount of profit or loss pertaining to the interest still held by the entity to be eliminated.

2.02.06
Commentary notes to the financial statement formats

Please note that paragraphs 1.01 and 1.2 of the management report provide an analysis of the business' management performance that may contribute to a better understanding of changes in the main categories of operating expenses and revenues.

1 Revenues

	2017	2016 adj	Change
Revenues from sales and services	5,612.9	5,119.2	493.7
Changes in inventories of work in process, semi-finished and finished products and work in progress	(0.8)	12.1	(12.9)
Total	**5,612.1**	**5,131.3**	**480.8**

“Revenues from sales and services”, the increase from the previous financial year is mainly due to the sectors of electricity and gas. The Aliplast group, over which control was acquired at the beginning of 2017, contributed to the earnings for the fiscal period in the amount of 105.7 million euros.

As described in paragraph 2.02.02 "Early adoption of IFRS 15 and change in valuation criteria", it should be noted that the 2017 value of the item "Revenues from sales and services" includes the adjustment relating to the probability of non-collection of revenues invoiced or recognized on an accrual basis for Euro 19.1 million, due to the adoption of the new IFRS 15 standard with the revised retrospective method. The same item also includes revenues related to the portion of the system charges for the year 2017 charged to end users, for electricity and gas services, for Euro 657.9 million. In 2016, restated to ensure a homogeneous comparison, the revenues referring to the same charges amounted to Euro 697.9 million.

The item includes allocations for services provided to end customers and not yet invoiced for Euro 111.8 million to the Gas operating segment, Euro 178.9 million to the Electricity sector and € 76.5 million to the operating segment Water.

Revenues are mainly realized in the national territory.

Change in contract work in progress, semi-finished and finished products, the decrease compared to the previous year is mainly attributable to a lower volume of contract work in the public lighting segment.

2 Other operating revenues

	2017	2016 adj	Change
Long-term contract	255.5	210.7	44.8
white certificates	128.6	95.1	33.5
Operating grants and grants for separated waste collection	62.5	58.2	4.3
Grants related to plants	9.8	8.9	0.9
Insurance reimbursements	4.3	2.6	1.7
Use of funds	5.6	5.4	0.2
Other revenues	58.5	49.3	9.2
Total	**524.8**	**430.2**	**94.6**

The most substantial changes as compared with the previous year are described below.

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held in concession as per the interpretation of IFRIC 12 The change is due to greater investment in the networks held under concession as compared to the 2016 financial year.

"White Certificates" shows the revenues calculated on the basis of the energy efficiency targets for the year established by the GSE accounted for in relation to the Fund for Energy and Environmental

Services. The positive change derives mainly from the significant increase in their market value as compared to the previous year.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 31.1 million Euros (28.7 million Euros in 2014), mainly comprising incentives provided by the GSE for the production of electricity from solar panels and grants from public entities, authorities and institutions for specific projects carried out by the Group's companies as well as contributions from sorted waste collection in the amount of 31.4 million euros (29.5 million euros as at 31 December 2016) mainly comprising the value of packaging (cardboard, iron, plastic and glass) transferred to the Conai consortia.

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

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

"Other revenues" mainly represents proceeds from recovering the costs incurred for activities related to environmental, electrical and gas services, security incentives, active leases and sale of assets. the change is determined by the consolidation of the Aliplast Group for Euro 2.6 million.

3 Use of raw materials and consumables

	2017	2016	Change
Electricity	1,182.6	1,058.3	124.3
Gas ready for sale and net of change in stocks	1,063.8	811.3	252.5
White and grey certificates	121.5	95.0	26.5
Maintenance materials net of changes in stocks	71.6	73.2	(1.6)
Water	52.0	49.0	3.0
Plastic materials net of changes in stocks	44.7	-	44.7
Chemical products	16.9	15.7	1.2
Fuels and lubricants	16.0	15.0	1.0
Methane for industrial use	15.6	14.2	1.4
Heat management combustible materials	1.9	2.0	(0.1)
Charges and revenues from certificate valuation	(0.1)	25.6	(25.7)
Charges and revenues from derivatives	(8.9)	(2.5)	(6.4)
Consumables and sundry	29.2	20.0	9.2
Total	**2,606.8**	**2,176.8**	**430.0**

"White and Grey Certificates" includes the purchase cost of the various types of environmental certificates incurred during 2017, and specifically: 119.5 million Euros for White certificates (92.7 million euros in 2016) and 1.8 million Euros for Grey certificates (2.1 million euros in 2016). The change from the previous year was due to the different purchasing requirements in view of the Group's certificate needs. These needs are defined according to the obligations of the distribution companies that were quantitatively higher, as well as with significantly higher supply prices, compared to the corresponding assigned for the previous year..

"Plastic materials" includes the cost of purchasing plastic raw materials destined for subsequent processing, transformation and sales by the Aliplast Group companies, which were acquired at the beginning of the 2017 financial year.

"Charges and revenues from certificate valuation" reflects the valuation of environmental certificates in stock, mainly comprising grey and white certificates. The significant decrease in value compared to the previous financial 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.

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

4 Service costs

	2017	2016 adj	Change
Transport and storage	941.0	979.0	(38.0)
Work and maintenance charges	373.2	308.4	64.8
Waste transport, disposal and collection service	299.0	280.6	18.4
Fees paid to local authorities	71.2	77.8	(6.6)
IT and data processing services	39.5	37.8	1.7
Professional, legal and tax services	28.5	27.1	1.4
Other commercial services	26.2	19.4	6.8
Rents and leases payable	24.8	23.9	0.9
Technical services	19.5	18.4	1.1
Recruitment training and other staff cost	19.3	17.7	1.6
Insurances	16.8	16.0	0.8
Postal and telephone cost	16.3	14.6	1.7
Agency cost	15.8	13.5	2.3
Bank fees and charges	11.4	11.0	0.4
Cleaning and security costs	7.8	7.9	(0.1)
Legal and financial announcements and advertising, communication with customers	6.4	7.7	(1.3)
Meters reading	6.5	6.8	(0.3)
Remuneration to statutory auditors and directors	5.5	4.7	0.8
Fees payable	4.3	4.5	(0.2)
Other service costs	19.3	19.9	(0.6)
Total	**1,952.3**	**1,896.7**	**55.6**

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

"Charges for works and maintenance" includes the costs for the construction or improvement of Infrastructures under concession pursuant to the application of the IFRIC 12 interpretation and costs for maintaining the plants: The change from the previous financial year is due to greater investment in the networks held under concession, as already indicated in the note 2 "Other Operational Revenues", and by the increase in restoration activities associated with the environmental business.

“Waste transportation, disposal and collection”, the increase is mainly due to the changes in the scope of consolidation due to the acquisition of the "Teseco" business branch and the Aliplast Group.

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. The reclassification, with respect to the previous year, of the fees paid to land reclamation Consortia, relevant Authorities and Mountain Communities under the item "State rentals" included in "Other operating expenses".

"Various commercial services", the change is mainly attributable to the increase of gas and electricity sales, which involves the need to strengthen the commercial support structures (management of help desks and contact canters).

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

5 Personnel costs

	2017	2016	Change
Wages and salaries	384.6	368.3	16.3
Social costs	126.9	122.7	4.2
Post-employment and other benefits	0.8	1.3	(0.5)
Other costs	39.3	31.8	7.5
Total	**551.6**	**524.1**	**27.5**

The increase in labour costs of 27.5 million euros as compared to the previous year is mainly due to the consolidation of the Aliplast Group in the amount of 14.5 million euros, in addition to the normal evolution of contractual dynamics including the renewal of the collective labour agreement for the Gas-Water Sector.

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

	2017	2016	Change
Executives	153	153	-
Managers	534	527	7
Employees	4,596	4,489	107
Workers	3,395	3,242	153
Total	**8,678**	**8,411**	**267**

Overall, the average cost of labour per capita for 2017 was 63.6 thousand euros (62.3 thousand euros in 2016).

At 31 December 2017, the actual number of employees was 8,683 (8,374 employees at 31 December 2016). The acquisition of the Aliplast group involved the entrance of 306 new units.

6 Other operating costs

	2017	2016	Change
Losses on receivables	15.1	20.8	(5.7)
Taxation other than income taxes	13.0	13.3	(0.3)
State rentals	13.0	6.1	6.9
Losses on disposals and divestitures of assets	12.3	4.1	8.2
Landfill special tax	5.3	4.6	0.7
Other minor changes	25.9	26.1	(0.2)
Total	**84.6**	**75.0**	**9.6**

"Losses on receivables" mainly refers to the sale of "non-performing" loans, concerning the residential market, for which out-of-court recovery activities have come to an end with negative results.

"Taxation other than income taxes" mainly relates to taxes on buildings, stamp duties and registration fees, rentals for occupying public areas and excise duties.

"State rentals" is mainly related to fees paid to the Emilia Romagna region, land reclamation consortia, relevant entities and mountain communities. As pointed out in note 4 "Service costs", the reclassification of the fees paid to land reclamation Consortia, relevant Authorities and Mountain Communities under the item "State rentals" to guarantee that the nature of these costs is more accurately represented.

"Loss on disposal of assets", arising mainly from the disposal of certain components of the distribution, district heating and WTE networks, following cyclical replacement as well as projects no longer considered feasible. The most significant operations during the financial year concerned the disposal of WTE plants' over-heaters for 3.1 million euros, the sale of the district heating plant in the municipality of

Ravenna for 2.3 million euros and the divestment of the geothermal project for the area of Ferrara for 1.6 million euros.

“Landfill special tax" refers to the relevant environmental tax for the period on landfills operated by the Group.

The item" Other minor charges" mainly includes compensation for damages, fines, penalties and the associational fees.

7 Capitalized costs

	2017	2016	Change
Increases in self-constructing asset	43.0	27.8	15.2

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

8 Amortisation, depreciation and provisions

	2017	2016	Change
Amortisation of property, plant and equipment	165.8	157.1	8.7
Amortisation of intangible assets	203.9	188.9	15.0
Allowance for bad debts	103.4	85.1	18.3
Provisions for risks and charges	45.2	32.8	12.4
Impairment of property, plant and equipment and intangibles	13.8	0.1	13.7
Releases from provisions	(8.4)	(4.4)	(4.0)
Total	**523.7**	**459.6**	**64.1**

As regards the breakdown of the items, please refer to the comments under "property, plant and equipment", "intangible assets", "goodwill", "trade receivables" and "provisions for risks and charges" in the statement of financial position.

"Amortisation of property, plant and equipment", the increase is due to the consolidation of the Aliplast Group for 3.3 million and to greater amounts of waste disposed of in the Group's landfills compared to the previous year, which led to an increase of amortization for 2.1 million euros.

"Amortisation of intangible assets" the increase is due mainly to 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 the Aliplast Group, Verducci Servizi Srl and the "Enerpeligna" branch during 2017 resulted in higher depreciation in the current period, especially as a consequence of the registration of client lists for approximately 2.7 million euros and other intangible assets for 2.8 million euros.

"Impairment of property, plant and equipment and intangibles", mainly refers to the depreciation of buildings and plants for 1.4 million euros and goodwill of 12.4 million euros, of which 11.7 million euros related to goodwill of networks for gas distribution in the Riccione area, which is no longer considered recoverable in that the Group decided not to participate in the upcoming concession tenders in the territorial area in question.

The item “Releases from provisions” includes the re-verification of the various funds in the financial statement once the underlying risk no longer exists. As of 31 December 2017, re-classifications were carried out for the "legal risks funds and personnel disputes" amounting to 5,6 million euros and "charges and risks fund" in the amount of 2.8 million euros.

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

	2017	2016	Change
Joint venture net share of profits	8.5	6.2	2.3
Associated companies net share of profits	6.2	7.6	(1.4)
Total	**14.7**	**13.8**	**0.9**

The share of profits/losses of 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.

The "share of net joint venture profit" refers to the share of the Group's net income earned by Enomondo Srl, 2.7 million euros (0.9 million euros in 2016) and Estenergy Spa, 5.8 million euros (5.3 million euros in 2016).

"share of net profit in associated companies" relates mainly to the companies:

- Aimag Spa, profits for 3.5 million euros (3.4 million euros in the first half of 2016);
- Sgr Servizi Spa, profits for 4.0 million euros (3.9 million euros in of 2016).
- Set Spa, profits for 1.4 million euros (0.4 million euros in f 2016);

10. Financial income and expense

	2017	2016	Change
Income from derivatives	49.3	53.5	(4.2)
Clients	27.3	16.3	11.0
"Income from fair value assessment of financial liabilities"	20.5	2.6	17.9
Other financial income	7.9	7.7	0.2
Total income	**105.0**	**80.1**	**24.9**
	2017	**2016**	**Change**
Bonds	91.6	99.4	(7.8)
Charges from derivatives	68.6	48.8	19.8
Discounting of provisions and finance leases	21.4	18.5	2.9
Depreciation of financial assets	9.5	13.1	(3.6)
Valuation at fair value of financial liabilities	8.8	2.4	6.4
Expenses from fair value assessment of financial liabilities	5.7	10.9	(5.2)
Factoring	5.1	6.2	(1.1)
Loans	4.9	6.3	(1.4)
Other financial expenses	5.6	5.7	(0.1)
Total expenses	**221.2**	**211.3**	**9.9**
Financial net (income) expense	**(116.2)**	**(131.2)**	**15.0**

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

"Customers", the increase is mainly due to the implementation of the interest on payments in arrears billing system for the gas and electricity customers.

For more information about "loans" and "bonds" please see note 26 "Current and non-current financial liabilities"; for the item "Income and expenses from fair value assessment of financial liabilities" and "Interest rate derivatives" see note 19 "Derivative financial instruments"

"Discounting of provisions and finance leases" the increase of 2.9 million euros is to be attributed to:

- the decrease of discounting rates employed to determine the current value of the Group’s "landfill post-closure provisions" and the "Restoration of third-party assets provision" to reflect current market conditions.
- the decrease of the rate curve used for assessing the employees' benefit funds, with further details provided in note 27 "Severance indemnity and other benefits".

The item mainly comprises the following:

	2017	2016	Change
Post-closure landfills	12.8	10.8	2.0
Restoration of third-party assets	7.0	5.1	1.9
Employee leaving indemnity and other benefits	1.0	2.0	(1.0)
Finance leases	0.4	0.4	-
Plants dismantling	0.2	0.2	-
Total	**21.4**	**18.5**	**2.9**

"Depreciation of financial assets” refers to:

- to the 4 million euro investment in Energo Doo, whose value was deemed no longer recoverable, not falling within the Group's development strategies;
- the loan to Tamarete Energia Srl for 5.5 million euros, following the assessments carried out during the impairment test, as illustrated in note 31 "Equity investments".

In the previous year, in particular, the devaluation of Galsi Spa was carried out following the absence of prospects for development of the project for constructing and managing the new gas pipeline that should have linked Algeria to Sardinia and Tuscany. In the meantime eliminated from the list of infrastructural projects considered strategic by the European Union.

The item "Valuation of financial liabilities at depreciated cost" represents the breakdown (depreciation) of the costs associated with financial liabilities (e.g. fees, investigation costs , etc .) for the entire duration of the loans using the effective interest method. The 6.4 million euros increase as compared to the previous year is mainly due to the operation of portfolio restructuring and issue of new bond that took place over the last quarter of 2016.

"Factoring" refers to the transfer of receivables so as to optimize the Group's working capital managements.

11 Taxes

This item is made up as follows:

	2017	2016	Change
Current taxes (IRES, IRAP and substitute tax)	166.8	130.5	36.3
Deferred taxes	1.5	2.8	(1.3)
Prepaid taxes	(75.7)	(14.0)	(61.7)
Total	**92.6**	**119.3**	**(26.7)**

Income taxes for the year went from € 119.3 million in 2016 to € 92.6 million in 2017, with a significant improvement in the tax rate from 35.1% to 25.8%. This improvement was substantially boosted by the deprovision, through the payment of substitute tax, of the controlling interest in Aliplast Spa recorded in Herambiente Spa (10.6 million euros) and of the goodwill recorded in the company Inrete Distribuzione Energia Spa (8.6 million euros), in addition to the decrease of the nominal IRES rate from 27.5% to 24%. Also worthy of note are the benefits in terms of patent box, ace, tax credit for research and development, maxi and hyper amortisation (the latter relating to substantial investments in capital goods functional to technological and digital developments through "Industry 4.0").

Current taxes are broken down as follows:

	2017	2016	Change
IRES	113.0	99.7	13.3
IRAP	29.6	27.9	1.7
Substitute tax	24.2	2.9	21.3
Total	**166.8**	**130.5**	**36.3**

The statutory tax rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 24%. The reconciliation with the effective rate is shown below.

	2017		2016	
	Nominal effect	Percentage effect	Nominal effect	Percentage effect
Earnings before taxes	359.4		339.6	
IRES				
Ordinary rate	(86.3)	(24.0)%	(93.4)	(27.5)%
IRAP deductions	0.6	0.2%	0.9	0.3%
Participation exemptions and investments impairment	(2.4)	(0.7)%	(3.7)	(1.1)%
Asset depreciation and goodwill	(2.8)	(0.8)%	-	(1.1)%
Tax and fiscal benefits	6.3	1.8%	5.3	1.3%
IRES previous years	4.3	1.2%	2.3	0.6%
Other increase/decreases	(1.7)	(0.5)%	(4.4)	(1.0)%
IRAP and other current taxes				
IRAP	(21.7)	(6.0)%	(27.3)	(8.0)%
Franked investment income	11.1	3.1%	1.0	0.3%
Taxes	**(92.6)**	**(25.8)%**	**(119.3)**	**(35.1)%**

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

The item "tax and fiscal benefits" includes the benefits brought about by the patent tax, ace, tax receivables for research and development, maxi and hyper amortisation.

The item "Franked investment income" includes the substitute tax recorded in the financial period and the release of the relevant amount of substitute tax associated with operations carried out in previous years.

The prepaid and deferred taxes relating to the year 2017 refer to the following variations between taxable income and profit recorded in the financial statements.

Deferred tax assets	2017			2016		
	Temporary difference .	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5	Temporary difference .	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5
Prepaid taxes with effect on the income statement and comprehensive income statement						
Allowance for bad debts	138.9	33.3		76.3	16.4	
Provisions for risks and charges	152.1	35.3		139.5	30.3	
Provisions for employees benefits	13.8	3.7		13.0	3.5	
Depreciation and amortisation	357.7	90.8		271.8	66.7	
Equity investments	157.0	44.0		75.0	21.2	
Hedging operations (cash flow hedge)	0.7	0.1		1.1	0.3	
Other	50.6	13.5		18.9	4.8	
Total tax effect	**870.8**	**220.7**	**1.7**	**595.6**	**143.2**	**0.5**
Amount credited (charged) to the statement of comprehensive income		0.1			(2.0)	
Amount credited (charged) to the income statement		75.7			14.0	

Deferred tax liabilities	2017			2016		
	Temporary difference .	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5	Temporary difference .	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5
Deferred taxes with effect on the income statement and comprehensive income statement						
Provisions for risks and charges	48.0	13.8		55.4	15.0	
Provisions for employees benefits	2.2	0.6		2.1	0.6	
Amortisation (fta - fair value as deemed cost)	278.1	79.3		219.4	62.2	
Deductible goodwill	26.2	7.4		15.6	4.4	
Leases	8.1	2.3		7.9	2.2	
Capital gains recognized on instalments	1.6	0.4		2.1	0.5	
Other	56.1	13.7		31.4	7.6	
Total tax effect	**420.3**	**117.5**	**23.5**	**333.9**	**92.5**	**5.4**
Amount credited (charged) to the statement of comprehensive income		-			0.2	
Amount credited (charged) to the income statement		(1.5)			(2.8)	

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by law 244 from 24 December 2007, and associated implementation decrees, Ministerial Decree. from 1 April 2009, no. 48 and Ministerial Decree 8 June 2011, to coordinate international accounting standards with the rules to determine the taxable base for IRES and IRAP purposes, as per article 4, paragraph 7-quarter,of . 38/2005. . In particular, the reinforced derivation principle of article 83 of the Consolidated Tax Act (TUIR) was applied, which calls for entities that use IFRSs to use, including in a departure from the provisions of the TUIR, "the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards.

Below is a summary of tax litigation as of 31 December 2017:

- Notices of assessment served to Hera Spa in 2010 for intercompany services (general management expenses and expenses related to use of the trademark) provided by Hera Spa, in its capacity as parent company of the Group. The deadline for appealing to the Court of Cassation has expired, as the rulings rejected the appeals of the financial administration, thus definitively closing the dispute;
- Notices of assessment for ICI served to Herambiente Spa and Hera Spa concerning the classification in the real estate registry of the Ferrara waste-to-energy plant. Notices of assessment issued over time relate to tax periods from 2009 to 2014 and altogether amount to 10.2 million euros. Regarding the first notices of assessment, the 2016 rulings by the court of Ferrara were all in favour of the Company. As a result of the appeals by the Municipality of Ferrara, the new hearing has not yet been scheduled. The Company filed an appeal for the subsequent assessment notices and currently all rulings are suspended awaiting the outcome of the correlated real estate registry decision. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- Notices of assessment for Ici/Imu served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. Notices of assessment issued over time relate to tax periods from 2011 to 2015 and altogether amount to 2.1 million euros. The Company filed appeals or complaints against these notices in February 2017. The Group, having consulted with its lawyers, decided to proceed with any risk fund provisions for the disputes in question for an amount of 2.0 million euros.
- Request to appear for non-paid Ici/Imu from 2010 to 2015 served to the Frullo Energia Ambiente Srl company, concerning the real estate registry classification of the waste to energy plant located in the municipality of Granarolo dell'Emilia. Notices of assessment issued during 2016 and 2017 relate to tax periods from 2010 to 2015 and altogether amount to 29.2 million euros (including taxes, fines and interests). The Company filed appeals against these notices over the course of 2017. The rulings, filed on 12 February 2018, are all not in favour of the Company. At the current date, the appeals are being prepared. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- tax audits to Herambiente Spa, for covered fiscal years from 2009 to 2013 and focused mainly on the amount the company owed in relation to the IRAP subsidy "tax wedge". With respect to the 2009 tax period, the appeal hearing has not yet been scheduled after a favourable ruling for the company by the Provincial Tax Commission in 2015. In relation to the 2010 and 2011 tax periods, during the 2017 financial year, two rulings were issued, both in favour of the Company. In addition, in the course of 2016, notices of assessment relating to the 2012 and 2013 tax periods were served, against which the Company filed the relevant appeals. On 10 November 2017 the rulings were submitted, both not in favour to the Company. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- tax audits to Hera Trading Srl, concerning the tax periods from 2010 to 2014. The most significant of these notifications regards the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates for the purposes of calculating IRES. During 2016 a notice of assessment was served concerning IRES for 2011 in the amount of 2.1 million euros, claiming an alleged deduction of costs in the amount of 7.8 million euros and against which the Company filed an appeal and the implementation of this notice was consequently suspended. On 18 January 2018 the ruling was handed down, which was unfavourable to the company, without applying the sanctions. At the current date, the appeals are being prepared. On 7 September 2017 an assessment notice was served in relation to 2012 IRES, for an amount of 0.5 million euros of taxes, for which the suspension of the notice was obtained. The hearing was held on 30 January 2018 and the ruling is now pending. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- A tax audit on Hera Comm Srl, initiated in 2016 concerning IRES, IRAP and VAT for the tax period 2013, ended with the notification, of limited significance, that the reduced VAT rate of 10% had been incorrectly applied to the sale of gas and electricity. On 17 November 2017 an payment notice was served that was formulated 8 January 2018.

12 Earnings per share

mn€	2017	2016
Profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (A)	251.4	207.3
weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
basic (B)	1,471,004,233	1,471,822,892
diluted (C)	1,471,004,233	1,471,822,892
Earnings (loss) per share (euro)		
basic (A/B)	**0.171**	**0.141**
diluted (A/C)	**0.171**	**0.141**

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

As of this writing, the share capital of the parent company, Hera Spa, consisted of 1,489,538,745 ordinary shares, unchanged compared to the ordinary shares at 31 December 2016, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	31 December 17	31 December 16	Change
Land and buildings	571.3	564.3	7.0
Plants and machinery	1,201.6	1,233.3	(31.7)
Other moveable assets	120.3	119.2	1.1
Assets under construction	119.9	99.6	20.3
Total operating assets	**2,013.1**	**2,016.4**	**(3.3)**
Property investments	2.6	2.8	(0.2)
Total	**2,015.7**	**2,019.2**	**(3.5)**

Assets held on the basis of lease finance arrangements:

- land and buildings for16.8 million euros (16.4 million euros at 31 December 2016);
- plants and machinery for 6.5 million euros (6.6 million euros at 31 December 2016);
- other moveable assets for 0.1 million euros (0.2 million euros at 31 December 2016).

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	Amortisation and depreciation	Changes in the scope of consolidation	Assets held for sale	Other changes	Net closing balance	of which gross final amount	of which amortisation provisions
										31 December 16
Land and buildings	567.6	9.2	(1.3)	(16.9)	0.3	-	5.4	564.3	744.5	(180.2)
Plants and machinery	1,263.9	47.3	(4.8)	(113.3)	1.1	-	39.1	1,233.3	2,565.9	(1,332.6)
Other tangible assets	113.1	20.5	(1.0)	(26.9)	-	-	13.5	119.2	423.3	(304.1)
Assets under construction	83.4	56.5	(1.5)	-	5.2	-	(44.0)	99.6	99.6	-
Total	**2,028.0**	**133.5**	**(8.6)**	**(157.1)**	**6.6**	**-**	**14.0**	**2,016.4**	**3,833.3**	**(1,816.9)**
										31 December 17
Land and buildings	564.3	6.6	(1.7)	(19.0)	18.1	-	3.0	571.3	768.3	(197.0)
Plants and machinery	1,233.3	39.5	(7.7)	(120.7)	13.9	-	43.3	1,201.6	2,653.0	(1,451.4)
Other tangible assets	119.2	22.5	(4.0)	(27.5)	1.5	-	8.6	120.3	445.5	(325.2)
Assets under construction	99.6	81.4	(3.1)	-	0.1	-	(58,1)	119.9	119.9	-
Total	**2,016.4**	**150.0**	**(16.5)**	**(167.2)**	**33.6**	**-**	**(3.2)**	**2,013.1**	**3,986.7**	**(1,973.6)**

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

"Land and buildings", totalling 571.3 million Euros, consisted of 117.5 million Euros in land and buildings and 453.8 million euros 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 1,201.6 million euros, 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. The main investments and divestments of the year concern waste treatment and disposal, for an amount of 15.4 million euros and 4.8 million euros respectively

"Other tangible assets", equal to 120.3 million euros, include the equipment, waste disposal bins for 57.3 million Euros, moveable assets, furniture and electronic machines for 18.8 million Euros, and vehicles and cars for 44.2 million Euros.

"Assets under construction and advance payments", amounting to 119.9 million euros, mainly includes investment for development of district heating, of electricity distribution network and waste disposal plants, which include the construction of a new digester for the production of bio methane in Sant'Agata Bolognese.

The item "Other changes" includes adjustments to the closure and post-closure costs estimated during the implementation or expansion of landfills that are still being used for the previous financial year, totalling 13.7 million Euros, while there are no adjustments reported for 2017. This item additionally covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial year, as well as the reclassification from Property, plant and equipment to Intangible assets, especially for goods held under licensed activities.

For a more detailed description of the information reported in the "Changes in the scope of consolidation", see the dedicated paragraph 2.02.03 "Scope of Consolidation".

Real guarantees to third parties

	31 December 17	31 December 16
Real guarantees to third parties	162.5	178.8

As of 31 December 2017 "Real guarantees to third parties" includes:

- Special mortgages and privileges on land, plants and machinery pledged by the subsidiary Frullo Energia Ambiente Srl to the banking syndicate that underwrote financing in the amount of 150 million euros;
- mortgage on a building owned by the subsidiary Waste Recycling Spa for 10 million euros in favour of a bank;
- mortgage on a building owned by the subsidiary Marche Multiservizi Spa for 2 million euros in favour of a bank;

With respect to the previous year, a decrease of 16 million euros is due to the cancellation of mortgages on the buildings of the Pesaro and Urbino offices belonging to the company Marche Multiservizi Spa following the extinction of the related mortgages.

14 Intangible assets

	31 December 17	31 December 16	Change
Industrial patents and intellectual property rights	55.8	59.8	(4.0)
Concessions, licences, trademarks and similar rights	86.7	95.5	(8.8)
Public services under concession	2,574.3	2,539.6	34.7
Intangible assets under construction and public services under concession	161.3	111.1	50.2
Intangible assets under construction	63.9	48.5	15.4
Client lists	148.1	86.1	62.0
Total intangible assets	36.9	27.4	9.5
Total	**3,127.0**	**2,968.0**	**159.0**

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

	Net opening balance	Investments	Disinvestments	Amortisation and depreciation	Changes in the scope of consolidation	Assets held for sale	Other changes	Net closing balance	of which gross final amount	of which amortisation provisions
										31 December 16
Industrial patents and intellectual property rights	50.6	6.5	-	(24.7)	-	-	27.4	59.8	328.6	(268.8)
Concessions, licences, trademarks and similar rights	107.6	0.5	(0.1)	(12.2)	-	-	(0.3)	95.5	387.0	(291.5)
Public services under concession	2,444.7	142.7	(9.0)	(137.6)	-	-	98.8	2,539.6	4,073.0	(1,533.4)
Intangible assets under construction and public services under concession	140.2	67.5	(0.8)	-	-	-	(95.8)	111.1	111.1	-
Intangible assets under construction	47.7	31.0	(0.3)	-	-	-	(29.9)	48.5	48.5	-
Client lists	76.3	-	-	(8.9)	18.7	-	-	86.1	106.0	(19.9)
Total intangible assets	28.5	3.2	-	(5.5)	0.1	-	1.1	27.4	111.1	(83.7)
Total	**2,895.6**	**251.4**	**(10.2)**	**(188.9)**	**18.8**	**-**	**1.3**	**2,968.0**	**5,165.3**	**(2,197.3)**
										31 December 17
Industrial patents and intellectual property rights	59.8	7.4	-	(25.7)	-	-	14.3	55.8	351.3	(295.5)
Concessions, licences, trademarks and similar rights	95.5	1.7	-	(12.8)	-	-	2.3	86.7	385.8	(299.1)
Public services under concession	2,539.6	142.2	(0.6)	(145.5)	-	(16.2)	54.8	2,574.3	4,242.4	(1,668.1)
Intangible assets under construction and public services under concession	111.1	103.8	(0.5)	-	-	-	(53.1)	161.3	161.3	-
Intangible assets under construction	48.5	32.1	(0.1)	-	-	-	(16.6)	63.9	63.9	-
Client lists	86.1	-	-	(11.7)	73.7	-	-	148.1	179.8	(31.7)

Total intangible assets	27.4	2.9	(0.1)	(8.2)	13.9	-	1.0	36.9	122.9	(86.0)
Total	**2,968.0**	**290.1**	**(1.3)**	**(203.9)**	**87.6**	**(16.2)**	**2.7**	**3,127.0**	**5,507.4**	**(2,380.4)**

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

"Industrial patents rights and know-how," in the amount of 55.8 million euros, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licences, trademarks and similar rights," amounting to 86.7 million euros, primarily comprises the value of the rights relating to the activities of gas distribution and integrated water management, classified as intangible assets even before the IFRIC 12 - service agreements interpretation was first applied.

"Public services under concession", amounting to 2,574.3 million euros, consists of the goods related to the activities of gas and electricity distribution (in the Imola area), integrated water management and public lighting (except for what is specified in note 17) provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC interpretation 12. The investments for the period mainly involved the water networks for 74 million euros and the gas distribution networks for 57.5 million euros.

"Intangible assets under construction public services under concession," amounting to 161.3 million euros, refers to investments related to the these same contracts that have yet to be concluded at year-end. The significant increase in investments compared to the previous year is attributable mainly to the water cycle.

"Intangible assets under construction", equal to 63.9 million Euros, essentially comprises IT projects that are still incomplete.

“Client lists”, amounting to 148.1 million euros are recorded as a result of business combinations and the consequent valuation of the assets acquired. The amortisation period of these client lists is related to the churn rate identified for each individual transaction.

The item "Other intangible assets", amounting to 36.9 million euros, refers mainly to use rights for networks and infrastructures for the passage and laying down of telecommunication networks as well as multi-year contractual rights.

"Other changes" 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, especially for goods held under concession. Movements in the item "Public services under concession" also include euros 16.2 million deriving from the reclassification of assets held for sale in the specific line of the financial statements, as illustrated in note 24.

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

15 Goodwill

	31 December 17	31 December 16	Change.
Goodwill	384.1	375.7	8.4

The change compared to the previous year derives mainly from the residual recording of the goodwill of the aggregation of the Aliplast Group for 25 million euros and the write-down of the goodwill recorded in 2006 following the incorporation of Geat Distribuzione Gas for 11.7 million euros, as explained in note 8 "Depreciation, amortization and write-downs".

The value of the goodwill as of 31 December 2017 is mainly attributable to the following operations:
- integration resulting in the creation of Hera Spa in 2002, 81.3 million euros;
- acquisition of control through the merger of Agea Spa, effective beginning 1 January 2004, 41.7 million euros:
- 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 euros;

- acquisition of control over Sat Spa through the merger into Hera Spa, effective beginning 1 January 2008, 54.9 million euros:
- acquisition of control over the Aliplast Group, 25 million euros;
- acquisition of control over the Marche Multiservizi Spa Group, 20.8 million euros;
- acquisition of control over the Hera Comm Marche Srl, 4.6 million euros;

The recorded values of goodwill have been subjected to impairment tests and their results are outlined in Note 31 "Impairment test".

16 Equity investments

	31 December 17	31 December 16	Change
Investments valuated using the net equity method	135.6	131.5	4.1
Other investments	13.2	17.0	(3.8)
Total	**148.8**	**148.5**	**0.3**

The changes in joint ventures and associated companies as compared to 31 December 2016 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 "Share of profit (loss) in joint ventures and associated companies".

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

	31 December 16	Investments	Net equity valuations	Collected dividends	Other changes	31 December 17
Aimag Spa	46.1	-	3.5	(1.5)	-	48.1
EnomondoSrl	13.2	-	2.8	(0.7)	-	15.3
EstEnergy Spa	12.1	-	5.8	(5.1)	-	12.8
Set Spa	36.2	-	(1.4)	-	-	34.8
SgrServizi Spa	21.7	-	4.0	(3.6)	-	22.1
Other minor companies	2.2	0.1	0.1	-	0.1	2.5
Total	**131.5**	**0.1**	**14.8**	**(10.9)**	**0.1**	**135.6**

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

	31 December 16	Investments	Disinvestments	Impairments	Other changes	31 December 17
CaleniaEnergia Spa	7.0	-	-	-	-	7.0
Energo Doo	4.0	-	-	(4.0)	-	-
Veneta Sanitaria Finanza di Progetto Spa	3.6	-	-	-	-	3.6
Other minor companies	2.4	0.4	(0.2)	-	-	2.6
Total	**17.0**	**0.4**	**(0.2)**	**(4.0)**	**-**	**13.2**

Regarding the impairment of the investments in Enego Doo, see Note 10 "Financial income and expenses"

The recorded values of the investments through which the Group holds production shares in power plants (Set Spa, Tamarete Energia Srl and Calenia Energia Spa) have been subjected to impairment tests and their results are outlined in Note 31 "Impairment test".

Below are presented the main aggregate values of the joint ventures (Enomondo Srl and EstEnergy Spa) and the companies with significant influence (Aimag Spa, Q.Thermo Srl, Set Spa, Sgr Servizi Spa, Sosel Spa and Tamarete Energia Srl):

Assets	Joint ventures	Associated companies	Total
Non-current assets			
Property, plant and equipment	36.9	396.8	433.7
Intangible assets	-	46.5	46.5
Goodwill	-	39.8	39.8
Equity investments	-	11.2	11.2
Financial liabilities	-	3.2	3.2
Deferred tax assets	1.0	7.6	8.6
Non-current assets	**37.9**	**505.1**	**543.0**
Current assets			
Inventories	0.7	5.2	5.9
Trade receivables	49.6	205.7	255.3
Contract work in progress	-	0.1	0.1
Financial assets	0.3	-	0.3
Current tax assets	-	0.4	0.4
Other current assets	11.9	20.3	32.2
Available liquidity or equivalent means	13.8	21.0	34.8
Total current assets	**76.3**	**252.7**	**329.0**
TOTAL ASSETS	**114.2**	**757.8**	**872.0**

Shareholder's equity and liabilities	Joint ventures	Associated companies	Total
Share capital and reserves			
Share capital	15.7	88.0	103.7
Reserves	22.7	227.1	249.8
Net income (loss) for the year	17.0	28.3	45.3
Net equity of the Group	**55.4**	**343.4**	**398.8**
Non-controlling interests	-	11.3	11.3
Total equity	**55.4**	**354.7**	**410.1**
Non-current liabilities			
Non-current financial liabilities	2.3	199.7	202.0
Employee leaving indemnity and other benefits	0.2	9.2	9.4
Provisions for risks and charges	0.3	31.1	31.4
Deferred tax liabilities	0.4	0.5	0.9
Financial instruments - derivatives	0.2	-	0.2
Total non-current liabilities	**3.4**	**240.5**	**243.9**
Current liabilities			
Current financial liabilities	11.3	9.8	21.1
Trade payables	37.4	128.1	165.5
Current tax liabilities	0.3	0.1	0.4
Other current liabilities	6.4	24.6	31.0

Total current liabilities	**55.4**	**162.6**	**218.0**
TOTAL EQUITY AND LIABILITIES	**114.2**	**757.8**	**872.0**

Income statement	Joint ventures	Associated companies	Total
Revenues	140.9	517.7	658.6
Other operating revenues	10.3	2.0	12.3
Use of raw materials	(61.6)	(261.8)	(323.4)
Service costs	(52.1)	(118.3)	(170.4)
Personnel costs	(4.6)	(37.2)	(41.8)
Amortisation, depreciation and provisions	(6.7)	(40.7)	(47.4)
Other operating costs	(1.9)	(10.5)	(12.4)
Operative revenues	**24.3**	**51.2**	**75.5**
Financial income	0.2	0.2	0.4
Financial expenses	(0.6)	(7.1)	(7.7)
Total financial operations	**(0.4)**	**(6.9)**	**(7.3)**
Other non-operating revenues	-	0.8	0.8
Other one-time non-operating revenues	-	(0.7)	(0.7)
Earnings before taxes	**23.9**	**44.4**	**68.3**
Taxes for the period	(6.9)	(14.3)	(21.2)
Net income for the period	**17.0**	**30.1**	**47.1**

17 Current and non-current financial assets

	31 December 17	31 December 16	Change
Receivables for loans	78.4	72.6	5.8
Portfolio securities	2.5	2.4	0.1
Receivables for services under construction	12.7	1.9	10.8
Other financial receivables	31.6	33.3	(1.7)
Total non-current assets	**125.2**	**110.2**	**15.0**
Receivables for loans	9.0	15.3	(6.3)
Portfolio securities	0.2	0.1	0.1
Other financial receivables	32.3	14.0	18.3
Total current assets	**41.5**	**29.4**	**12.1**
Total available liquidity	**450.5**	**351.5**	**99.0**
Total current assets and available liquidity	**617.2**	**491.1**	**126.1**

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

	31 December 17			31 December 16		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe Spa	9.2	0.8	10.0	10.0	0.6	10.6
CaleniaEnergia Spa	17.0	0.3	17.3	0.7	-	0.7
EnomondoSrl	-	-	-	-	4.1	4.1
Set Spa	27.0	4.5	31.5	29.6	6.3	35.9
TamareteEnergiaSrl	19.4	2.5	21.9	26.8	3.4	30.2
Other minor companies	5.8	0.9	6.7	5.5	0.9	6.4
Total	**78.4**	**9.0**	**87.4**	**72.6**	**15.3**	**87.9**

The recorded values of the investments through which the Group holds production shares in power plants (Set Spa, Tamarete Energia Srl and Calenia Energia Spa) have been subjected to impairment tests and their results are outlined in Note 31 "Impairment test".

"Portfolio Securities" includes, in the non-current section, bonds, funds and insurance policies in the amount of 2.5 million euros to guarantee the post-closure of the landfill managed by the subsidiary AsaScpa. The current section includes bonds classifiable as assets available for sale, the book value of which is essentially in line with their fair value at the end of the financial year.

"Receivables for services under construction" comprises receivables from a number of municipalities for the construction of public lighting systems calculated in compliance with the financial asset model provided for in the IFRIC 12 interpretation, and is outline in detail in the explanatory section of the evaluation criteria regarding the item "Receivables and loans"

For "Other financial receivables", the non-current section includes the following financial positions:

- receivable from the City of Padua, regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 17.9 million euros;
- receivable from the "Collinare" Consortium of Municipalities in the amount of 11.9 million euros represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- receivable from the municipality of Padua, regulated at market rate, following the deferral of payment over ten years for supplying electricity for street lighting systems in the amount of 0.8 million euros;

For "Other financial receivables", the current section mainly includes:

- public grant receivables to be received from various different subjects (including Cato, the Friuli Venezia Giulia Region and the Veneto Region) and receivables from the subsidiary Consorzio Stabile energie Locali (Csel) by the subsidiary AcegasApsAmga Spa , in the amount of 19.2 million euros;
- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the commencement of the calls for tender, in the amount of 3.6 million euros;
- receivables to be received following the awarding of the public tender for the light service (called by Consip for assigning the service on behalf of the public administrations) from the ATI in the amount of 3.3 million euro;
- deposits to guarantee the purchase of the "Teseco" branch for a total of 1.8 million euros while waiting to carry out the payment of the amount owed;
- receivable from the municipality of Padua, regulated at market rate, following the deferral of payment over ten years for supplying electricity for street lighting systems in the amount of 0.7 million euros;

"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 euros; the deposit accounts at banks and credit institutions, generally available for current operations, as well as post office bank accounts in the amount of 450.4 million euros.

To better understand the financial dynamics taking place during the 2017 financial year, see the financial statement and the comments shown in the Directors' report.

18 Deferred tax assets and liabilities

	31 December 17	31 December 16	Change
Deferred tax assets	220.7	143.2	77.5
Deferred taxation adjustment	(72.0)	(65.3)	(6.7)
Substitute tax credit	1.8	2.4	(0.6)
Total net deferred tax assets	**150.5**	**80.3**	**70.2**
Deferred tax liabilities	117.5	92.5	25.0
Deferred taxation adjustment	(72.0)	(65.3)	(6.7)
Total net deferred tax liabilities	**45.5**	**27.2**	**18.3**

"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 as well as release of controlling shares.

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

Please note that the recording under deferred tax assets of future tax benefits, amounting to 43.9 million euros, are generated by the release of provisions carried out by the Group during the year. The change as compared to the previous year is also related to the reporting of deferred tax liabilities as a result of business combination operations described in paragraph 2.02.03 "Scope of consolidation".

For more details about the composition of deferred tax assets and liabilities reference is made to note 11 "Taxes".

19 Financial instruments - derivatives

Non-current assets and liabilities							
		31 December 17			31 December 16		
Underlying	**Fair Value Hierarchy**	**Notional**	**Fair Value Assets**	**Fair Value liabilities**	**Notional**	**Fair Value Assets**	**Fair Value liabilities**
Interest rate derivatives							
Loans	2	1,000 mn	60.8		1,000 mn	83.6	
Loans	2	571.7 mn		34.5	168.3 mn		44.1
Total interest rate derivatives			**60.8**	**34.5**		**83.6**	**44.1**
Exchange rate derivatives							
Loans	2	20 bn Jpy	5.3		20 bnJpy	25.9	
Total non-current derivatives			**66.1**	**34.5**		**109.5**	**44.1**

Current assets and liabilities							
		31 December 17			31 December 16		
Underlying	Fair Value Hierarchy	Notional	Fair Value Assets	Fair Value liabilities	Notional	Fair Value Assets	Fair Value liabilities
Commodity derivatives							
Foreign Gas Hub	3	1,894,963 MWh	3.8		790,348 MWh	1.9	-
Formule Energia Elettrica	2	8,298,664 MWh	36.4		8,944,992 MWh	54.6	-
Foreign Gas Hub	3	115,358 MWh		0.2	405,383 MWh	-	0.8
Crude oil	2	7,000 Bbl		0.1	12,400 Bbl	-	0.2
Refined oil/coal	2	4,100 Ton		0.2	9,100 Ton	-	0.7
Formule Energia Elettrica	2	7,892,951 MWh		45.5	8,676,054 MWh	-	63.1
Total commodity derivatives			**40.2**	**46.0**		**56.5**	**64.8**

Financial instruments reported as current assets and liabilities represent derivative contracts whose execution is expected to take place within the next financial year. During the 2017 financial year, there were no transfers between the different levels of fair value indicated above.

With regard to derivatives on current and long-term interest rates in the form of Interest Rate Swaps (IRS) as at 31 December 2017, the Group's net exposure was positive by 26.4 million euros, compared with a positive exposure of 39.5 million Euros as at 31 December 2016. The slight decrease in the fair value as compared to the previous year, in view of interest rate curves that were depressed and mainly stable rates over the financial periods, is due to the achievement of the positive differential of the derivatives for that period.

The fair value of derivatives set up to hedge the exchange rate and the fair value of foreign currency loans in the form of Cross Currency Swaps (CCS) is positive in the amount of 5.3 million euros as at 31 December 2017, as compared to a positive assessment, amounting to 25.9 million euros, as at 31 December 2016. The positive change in fair value in the amount of 20.6 million euros is due prevalently to the exchange rate, since the Japanese yen depreciated considerably on the euro during 2017 (approximately 12 basis points from the beginning of the year).

At 31 December 2017 the net fair value of commodity and currency derivatives was negative for 5.8 million euros, as compared to a negative fair value of 8.3 million euros at 31 December 2016. The decrease in absolute terms of the fair value of assets and liabilities, compared to 31 December 2016, was linked - especially in relation to the contracts related to special price arrangements ("Formule Energia Elettrica"), which constitute the absolute majority of the company's contracts - to a change in the Group's procurement dynamics, also due to the absence of extraordinary events that by contrast affected procurement during the previous financial period following the crisis of French nuclear plants.

Interest rate and foreign exchange derivative instruments held as at 31 December 2017, subscribed in order to hedge loans, can be classed into the following categories:

Interest rate and foreign exchange derivatives (financial operations)						
Type	**31 December 17**			**31 December 16**		
	Notional	**Fair Value Assets**	**Fair Value liabilities**	**Notional**	**Fair Value Assets**	**Fair Value liabilities**
- Cash Flow Hedge	421.9 mn	-	0.9	18.5 mn	-	1.2
- Fair Value Hedge	149.8 mn	5.3	25.7	149.8 mn	25.9	31.5
- Non Hedge Accounting	1,000 mn	60.8	7.9	1,000 mn	83.6	11.4
Total fair value		**66.1**	**34.5**		**109.5**	**44.1**
Type	**31 December 17**			**31 December 16**		
	Income	**Expenses**	**net effect**	**Income**	**Expenses**	**net effect**
- Cash Flow Hedge		(0.9)	(0.9)	-	(1.0)	(1.0)
- Fair Value Hedge	10.4	(28.9)	(18.5)	15.9	(10.8)	5.1
- Non Hedge Accounting	38.9	(38.8)	0.1	37.6	(37.0)	0.6
Total income/expenses	**49.3**	**(68.6)**	**(19.3)**	**53.5**	**(48.8)**	**4.7**

Interest rate derivatives identified as cash flow hedges show a residual notional amount of 421.9 million Euros (18.5 million Euros as at 31 December 2016) against variable rate loans of the same amount. With regard to the notional increase, it should be noted that during March 2017 four new derivatives on interest rates were subscribed for a notional value of 100 million euro each. These derivatives, with a negative fair value of 0.3 million euros as of 31 December 2017, have been hedged to cover a future highly probable financing operation with a total nominal value of 400 million euros and expected to be issued in 2020. These derivatives do not provide for the settlement of the differentials before the underlying issue transaction has been carried out, therefore they do not produce effects in the form of effective expenses or income. Furthermore, in May 2017, a derivative with an original notional amount of 11.7 million euros (11.3 million euros of 31 December 2017) was subscribed to hedge a loan originally amounting to 13.3 million euros disbursed by Cassa Depositi e Prestiti to the subsidiary Hera Luce Srl, functional to the investments in the public lighting systems managed by the Group.
Charges associated with this class of derivatives predominantly refer to cash flows realised, or to the recording of shares of flows, which shall have a financial impact in the following period. As at 31 December 2017, the breakdown of net charges relating to derivatives classified as cash flow hedge amount to 0.9 million Euros (1 million euros as of 31 December 2016).
All hedge relationships between the above derivative contracts and their current or future underlying liabilities resulted in recording net income in the amount of 0.4 million euros to the income statement, net of the relevant tax effect for the Group (0.6 million euros as of 31 December 2016). These revenues can be broken down as follows:

Cash Flow Hedge	**31 December 17**			**31 December 16**		
	Positive component	**Negative component**	**Total**	**Positive component**	**Negative component**	**Total**
Changes in expected financial flows		(0.3)	(0.3)	0.1		0.1
Amount transferred to the income statement	0.7		0.7	0.5		0.5
Effect of derivatives comprehensive income statement Cash Flow Hedge	**0.7**	**(0.3)**	**0.4**	**0.6**	**-**	**0.6**

The derivatives on interest rates and exchange rates, identified as fair value hedges of liabilities reported in the balance sheet have an overall negative fair value of 20.4 million euros as compared to a negative fair value of 5.6 million euros, as at 31 December 2016. The negative change in fair value for this period is due prevalently to the exchange rate associated with the Cross Currency Swap (CSS) outline above.

The table below provides a breakdown at 31 December 2017 of financial income and expense associated with derivatives designated as fair value hedges and related underlying liabilities, as adjusted for the income and losses attributable to the hedged risk:

Fair Value Hedge	31 December 17			31 December 16		
	Income	Expenses	Total	Income	Expenses	Total
- Valuation of derivatives	5.7	(20.5)	(14.8)	10.9	(2.6)	8.3
- Accrued Interest		(0.2)	(0.2)	0.2	-	0.2
- Cash flow achieved	4.7	(8.2)	(3.5)	4.8	(8.2)	(3.4)
Derivatives financial impact Fair Value Hedge	**10.4**	**(28.9)**	**(18.5)**	**15.9**	**(10.8)**	**5.1**

Underlying	31 December 17			31 December 16		
	Income	Expenses	Total	Income	Expenses	Total
Financial liabilities valuation	20.5	(5.7)	14.8	2.6	(10.9)	(8.3)

The derivatives on interest rates, identified as non-hedge accounting hedges, have an overall fair value of 52.9 million euros (72.2 million euros as of 31 December 2016). In this regard, it should be noted that, during 2015 the Group decided to restructure its portfolio of derivatives as part of a move to review the balance between debt at fixed rates and debt at variable rates. This restructuring resulted in revoking certain hedging relationships and signing new derivative contracts that do not qualify for hedge accounting under IAS 39. The new derivative contracts, despite being classified as non-hedge accounting, have as their main objective to provide coverage from interest rate fluctuations and have no impact on the income statement (mirroring).

The breakdown as at 31 December 2017 of financial income and expense associated with derivatives designated as non-hedge accounting is as follows:

Non Hedge Accounting	31 December 17			31 December 16		
	Income	Expenses	Total	Income	Expenses	Total
- Valuation of derivatives	3.6	(22.8)	(19.2)	1.8	(20.4)	(18.6)
- Accrued Interest		(0.1)	(0.1)	0.2	(0.2)	-
- Cash flow achieved	35.3	(15.9)	19.4	35.6	(16.4)	19.2
Derivatives financial impact Non Hedge Accounting	**38.9**	**(38.8)**	**0.1**	**37.6**	**(37.0)**	**0.6**

The economic effect associated with the assessment of this type of hedge as compared to the previous financial year, reflects changes in the fair value of the financial instruments described above. No significant ineffective portions were found in the financial year.

Commodity derivative instruments held as at 31 December 2017 can be classed into the following categories:

Interest rate and foreign exchange derivatives (financial operations)						
Type	**31 December 17**			**31 December 16**		
	Fair Value Assets	**Fair Value liabilities**	**net effect**	**Fair Value Assets**	**Fair Value liabilities**	**net effect**
- Hedge Accounting	6.2		6.2			
- Non Hedge Accounting	34,0	46.0	(12.0)	56.5	64.8	(8.3)
Total fair value	**40.2**	**46.0**	**(5.8)**	**56.5**	**64.8**	**(8.3)**
Type	**31 December 17**			**31 December 16**		
	Income	**Expenses**	**net effect**	**Income**	**Expenses**	**net effect**
- Non Hedge Accounting	115.1	(106.2)	8.9	84.1	(81.6)	2.5

Commodity derivatives identified as cash flow hedges are associated with planned future purchase of electricity highly likeable. All hedge relationships between the above derivative contracts comprised in the "Formule Energia Elettrica" and their underlying liabilities resulted in recording net income in the amount to 4.3 million euros to the income statement, net of the relevant tax effect for the Group.
The commodity derivatives classified as non-hedge accounting mainly include contracts put in place substantially for hedging purposes, but which, on the basis of the strict requirements set forth by international accounting standards, cannot be formally classified under hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are recognised as operating costs.
Overall, these derivatives, in the 2017 financial year, generated a net income of 8.9 million euros, 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.
At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedge) to fully hedge loans in foreign currency. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currencies.
This Risk Mitigation policy is detailed in the management report, which can be consulted for further information on this topic (see in particular the section "Rate Risk" and "Exchange rate risk not connected to the commodity risk")

Sensitivity Analysis - Financial transactions
In conjecturing an instant shift of -25 basis points in the interest rate curve with respect to the interest rates effectively applied for the assessments as at 31 December 2017, at like-for-like exchange rates, the potential increase in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly 6.1 million euros. Likewise, conjecturing an instant shift of +25 basis points in the interest rate curve, there would be a potential decrease in fair value of about 5.8 million euros.
These changes in fair value of financial instruments accounted for as hedges would have no effect on the income statement if it were not for their potential ineffective portion, which moreover is not significant.-
As to derivatives designated as fair value hedges, any change in fair value would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be essentially offset by a movement in the opposite direction of the hedged liability.
Assuming an instant change of 10% in the euro/yen exchange rate, given the same interest rates, the potential decrease in fair value of the derivative financial instruments in place at 31 December 2017 would amount to approximately 16.3 million euros. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 19.9 million euros. As exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the credit

adjustment part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

Market risk and currency risk on commercial transactions
Concerning the wholesale business carried on by Hera Trading S.R.L., the Group manages risks related to the misalignment between indexation formulas related to the purchase of gas and electric energy and the indexation formulas related to the sales of the same commodities (including contracts entered into at fixed prices) as well as exchange rate risks in case the trading contracts for the commodities are denominated in currencies other than the euro U.S. dollar).
With reference to these risks, the Group has set up a number of commodities derivatives aimed at pre-establishing the effects on sales margins irrespective of changes in market conditions.
Although they do not formally fall under the IAS 39 criteria to be accounted for under hedge accounting, these derivatives effectively serve the function of simply hedging for fluctuations in prices and exchange rates on raw materials purchased, and fall within the Risk Mitigation Policy detailed in the management report; please refer to this report for further information (see in particular the section "risks associated with the macroeconomic environment").

Sensitivity Analysis - Commercial transactions
In assuming an instant 10 dollar-per-barrel rise in the Brent price, with no change in the Euro/Dollar exchange rate, and no change in the curve of the national standard price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2017 would amount to approximately Euro 5.2 million. On the contrary, an instant fall in the same amount would bring about a potential decrease in the fair value of the instruments of approximately 5.2 million euros.
In assuming an instant +5 Euro/MWh change in the national standard price curve, with no change in the Euro/Dollar exchange rate, and no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2017 would amount to approximately 9.8 million euros. On the contrary, an instant change of -5 Euro/MWh would bring about a potential decrease in the fair value of the instruments of around 9.8 million euros.

20 Inventories

	31 December 17	31 December 16	Change
Raw materials and stocks	73.5	63.5	10.0
Materials earmarked for sale and finished products	15.5	10.5	5.0
Contract work in progress	32.2	30.5	1.7
Total	**121.2**	**104.5**	**16.7**

The "Raw materials and stocks", already shown net of an associated obsolescence provision, amount to 73.5 million euros. The item mainly comprises gas stocks, for 32.3 million euros(29.6 million euros as at 31 December 2016), spare parts and equipment used for maintenance and running of operating plants, equal to 34.9 million euros (33.9 million euros as at 31 December 2016) and plastic materials earmarked for regeneration in the amount of 6.3 million euros. The latter, not present as at 31 December 2016, represent the stocks for the production cycle of the companies of the Aliplast Group, whose control was acquired over the course of the year

"Materials earmarked for sale" mainly consists of:

- GVG system - Steam Grid Generator and complementary plant components (for a total of 9.6 million euros), classified on purchase under the category fixed assets in course of acquisition in that it was earmarked for the third line of Modena waste to energy plant. The Group actually sought to implement a new incinerator line in the plant area of the current WTE plant; however, 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. On 23 February 2017, the Group updated the technical report on the assets comprising the GVG system, obtaining reassurance on the recoverability of the values outlined in the financial statement, considering both the Group's ability to market the supply to potential third party buyers and, alternatively, the possibility of employing this system for revamping other incineration plants already owned;
- plastic products made in the regeneration plants of the Aliplast Group for 5.5 million euros.

The item "Contract work in progress", which at 31 December 2017 amounted to 32.2 million euros, includes long-term contracts for plant engineering construction work, mainly in relation to gas, water and public lighting (the latter in the amount of 12.7 million euros), as well as for design activities aimed at acquiring commissions in the national and international markets.

21 Trade receivables

	31 December 17	31 December 2016 adj	Change
Trade Receivables	1,317.4	1,201.4	116.0
Allowance for bad debts	(271.0)	(211.1)	(59.9)
Receivables from clients for bills and invoices not yet issued	714.5	654.9	59.6
Total	**1,760.9**	**1,645.2**	**115.7**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2017, as well as receivables for revenues accrued over the course of the financial period for the water sector, which will be invoiced in the following financial periods, in compliance with the billing procedures established by the Authority. The provisions for bad debts are considered to be fair in relation to the estimated realizable value of said receivables.

Changes in the provisions for bad debts were as follows:

	Opening balance	Allocation to provisions	Changes in the scope of consolidation	Uses and other operations	Closing balance
Year 2016	203.4	85.1	0.9	(78.3)	211.1
Year 2017	211.1	103.4	0.5	(44.0)	271.0

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the customers (in relation to the age of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the following paragraph "credit risk".

The change in the scope of consolidation reflects the acquisition of control over the Aliplast Group, Verducci Servizi Srl and the "Enerpeligna" business branch.

The following table displays these receivables from clients on the basis of bills issued, organized by degree of past-due:

	31 December 17	Effect	31 December 16 Adj	Effect	Change
Not yet due	394.9	30%	406.0	34%	(11.1)
Due 0-30 days	107.8	8%	122.0	10%	(14.2)
Due 31-180 days	171.5	13%	139.6	12%	31.9
Due 181-360 days	139.7	11%	101.2	8%	38.5
Due beyond 360 days	503.5	38%	432.6	36%	70.9
Total	**1,317.4**		**1,201.4**		**116.0**

Credit risk

The value of trade receivables reported in the financial statements at 31 December 2017 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, 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

	31 December 17	31 December 16	Change
Income tax credits	8.2	12.1	(3.9)
IRES refund credit	21.6	21.8	(0.2)
Total current tax assets	**29.8**	**33.9**	**(4.1)**
Income tax payables	23.6	16.0	7.6
Substitute tax payables	14.3	5.0	9.3
Total current tax liabilities	**37.9**	**21.0**	**16.9**

"Income tax credits" refer to the excess advance IRES and IRAP payments over the tax amount payable. The item "IRES refund receivable" refers to requests for IRES refunds due for the 2007 and 2011 years, following the deductibility of IRES from IRAP related to labour costs and the like under Law Decree 201/2011.

"Income tax payables" includes provisions for IRES and IRAP made in relation to profit for the period.

The item "Substitute tax payable" includes the remaining tax instalments in relation to deprovision operations. The value recorded as of 31 December 2017 refers to the deprovisioning of the highest value of the controlling interest in Aliplast Spa which will be paid during the 2018 financial year.

23 Other current assets

	31 December 17	31 December 16 adj	Change
Energy efficiency bonds and emissions trading	104.7	73.3	31.4
VAT, excise and additional taxes	50.0	22.1	27.9
Security deposits	32.3	30.7	1.6
Benefits from renewable sources	32.1	26.8	5.3
Fund for the electricity, gas and environmental services for standardisation and continuity income	21.5	25.7	(4.2)
Prepaid costs	18.3	19.3	(1.0)
Advances to suppliers and employees	8.4	9.5	(1.1)
Other receivables	36.0	45.3	(9.3)
Total	**303.3**	**252.7**	**50.6**

The breakdown and changes in the main items are described compared with 31 December 2016.

"Energy efficiency bonds and emissions trading", includes:

- green certificates, 9.8 million Euros (10.4 million Euros as at 31 December 2016);
- White certificates, 92.5 million Euros (60.1 million Euros as at 31 December 2016);
- grey certificates, 2.4 million Euros (2.8 million Euros as at 31 December 2016);

In line with the previous year, the amount of receivables for green certificates in the portfolio has gradually decreased due to the incentive mechanism (valid beginning in the 2016 financial year) for the production of electricity from renewable sources, according to which green certificates are no longer recognized, replaced by a reduced rate for the sale of electricity produced. 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 mainly attributable to the recording by area of the amount of certificates recognized during the period.

"VAT, excise and additional taxes", amounting to 50 million euros (22.1 million euros as at 31 December 2016), is comprised of tax credits payable to the treasury for value added tax in the amount of 43.9 million euros and for excise and additional taxes in the amount of 6.1 million euros. The change as compared to 31 December 2016 is attributable to an increase of 27.1 million euros in receivables for value added tax (16.8 million euros s at 31 December 2016) and a decrease of 0.8 million euros in receivables for excise and additional taxes (5.3 million euros as at 31 December 2016). These changes should be interpreted together with the same change shown in the item "Other current liabilities" in Note 30. In particular, with regard to excise duties and additional taxes, the procedures that govern the financial relations with the tax authorities should be taken into account: as a matter of fact, advance payments made during the year are calculated on the basis of the quantities of gas and electricity billed in the previous year. These methods can generate credit or debit positions with differences that can be significant even between one period and another.

"Security deposits", amounting to Euro 32.3 million (Euro 30.7 million as at 31 December 2016), include the security deposit with Acosea Impianti Srl for Euro 12.4 million, the deposits paid as security for participation in the foreign platforms for the negotiation of commodity contracts and tenders on the electricity market for Euro 4.9 million, security deposits to guarantee operations on the wholesale electricity and gas markets for Euro 5.9 million as well as cautionary deposits required by Customs for Euro 2.2 million.

"Benefits from renewable sources", equal to 32.1 million euros(26.8 million euros as at 31 December 2016) are represented by receivables from the GSE owed to the new incentive mechanism for the production of electricity from renewable sources, which replaced the method for recording green certificates.

"Fund for the energy and environmental services for standardisation and continuity income", totalling 21.5 million euros (25.7 million euros as at 31 December 2016), the decrease is mainly due to lower credit from the standardisation of gas distribution, only in part counterbalanced by the higher credit from the standardisation of the electrical sector as regards protected sale .

"Prepaid costs" are for the most part shares for the future provision of services and external processing in the amount of 5.5 million euros (5.3 million euros as of 31 December 2016), costs incurred for insurance policies, surety, bank fees and charges in the amount of 3.6 million euros (4.2 million euros as of 31 December 2016) , fees due and concession fees for network services in the amount of 3.2 million euros (3.3 million euros as of 31 December 2016), prepaid leases and rentals in the amount of 1.4 million euros (1.2 million euros as of 31 December 2016).

24 Assets and liabilities held for sale

In compliance with IFRS 5, these items include the contribution to the consolidated financial statements as at 31 December 2017 in terms of assets and liabilities of the companies Medea Spa and SiGas doo, in that they are identified as groups to be divested. On 21 December 2017, Hera Spa signed an agreement that, within the first few months of 2018, provided for the sale of the entire investment in Medea Spa. Concerning the Serbian subsidiary SiGas doo, once a number of potential buyers was identified a sales program was formally launched.

Assets and liabilities reclassified as held for sale are shown at their book value, which was valued lower than their fair value. The following table shows only the values referring to the company Medea Spa, as the values of SiGas doo are entirely non-relevant:

	31 December 17
Intangible assets	16.2
Goodwill	3.1
Inventories	0.2
Trade receivables	3.0
Other current assets	0.4
Assets held for sale	**22.9**
Employee leaving indemnity and other benefits	0.2
Deferred tax liabilities	1.0
Current financial liabilities	2.5
Trade payables	1.5
Other current liabilities	0.7
Liabilities associated with assets held for sale	**5.9**
Total	**17.0**

The previous values are included in the item "Asset net working capital" of the "Gas" operating segment of the report specified in section 2.02.07 "Report by operating segments"

25 Share capital and reserves

Compared to 31 December 2016, shareholders' equity increased by 143.9 million euros due to the combination of the following effects:

- the distribution of dividends in the amount of 140.4 million euros;
- increase due to transactions on treasury shares, in the amount of 15.4 million euros;
- overall revenues for the period in the amount of 269.3 million euros.

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

Share capital
The share capital as at 31 December 2017 amounted to 1,473.6 million euros, made up of 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up.
The treasury shares, whose nominal value at 31 December 2017 was 15.3 million euros, 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 820.2 million euros, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 852.6 million euros, cumulative loss in the other comprehensive income for 27.6 million euros and reserves for operations on negative treasury shares in the amount of 4.8 million euros. These latter items reflect transactions carried out on treasury shares as at 31 December 2017. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 8.1 million euros.

Non-controlling interests
This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. It mainly includes minority equity interests in the Herambiente Group and the company Marche Multiservizi Spa.

26 Current and non-current financial liabilities

	31 December 17	31 December 16	Change
Bonds and loans	2,856.9	2,913.2	(56.3)
Payables for acquiring controlling interest and potential consideration	17.4	-	17.4
Finance lease payables	13.9	14.9	(1.0)
Other financial payables	4.0	5.0	(1.0)
Total non-current financial liabilities	**2,892.2**	**2,933.1**	**(40.9)**
Bonds and loans	55.3	71.7	(16.4)
Payables for acquiring controlling interest and potential consideration	7.0	1.8	5.2
Finance lease payables	2.0	2.3	(0.3)
Other financial payables	28.3	34.4	(6.1)
Overdrafts and interest expense	187.0	72.1	114.9
Total current financial liabilities	**279.6**	**182.3**	**97.3**
Total financial liabilities	**3,171.8**	**3,115.4**	**56.4**

"Bonds and loans" decreased due to the gradual and periodic repayment of outstanding loans The valuation using the method of the amortized cost of the bonds, on the other hand, entailed an increase in the items for 8.8 million euro for 2017.

"Liabilities for acquisitions of controlling shares and potential considerations" includes the sums that have yet to be paid to the transferring shareholders as part of the business combinations carried out in this or previous financial periods, as well as the estimate at the date of the financial statement of potential payments provided for by the agreements made during acquisition. As of 31 December 2017this item mainly refers to the acquisition of the Aliplast Group. For a more detailed description, please see the dedicated paragraph 2.02.03 "Scope of consolidation".

The item "Finance lease liabilities" records payables arising from accounting for leasing transactions using the financial method.
The change as compared to 31 December 2016 is mainly due to the payment of matured shares and, with the opposite effect, to new payables gained with the entrance in the scope of consolidation of the Aliplast Group companies and the acquisition of the Teseco branch. The value of the lease payments still due on 31 December 2017 amounted to 18.1 million euros.

The item "Other financial liabilities" includes the debt amounting to 4 million euros owed to the municipal pension fund of the City of Trieste. The current portion mainly includes:

- payables owed to the municipalities for TARI tax amounting to 1 million euros (16.3 million euros as at 31 December 2016);
- liabilities owed to the inland revenue for the RAI fee amounting to 2.5 million euros (3.7 million euros as at 31 December 2016);
- to factoring companies for the collection of receivables assigned without recourse still to be transferred at the end of the financial years for 19.0 million euros.
- liabilities owed to the fund for the energy and environmental services for collections from safeguarded categories of customers, in relation to advances already received, for 8.3 million euros (12.5 million euros as at 31 December 2016).
- liabilities owed to the social security fund of the municipality of Trieste amounting to 0.7 million euros (0.8 million euros as at 31 December 2016);

At 31 December 2017 the Hera Group provided the following security interests for certain bank loans, including among others. Specifically:

- mortgages and special liens on property, plant and equipment by the Hera Group to the syndicate of banks in relation to the financing of the WTE plant in Granarolo (BO) whose nominal amount outstanding is now 13.1 million euros;
- mortgages on buildings in Pesaro and Urbino held by a bank that provided a loan to the subsidiary Marche Multiservizi Spa with a nominal outstanding value of 0.9 million euros.
- mortgages securing the loan granted to the subsidiary AcegasApsAmga Spa, with a nominal outstanding value of 1.2 million euros.

The table below shows the financial liabilities as at 31 December 2017 and indicates the portion expiring within the financial year, within 5 years and after 5 years:

Type	**Residual amount 31-dec-17**	**Portion due within the period**	**Portion due within the 5th year**	**Portion due beyond the 5th year**
Bond	2,390.7		711.7	1,679.0
Bank loans	521.5	55.3	196.6	269.6
Payables for acquiring controlling interest and potential consideration	24.4	7.0	17.4	
Finance lease payables	15.9	2.0	6.7	7.2
Other financial payables	32.3	28.3	4.0	-
Overdrafts and interest expense	187.0	187.0	-	-
Total	**3,171.8**	**279.6**	**936.4**	**1,955.8**

As at 31 December 2017, the total bonds outstanding are:

Bonds	Negotiation	Length (years)	Maturity	Nominal value (mln)	Coupon	Annual interest rate
Eurobond	Luxemburg stock exchange	10.	3-dec-19	394.6 Eur	Fixed, annual	4.50%
Bond	Luxemburg stock exchange	8	4-oct-21	289.8 Eur	Fixed, annual	3.25%
Bond	Luxemburg stock exchange	10.	22-may-23	68.0 Eur	Fixed, annual	3.375%
Green bond	Luxemburg stock exchange	10.	4-Jul-24	500.0 Eur	Fixed, annual	2.375%
Bond	Not listed	15	5-aug-24	20,000 Jpy	Fixed, 6 months	2.93%
Bond	Luxemburg stock exchange	12	22-may-25	15.0 Eur	Fixed, annual	3.50%
Bond	Luxemburg stock exchange	10.	14-oct-26	400.0 Eur	Fixed, annual	0.875%
Bond	Not listed	15/20	14-may-27/32	102.5 Eur	Fixed, annual	5.25%
Bond	Luxemburg stock exchange	15	29-jan-28	700.0 Eur	Fixed, annual	5.20%

At 31 December 2017, the total bonds outstanding, with a nominal value of 2,619.7 million euros (unchanged as compared to the previous financial period), had a fair value of 3,023.4 million euros (3,102.2 as at 31 December 2016), as determined on the basis of market quotations, when available.
There are no covenants on the debt except that, for some loans, which requires the company not to have even one agency lower its rating below "investment grade" (BBB-). As of the balance sheet date this covenant has been applied.

Liquidity risk
Liquidity risk concerns the inability to meet the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done through the centralised management of cash inflows and outflows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.
Current cash and lines of credit, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, at 31 December 2017 unused lines of credit amounted to approximately Euro 620 million while available committed credit lines amounted to Euro 300 million.

The analysis of cash flows, broken down by maturity date, related to borrowings outstanding at the balance sheet date is illustrated in the Report on operations in the section 1.06.03 Financial policy and rating.

Securities and guarantees

	31 December 17	31 December 16
Securities and guarantees	935.9	967.0
Securities and insurance guarantees	379.7	324.6
Total	**1,315.6**	**1,291.6**

"Securities and bank guarantees", the value as at 31 December 2017 comprises the following:

- 607.8 million euros for guarantees made to public institutions (the Ministry of the Environment, the Region of Emilia Romagna, other provinces and municipalities) and private entities to guarantee the suitable management of plants for treating waste, landfills and dumps, for the suitable provision of waste disposal services, for reclamation work and for the proper fulfilment of contractual commitments;
- 328.1 million euros for guarantees and comfort letters issued to guarantee timely payment for the supply of raw materials.

"Guarantees and insurance guarantees", as at 31 December 2017 this item refers to guarantees issued to public entities (various provinces and municipalities that are part of Emilia Romagna and the Marche, the Ministry of the Environment) and third parties to guarantee the suitable management of public utility and waste disposal services, the proper execution of the work to lay company pipelines across roads owned by private individuals, reclamation work, managing waste treatment systems.

27 Post-employment and other benefits

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

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly solely to settle payments made to eligible retirees. The " item "tariff reduction provision" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

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

	31 December 16	Service cost	Financial expenses	Actuarial profit (losses)	Uses and other operations	Changes in the scope of consolidation	31 December 17
Employee leaving indemnity	129.5	0.8	0.9	2.3	(8.2)	1.0	126.3
Discount rate	7.3	-	0.1	0.2	(0.3)	-	7.3
Premungas	4.8	-	-	0.2	(0.6)	-	4.4
Gas discount	4.2	-	-	0.5	(0.4)	-	4.3
Total	**145.8**	**0.8**	**1.0**	**3.2**	**(9.5)**	**1.0**	**142.3**

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

The item "Uses and other movements" mainly includes the amounts paid to employees over the course of the period, equal to 9.5 million euros.

The main assumptions used in the actuarial estimate of the employee benefits for geographical area:

	Hera Group (central area)	Hera Group (north-east area)
Annual discount rate	0.60%	0.60%
Annual salary increase	2.00%	
Annual employee departure for reasons other than death	1.09%	1.14%
Annual usage rate of employee leaving indemnity	2.43%	2.26%

In interpreting said assumptions, account is taken of the following:

- with reference to the inflation rate, the inflationary scenario was calculated by adopting an HICP index of 1.3% for 2018, 1.4% for 2019 and 1.5% from 2020 onwards;
- for probabilities of death, those relating to ISTAT 2016 tables;
- In the actuarial valuations, account was taken of the new effective dates for pensions under Law Decree no. 38/2005. 6 December 2011, 201 entitled "Urgent measures for growth, equity, and the consolidation of public finances", as amended by Law 22 December 2011 no. 214, as well as the regulation for adjusting requirements for accessing the pension system in view of increased life expectancies in accordance with Article 12 of Legislative Decree no. 12 of Legislative Decree no. 78 of 31 May 2010, which became effective, with changes, by law 122 of 30 July 2010;

- For the probability of leaving employment for reasons other than death, an average leaving rate of 1.09% per annum was hypothesized, since the analysis differentiated by professional level and sex did not result in statistically significant results;
- in order to take into account the effects that the employers leaving indemnity advances have on the timing of disbursements, and therefore, on the discounting of the company's debt, a number of exit probabilities from part of the volumes accrued has been hypothesised. The frequency of advances, as well as the average percentages of the employers leaving indemnities requested as an advance have been deduced from observing the company data. The percentage of employers leaving indemnity requested as an advance was assumed for all Group companies, equal to 70% of the indemnity, or at the maximum required by current legislation;
- for actuarial valuations, the discount rate adopted was determined with reference to the market yields of bonds issued by primary companies at the valuation date. In relation to this, the valuations were made on the basis of the Euro Composite AA yield curve (source: Bloomberg) for 29 December 2017.

Sensitivity Analysis - Obligations of defined-benefit plans
Assuming a 50 bps increase in the internal rate of return compared to the discount rate actually applied to value the liabilities at 31 December 2017, all other actuarial assumptions being equal, the potential decrease of the present value of the obligations of the existing defined-benefit plans would amount to about Euro 5.5 million. Likewise assuming a reduction of the same rate for the same amount there would be an increase in the present value of the liabilities of about Euro 6 million.
Assuming a 50 bps increase in the in the rate of inflation compared to that actually applied to value the liabilities at 31 December 2017, all other actuarial assumptions being equal, the potential increase of the present value of the obligations of the existing defined-benefit plans would amount to about 3.5 million euros. Likewise assuming a reduction of the same rate for the same amount there would be a decrease in the present value of the liabilities of about Euro3.4 million.
Changes in the remaining actuarial assumptions would produce non-significant effects on the present value of the liabilities of the defined-benefit plans reported in the statement of financial position.

28 PROVISIONS FOR RISKS AND CHARGES

	31 December 16	Provisions	Financial expenses	Uses and other movements	Changes scope of consol.	31 December 17
Provision for closure and post-closure landfill costs	132.6	9.3	12.8	(11.5)	-	143.2
Provision for restoration of third-party assets	177.1	10.7	7.0	(1.2)	-	193.6
Provision for legal cases and disputes brought by personnel	24.3	2.7	-	(13.3)	0.4	14.1
Provisions for waste disposal	2.9	4.6	-	(6.2)	5.8	7.1
Other provisions for risks and charges	60.7	18.4	0.2	(5.0)	0.2	74.5
Total	**397.6**	**45.7**	**20.0**	**(37.2)**	**6.4**	**432.5**

The "provision for landfill closure and post-closure expenses", equal to 143.2 million euros, represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently managed. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting and provision procedure due to changes in the assumptions on future outlays, following the change in estimates both on current and closed landfills. Uses represent the effective outlays during the year. Changes in estimated closure and post-closure costs in relation to active or new landfills, which entailed the recording of an adjustment of the same amount as the value of the property, were classified under "Uses and Other movements".

The item "Uses and other movements" decreased by 11.5 million euros net, as follows:

- a decrease of 12.6 million euros due to actual cash outlays for the management of landfills, of which 5.6 million euros refer to internal costs (see note 2 "Other operating revenues");
- increases of 1.1 million euros relating to the reclassification of a fund for a closed landfill previously classified under the item "Other provisions for risks and charges".

The “provision for restoration of third-party assets", totalling 193.6 million euros, includes provisions made in relation to law and contractual requirements for the Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. The provision reflects the present value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted to present value, and the financial charges for the period associated with the cash flows discounted to present value.

The "provision for legal cases and disputes brought by personnel", amounting to 14.1 million euros, reflects the outcomes of lawsuits and disputes brought by employees. The provision includes 0.8 million euros relating to the dispute with INPS (7.4 million euros as at 31 December 2016). 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. In order to permanently close the dispute, the companies involved presented the Italian Revenue Office - Collections a request of favourable payment of the fees outlines in the notices, pursuant to legislative decree no. 193/2016, by dividing the payments still owed into multiple instalments and excluding sanctions and additional fees. Italian Revenue Office - Collections agreed to all of the requests and calculated and communicated the amount of the sums to be paid that cannot be written off. The payment took place 31 July 2017 and wholly resolved the dispute. This involved a de-provisioning in the amount of 4.4 million Euros as compared to the amount set aside in previous financial years. The residual value of to this dispute stems from a previous outstanding debt with INPS of Ravenna.

"Waste disposal fund", amounting to 7.1 million euro, is represented by the estimated costs of disposal of the waste already stored at the Group's plants. The allocations, equal to 4.6 million euro, reflect the estimated costs of 2017 deliveries not yet processed at the end of the year, while Uses, amounting to 6.2 million euro, represent the costs incurred during the year for the processing of residual waste at the end of the previous year, as well as for waste introduced by the "Teseco" business unit, to which the value of "Change in the scope of consolidation" refers.

The item "Other provisions for risks and charges", amounting to 74.5 million euros, comprises provisions made against sundry risks. Below is a description of the main items:

- 11.3 million euros, due to the potential liability related to existing obligations (guarantee on financial exposure given by Acegas Spa) in case of abandonment of the operations run by the foreign subsidiaries AresGas Ad (Bulgaria) and SiGas (Serbia).
- 7.9 million euros for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill.
- 7.8 million euros related to the potential risk of the amount of the WTE green certificates not being recognised calculated according to the difference between auxiliary services resulting from total self-consumption and services estimated on the basis of the benchmark percentage;
- 7.4 million euros, for the future decommissioning of the WTE plants.
- 6.0 million euro related to interpretive uncertainty surrounding the determination of the reimbursement value of the networks when participating in tenders for gas distribution services in relation to certain areas already served by the Group;
- 4.1 million euro, constituted following 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;
- 3.3 million euros for the risk arising from the Authority's resolution 527/2016, which, in keeping with the findings of the GSE, established that the Fund for Energy and Environmental Services recover

the amounts that would have been unduly received for the electricity produced by the Granarolo (Bo) WTE plant from the company Frullo Energia Ambiente Srl .

The "provisions" for the year refer, in particular, to the following risks previously listed:

- 6.0 million euro related to interpretive uncertainty surrounding the determination of the reimbursement value of the networks;
- 4.3 million euros for tax disputes of various kinds;
- 2 million euros related to the risk that a portion of the green certificates produced by WTE plants will not be recognized

The item "Uses and other movements" decreased by 8 million euros net, as follows:

- Uses in the amount of 3.7 million euro for the payment of penalties related to the gas and electricity distribution service;
- de-provisioning for 2.8 million euro due to the annulment of liability for which the provision was established;
- reclassification in the amount of 1.5 million euro for the timely attribution of the nature of the underlying liability.

29 TRADE PAYABLES

	31 December 17	31 December 16 adj	Change
Payables to suppliers	716.8	598.6	118.2
Payables to suppliers for invoices not yet received	679.1	675.5	3.6
Total	**1,395.9**	**1,274.1**	**121.8**

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

30 OTHER CURRENT LIABILITIES

	31 December 17	31 December 16 adjusted	Change
Payables for advances to the fund for energy and environmental services:	221.5	146.6	74.9
plant investment grants	174.5	140.9	33.6
Security deposits from clients	103.5	100.2	3.3
Fund for components and equalization of the Electricity and Gas Sectors	74.0	51.2	22.8
Personnel	47.2	40.0	7.2
Payables to social security institutions	45.6	41.9	3.7
Environmental damage	19.2	22.0	(2.8)
Employee withholding	16.4	15.5	0.9
VAT, excise and additional taxes	13.7	10.6	3.1
Payables for damage in customs	12.8	11.2	1.6
Anticipated revenues and other accrued expenses	9.2	11.5	(2.3)
Other payables	31.8	41.4	(9.6)
Total	**769.4**	**633.0**	**136.4**

"Liabilities for advances to the Fund for energy and environmental services" comprises non-interest-bearing advances granted by the electricity sector Equalization Fund, as follows:

- 210.4 million euro of payables for advances in compliance with the integration mechanism set forth in Authority resolution 370 of 20 September 2012 and 519 of 6 December 2012, for overdue and

unpaid receivables due from customers managed as protected customers up to 31 December 2015;
- 9.2 million euro of payables for advances, in compliance with the integration mechanism set forth in Law 239 of 23 August 2004, of the charges for delinquency of services of last resort in the natural gas sector until 30 September 2016.
- 1.8 million euro of payables for advances in compliance with the recognition mechanism established by Authority resolution 627 of 17 December 2015 for overdue charges related to the supply of electricity, gas and integrated water service to the populations affected by the 20 May 2012 earthquakes in the Emilia-Romagna region.

The change of 74.9 euro as compared to 31 December 2016 is mainly due to the collection of advances relating to the reporting of overdue and unpaid receivables due from customers managed as protected customers for 2015 and for adjustments relating to previous periods.

"Plant investment grants" refers mainly to investments made in the water and environment sector; this item decreases in proportion to the amount of depreciation calculated on the fixed assets in question and increases as a result of new investments subject to grants. The increase in this item relates in particular to 40.9 million euro in contributions related to the new Servola purification plant, built in the Municipality of Trieste, and 35 million euro in contributions related to the FoNI fund (new water system investment fund). The significant increase in the year is mainly attributable to the Servola treatment plant, with a contribution of 30.3 million euro.

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

"Fund for components and equalisation of the energy and environmental services", reflects the liabilities for the Fund for energy and environmental services mainly due to the equalization on the gas distribution/measurement, of some system components of the gas and electricity service for the protected market categories and equalization of the electricity service. The decrease as compared to 31 December 2016 is mainly due to a higher credit for certain components of gas and electricity distribution and sales amounting to 16.9 million euro.

“Personnel" includes the vacation time accrued and not used, as well as the productivity bonuses accounted for by department, as of 31 December 2017.

"Payables to social security institutions" and "employee withholdings" relate to contributions and withholdings owed to social security institutions and the inland revenue for the month of December.

"Environmental damage" represents the payments to be made to municipalities, on the basis of specific agreements, as compensation for environmental damage for waste delivered to plants in their territory. The amount of these contributions is related to the amount of waste disposed of annually.

"VAT, excise and additional taxes" includes payables for VAT in the amount of 0.5 million euro (3.6 million euros at 31 December 2016), and excise and additional taxes in the amount of 13.2 million euro (7 million euro at 31 December 2016). 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.

"Payables for damage in customs", amounting to 12.8 million euros, includes the value of insurance deductibles that the Group must repay directly to damaged third parties or insurance companies.

The item "Other payables" mainly reflects the following components:

- payables to users for advances and specific tariff concessions amounting to 4.3 million euro (5 million euro at December 31, 2016);
- payable for tax consolidation in relation to the Estenergy Spa joint venture valued with the equity method, in the amount of 1.7 million euro (3.6 million euro at December 31, 2016);
- Other tax payables in the amount of 2.5 million euro (3.6 million euros as at 31 December 2016);
- payables related to the authority's requirement that energy efficiency certificates be given back, in the amount of 2.1 million euro, almost entirely referring to grey certificates (1.5 million euro at 31 December 2016);
- liabilities owed to minority shareholders amounting to 1 million euros (1.5 million euros as at 31 December 2016);

31 IMPAIRMENT TEST

Cash-generating and start-up units

As required by the reference accounting standards (IAS 36), assets and goodwill have been subjected to impairment tests by determining the value in use, which is the current value of operating cash flows (duly discounted according to the DCF - discounted cash flow method) resulting from the 2017 - 2021 business plan approved by the Board of Directors of the parent company at its meeting of 10 January 2018.

The impairment test was applied to the following CGUs: electricity, integrated water management, environmental and other services (Public lighting and telecommunications) that are consistent with the business areas used for internal periodic reporting and with the information contained in the annual financial report in paragraph 2.02.07 "Information by operating segments".

In relation to this, it should be noted that the Group has implemented a structured process for preparing and reviewing the business plan, which involves formulating the Plan on an annual basis according to an external context scenario that takes into account the market trends and rules for regulated businesses, with the support of all the business units and following a "bottom-up" logic.

Specifically, assumptions were implemented in developing the 2017-2021 Business Plan consistent with those used in previous plans and, on the basis of the final reported values, forecasts were defined that had been internally processed through reference to the most authoritative and up external sources available wherever necessary.

Revenues for regulated business areas were developed on the basis of the evolution of the rates deriving from national regulations and/or agreements with the Area Authority. In particular, revenues from energy distribution were forecasted according to the principles of the AEEGSI 573/13 (RTDG), 367/14 (RTDG) and 199/11 (TIT) resolutions for gas and electricity respectively, and taking into account the respective WACC values approved, effective from 2016, through Resolution no. 583/15, and updated from 2019 in line with the methodology of the same resolution and according to the forecasts of the financial and fiscal parameters integrated into the approved Business Plan. Revenues from energy sales under protected conditions have been estimated on the basis of the regulatory reference texts of the Area Authority, i.e. the TIV (resolution 301/12) for electricity and TIVG (resolution 64/09) for gas. For integrated water management, the hypothesis used to forecast revenues assumed no change in the volumes distributed and was based on the rates originating from the agreements in effect with ATERSIR at the date the Plan and the application of the Water Rate method (MTI) set forth by AEEGSI resolution no. 664/15, also taking account the parameters underlying the hedging of financial and tax charges, among other factors. For urban sanitation, the hypothesis formalized involved achieving full rate coverage over all the areas served within the duration of the plan, consistent with the provisions of rules currently in effect.

Price trends for electric energy and gas bought and sold in the open market were worked out on the basis of business considerations consistent with the energy scenario under which the business plan was prepared, considering the forecasts provided by a panel of institutional observers.

The development of plants for the disposal and recycling of waste is consistent with the forecasts of the provincial plans in which the Hera Group operates. The investment schedule and the subsequent start of new plants is the result of the best estimate of the managers in charge.

The inertial evolution of the Group's costs in the plan timeframe was developed by formulating hypotheses based on the information available at the time the plan was prepared. Therefore, the most recent levels of inflation recorded in the final balance were taken into account, along with the anticipated trends outlined in the Economic and Financial Planning Document, as well as the forecasts made available by the Bank of Italy and European Commission. As far as personnel and the cost of the work is concerned, the indications contained in the various labour contracts have been taken into consideration.

The first year of the Plan represents the base reference for identifying economic, financial and management objectives that converge in the annual Budget, the guiding operational element for achieving the Group's growth objectives.

The cash flows generated were therefore determined using the forecasted data for the 2018 - 2021 period as a base. In particular, the Net Profit Margin was used, from which taxes were deducted, depreciation and provision were added and the maintenance investments planned for each year of the plan were deducted.

Following the last year of the plan, "normalized" Cash Flows were considered equal to the value of the Net Operating Profit for the last year of the plan, in the event that the value of depreciation and provisions remains at the level of the investments.

In the event that the plan does not take into account the prediction of future events that significantly influence estimated cash flows as a result of its medium-term timeframe, adjustments were applied in order to also incorporate the effects of such events. The cash flows are calculated by applying the growth rate ("g") to the "normalized Free Cash Flows" with the medium/long-term timeframe for the relevant sector (2% on average) for the 2022-2037 period (20 years total). For regulated services, these flows are brought into line with the expected continuation of market share following the completion of the expected calls for tenders.

These flows are supplemented by the current value of perpetuity, calculated as follows:

- for activities under market (gas and electricity sales), the cash flow resulting from the application of the perpetuity criterion for the last year (2037) was considered, assuming an average factor growth of 2%;
- for assets under contract, the terminal value was established by considering the cash flow resulting from the application of the perpetuity criterion weighted by the percentage of competitive bidding processes that the Group is expected to win at the end of the contract periods (100% for integrated water management, 80% for urban sanitation services) and the redemption value of assets weighted by the proportion of competitive bidding processes which the Group expected not to win; this value was estimated as equal to the current value of the net book value of assets owned and leasehold improvements, less the recovery values, in order to properly represent the non-renewal of the contract and the subsequent sale of the assets to the new operator with a value equal to the remaining book value.

For the discounting of unlevered cash flows, the weighted average cost of capital (WACC), representative of the return company lenders and shareholders expect for the use of their capital, was used as a rate, adjusted by the specific country risk in which the asset being valued is located. Specifically, for the purposes of the valuation, it was deemed necessary to use the so-called unconditional method, which to determine the WACC uses a risk-free rate that incorporates the country risk normalized by the monetary policies implemented by the Central Banks. The valuation of the specific country risk to be included in the discount rate is defined on the basis of information provided by external providers.
The discount rates used were therefore differentiated according to the specific characteristics and consequent risks characterizing business areas, as well as the countries, in which the Group operates. For Italy, a WACC of 5.59% was used for the environment and 4.84% for other businesses, while for the remaining European countries a WACC of 5.07% was used.

The results of the tests were positive. A sensitivity evaluation was also conducted. In this regard, it should be noted that the Group's business model, with its distinct resilience thanks in part to the diversified portfolio of assets under management, has made it possible to achieve constantly improving results over the years with no overall significant changes in the planned hypotheses despite the adverse macroeconomic environment.

In view of this, the sensitivity analysis that was developed focused on the marginality of the individual businesses, hypothesizing a 5% decrease that would result in a reduction in the cash flows developed in the years covered by the plan and subsequent years. In this context, the values obtained are much higher than those accounted for, therefore this analysis has further confirmed the carrying values.

Electricity generation assets
With reference to the market for electric generation, in the presence of impairment indicators and in keeping with previous financial periods, an in-depth analysis was performed to determine the recoverable amount of the Group's investments, and related financial assets, operating in the sector. In particular, the analysis was conducted by duly discounting to present value the cash flows expected to be generated over the remaining useful lives of the plants of Calenia Energia Spa, Set Spa and Tamarete Energia Srl for the purpose of verifying the recoverability of financial assets, equity investments and receivables recorded for them in the amounts of 24.3 million euro, 66.4 million euro and 21.9 million euro respectively at the end of the valuation process.

The negative trend in the electricity generation market highlighted a few years ago recently showed tangible signs of improvement, sustained by favourable conditions in the context, while the expectation of consolidating this recovery in the medium to long term remains valid. The causes behind the performance of the electricity market in past years stem from the combination of multiple factors on both demand and supply sides. The main factors shaping price dynamics are to be found in the:

- attainment of full operational capability of the plants built in the recent cycle of investment in new thermoelectric capacity (period until 2010/2011);
- introduction of significant production capacity in renewable energy in the past few years;
- low levels of energy demand caused by the negative economic cycle of the past few years, with the resulting impact on the reserve margin of the system which has reached a historical high.

The current economic condition is expected to change in the medium/long term, particularly due to:

- lack of financial sustainability, over this period, of the current spark spread levels for single-technology operators (CCGT) not integrated along the value chain (particularly in the absence of end customers) which, if the negative margins generated by their assets continued, will be faced with two alternative strategies: a) new capital injections to continue to operate in generation to benefit from higher margins in the long terms (not easy to implement, due to unfavourable financial market conditions and, in the case of foreign operators engaging in Italy, subject to the need for cross-border optimization of investment portfolios); b) exit from the generation market, with a resulting reduction of capacity on the supply side and price rise, an effect that has been observed in part also in the short-term;
- lack of productive investments in the expansionary phase, due to current overcapacity, which discourages the construction of new generation plants (currently there seem to be no new projects under way; rather, the less efficient plants are currently being phased out);
- lawmakers' interventions intended to reduce economic incentives for new renewable power, with an ensuing impact on investment growth in the sector;
- the progressive return of demand for electricity toward pre-crisis levels, with consequent reduction of the system's reserve margin.

That said, future cash flows determined on the basis of a medium/long-term energy scenario, formulated by an external expert - consistent with growth expectations for energy demand, installed power and the system's expected reserve margin, as outlined above - discounted to the weighted average cost of capital at 5.69% (calculated using the same methods illustrated for the units generating financial flows) will give rise to amounts for the investments and related financial assets greater than their carrying amounts for Calenia Energia Spa and Set Spa, while for Tamarete the outcome of the test entailed an adjustment of 5.5 million euro on the value of the receivable recorded among non-current financial assets, in consideration of the specific nature of the asset.

A sensitivity analysis was also carried out by reducing the curve of the spark spread by 2 euros/MWh compared to the medium-long term scenario suggested above. In this case as well, the adequacy of the amounts recorded for equity investments and related financial assets in Calenia Energia Spa and Set Spa was confirmed, while for Tamarete Energia Srl the impact would lead to additional adjustment of the value.

32 COMMENTS TO THE CONSOLIDATED CASH FLOW STATEMENT

Investments in companies and business operations

During the first half of 2017, the Group gained control over the Aliplast Group, active in the sector of recycling and regenerating plastic waste, and the gas sales company Verducci Servizi Srl, as well as two business branches, "Teseco" and "Enerpeligna", the first one for the waste disposal business and the second concerning the sale of natural gas and other energy sources. Smaller investments were also made in non- consolidated subsidiaries of a non-relevant size. The table below details the main cash disbursements and cash holdings acquired:

31-Dec-17	Gruppo Aliplast	Verducci Servizi Srl	Unit "Teseco"	UNit "Enerpeligna"	Other Equity investments	Total investments
Cash outlays leading to the acquisition of control	(91.7)	(1.1)	(7.6)	(0.6)		(101.0)
Cash outlays in non-consolidated companies					(0.1)	(0.1)
Amounts to disburse	(21.7)	(0.3)	(1.0)	(0.3)		(23.3)
Cash holdings acquired	7.9	0.1		0.1		8.1
Investments in equity holdings, net of liquid assets	**(105.5)**	**(1.3)**	**(8.6)**	**(0.8)**	**(0.1)**	**(116.3)**

Acquisition of Interests in consolidated companies
The amount refers to the cash outlays related to the purchase of minority shares in Aliplast Group companies, as described in section 2.02.03 "scope of consolidation"

The main changes in liabilities generated by financing activities
The following is a breakdown of information on changes in financial liabilities during the 2017 financial year, differentiating between cash flows and non-cash flows.

Type	31-Dec-16	31-Dec-17	Change	Non-cash flows				Cash flows
				Acquisitions / divestments	differences in exchange rates	Changes in Fair Value	Other changes	
Banks and financing coming due after the current financial period	2,918.2	2,878.3	(39.9)	3.9	-	(14.8)	(29.0)	0.0
Banks and financing coming due during the current financial period	180.0	277.6	97.6	6.6	-	-	58.0	33.0
Finance lease payables	17.2	15.9	(1.3)	1.4	-	-	0.4	(3.1)
Liabilities generated by financing activities	**3,115.4**	**3,171.8**	**56.4**	**11.9**	**-**	**(14.8)**	**29.4**	**29.9**

33 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES PURSUANT TO IFRS 7

The table below illustrates the composition of the Group's assets by valuation class Details of the fair value of derivatives are provided instead in note 19.

31 December 17	Fair value at profit and loss	Receivables and loans	Held to maturity	Available for sale	Total
Non-current assets	**-**	**122.7**	**2.5**	**-**	**125.2**
Trade receivables	-	1,760.9	-	-	1,760.9
Current financial assets	-	41.3	-	0.2	41,5
Other assets	16.4	316.7	-	-	333.1
Current assets	**16.4**	**2,118.9**	**-**	**0.2**	**2,135.5**

31 December 16 adj	Fair value at profit and loss	Receivables and loans	Held to maturity	Available for sale	Total
Non-current assets	**-**	**107.8**	**2.4**	**-**	**110.2**
Trade receivables	-	1,645.2	-	-	1,645.2
Current financial assets	-	29.3	-	0.1	29.4
Other assets	15.7	270.9	-	-	286.6
Current assets	**15.7**	**1,945.4**	**-**	**0.1**	**1,961.2**

With respect to "non-current assets" reference is made to note 17
With respect to "current assets" reference is made to notes 17, 21, 22 and 23.

The table below illustrates the composition of the Group's liabilities by valuation class. Details of the fair value of derivatives are provided instead in note 19.

31 December 17	Fair value at profit and loss	Elements hedged (fair value hedge)	Amortized cost	Total
Non-current liabilities	**-**	**128.6**	**2,763.6**	**2,892.2**
Trade payables	-	-	1,395.9	1,395.9
Current financial liabilities	-	-	279.6	279.6
Other liabilities	2.1	-	805.2	807.3
Current liabilities	**2.1**	**-**	**2,480.7**	**2,482.8**

31 December 16 adj	Fair value at profit and loss	Elements hedged (fair value hedge)	Amortized cost	Total
Non-current liabilities	**-**	**143.3**	**2,789.8**	**2,933.1**
Trade payables	-	-	1,274.1	1,274.1
Current financial liabilities	-	-	182.3	182.3
Other liabilities	1.5	-	652.5	654.0
Current liabilities	**1.5**	**-**	**2,108.9**	**2,110.4**

With respect to "non-current liabilities" reference is made to note 26.
With respect to "current liabilities" reference is made to notes 22, 26, 29 and 30.

2.02.07
REPORTING BY OPERATIONAL SECTOR

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

As at 31 December 2017, the Hera Group is organized according to the following operating sectors:

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

Assets and liabilities by operational sector for the years 2016 and 2017 are outlined:

31 December 17	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets (tangible and intangible)	1,435.3	546.8	1,806.9	1,237.6	116.1	5,142.7
Goodwill	93.8	42.1	43.0	200.4	4.8	384.1
Equity investments	59.7	44.3	18.3	26.2	0.3	148.8
Fixed assets not attributed						105.0
Net fixed assets	**1,588.8**	**633.2**	**1,868.2**	**1,464.2**	**121.2**	**5,780.6**
Attributed net working capital	61.3	166.4	(174.2)	(18.7)	2.3	37.1
Net working capital not attributed						(13.9)
Net working capital	**61.3**	**166.4**	**(174.2)**	**(18.7)**	**2.3**	**23.2**
Other provisions	(155.1)	(26.1)	(134.3)	(255.2)	(4.1)	(574.8)
Net invested capital	**1,495.0**	**773.5**	**1,559.7**	**1,190.3**	**119.4**	**5,229.0**

31 December 16	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets (tangible and intangible)	1,435.0	542.5	1,738.6	1,158.8	112.4	4,987.3
Goodwill	109.7	42.1	43.0	176.0	4.9	375.7
Equity investments	59.1	45.9	19.2	24.3	-	148.5
Fixed assets not attributed						53.0
Net fixed assets	**1,603.8**	**630.5**	**1,800.8**	**1,359.1**	**117.3**	**5,564.5**
Attributed net working capital	9.9	128.4	(55.0)	(3.2)	15.3	95.4
Net working capital not attributed						4.5
Net working capital	**9.9**	**128.4**	**(55.0)**	**(3.2)**	**15.3**	**99.9**
Other provisions	(152.6)	(25.4)	(127.4)	(233.3)	(4.7)	(543.4)
Net invested capital	**1,461.1**	**733.5**	**1,618.4**	**1,122.6**	**127.9**	**5,121.0**

The most significant results by operational sector for 2016 and 2017 are outlined as follows:

2017	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	1,897.6	2,260.7	828.0	1,025.5	100.5	24.7	6,136.9
Infracyclical revenues	72.6	114.1	6.1	49.4	35.3	26.0	303.5
Total direct revenues	**1,970.**	**2,374.8**	**834.1**	**1,074.9**	**135.8**	**50.7**	**6,440.4**
Indirect revenues	10.1	5.4	25.9	9.0	0.4	(50.7)	-
Total revenues	**1,980.3**	**2,380.2**	**859.9**	**1,083.8**	**136.2**	**-**	**6,440.4**
EBITDA	**301.7**	**184.5**	**229.9**	**246.0**	**22.5**	**-**	**984.6**
Direct amortisations and provisions	135.8	75.7	104.8	138.3	15.7	53.6	523.7
Indirect amortisations and provisions	6.2	4.1	23.7	19.3	0.2	(53.6)	-
Total Amort. and prov.	**142.0**	**79.8**	**128.5**	**157.5**	**15.9**	**-**	**523.7**
Operating earnings	**159.7**	**104.6**	**101.4**	**88.5**	**6.7**	**-**	**460.9**

2016 adjusted	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	1,640.1	2,116.1	779.5	919.7	99.0	7.0	5,561.5
Infracyclical revenues	49.4	54.7	6.2	39.6	32.7	39.5	222.1
Total direct revenues	**1,689.5**	**2,170.9**	**785.7**	**959.3**	**131.6**	**46.5**	**5,783.6**
Indirect revenues	12.2	4.2	22.0	8.0	0.1	(46.5)	-
Total revenues	**1,701.7**	**2,175.1**	**807.7**	**967.3**	**131.8**	**-**	**5,783.6**
EBITDA	**300.6**	**135.3**	**228.8**	**230.7**	**21.3**	**-**	**916.6**
Direct amortisations and provisions	116.4	60.9	100.8	119.1	14.3	48.1	459.6
Indirect amortisations and provisions	9.2	2.9	20.0	15.6	0.3	(48.1)	-
Total Amort. and prov.	**125.6**	**63.8**	**120.8**	**134.8**	**14.5**	**-**	**459.6**
Operating earnings	**175.0**	**71.4**	**108.0**	**95.9**	**6.7**	**-**	**457.1**

2.03
NET FINANCIAL DEBT

2.03.01
NET FINANCIAL DEBT

		31 December 17	31 December 16
a	**Cash and cash equivalents**	**450.5**	**351.5**
b	**Other current financial receivables**	**41.5**	**29.4**
	Current bank debt	(187.0)	(72.1)
	Current portion of bank debt	(55.3)	(71.7)
	Other current financial liabilities	(35.3)	(36.2)
	Finance lease payables due within 12 months	(2.0)	(2.3)
c	**Current financial debt**	**(279.6)**	**(182.3)**
d=a+b+c	**Current net financial debt**	**212.4**	**198.6**
	Non-current bank debt and bonds issued	(2,825.3)	(2,847.8)
	Other non-current financial liabilities	(21.4)	(5.0)
	Finance lease payables due after 12 months	(13.9)	(14.9)
e	**Non-current financial debt**	**(2,860.6)**	**(2,867.7)**
f=d+e	**Net financial position as per Consob communication 15519/2006**	**(2,648.2)**	**(2,669.1)**
g	**non-current financial receivables**	**125.2**	**110.2**
h=f+g	**Net financial debt**	**(2,523.0)**	**(2,558.9)**

2.03.02
NET FINANCIAL DEBT AS PER CONSOB COMMUNICATION DEM/6064293 OF 2006

		31 December 17					31 December 16				
			A	B	C	D		A	B	C	D
a	**Cash and cash equivalents**	**450.5**	**-**	**-**	**-**	**-**	**351.5**				
	of which related parties										
b	Other current financial receivables	41.5					29.4				
	of which related parties		0.1	7.3	2.4	1.6		0.2	14.1	1.8	1.2
	Current bank debt	(187.0)	-	-	-	-	(72.1)	-	-	-	-
	Current portion of bank debt	(55.3)	-	(0.8)	-	-	(71.7)	-	(0.8)	-	-
	Other current financial liabilities	(35.3)	-	-	(1.1)	-	(36.2)	-	-	(14.7)	-
	Finance lease payables due within 12 months	(2.0)	-	-	-	-	(2.3)	-	-	-	-
c	**Current financial debt**	**(279.6)**					**(182.3)**				
	of which related parties		**-**	**(0.8)**	**(1.1)**	**-**		**-**	**(0.8)**	**(14.7)**	**-**
d=a+b+c	**Current net financial debt**	**212.4**					**198.6**				
	of which related parties		**0.1**	**6.5**	**1.3**	**1.6**		**0.2**	**13.3**	**(12.9)**	**1.2**
	Non-current bank debt and bonds issued	(2,825.3)	-	-	-	-	(2,847.8)	-	-	-	-
	Other non-current financial liabilities	(21.4)	-	-	(4.0)	-	(5.0)	-	-	(4.7)	-
	Finance lease payables due after 12 months	(13.9)	-	-	-	-	(14.9)	-	-	-	-
e	**Non-current financial debt**	**(2,860.6)**					**(2,867.7)**				
	of which related parties		**-**	**-**	**(4.0)**	**-**		**-**	**-**	**(4.7)**	**-**
f=d+e	**Net financial position as per Consob communication 15519/2006**	**(2,648.2)**					**(2,669.1)**				
	of which related parties		**0.1**	**6.5**	**(2.7)**	**1.6**		**0.2**	**13.3**	**(17.6)**	**1.2**
g	**non-current financial receivables**	**125.2**					**110.2**				
	of which related parties		**0.2**	**48.1**	**18.7**	**30.1**		**-**	**57.9**	**19.3**	**14.6**
h=f+g	**Net financial debt**	**(2,523.0)**					**(2,558.9)**				
	of which related parties		**0.3**	**54.6**	**16.0**	**31.7**		**0.2**	**71.2**	**1.7**	**15.8**

Legend of column headings, related parties:
A Non-consolidated subsidiaries
B affiliated and jointly controlled companies:
C Highly influential correlated companies (shareholding municipalities)
D Other related parties:

2.04
FINANCIAL STATEMENT FORMATS AS PER CONSOB RESOLUTION 15519/2006

2.04.01

INCOME STATEMENT AS PER CONSOB RESOLUTION 15519/ 2006

	notes	2017	of which related parties						2016 adjusted	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	5,612.1	-	91.0	322.8	8.2	422.0	7.5%	5,131.3	-	79.3	316.4	7.6	403.3	9.0%
Other operating revenues	2	524.8	-	0.6	8.4	0.1	9.1	1.7%	430.2	-	0.4	3.1	4.1	7.6	1.9%
Use of raw materials and consumables	3	(2,606.8)	-	(37.2)	-	(49.2)	(86.4)	3.3%	(2,176.8)	-	(29.9)	-	(46.3)	(76.2)	3.5%
Service costs	4	(1,952.3)	-	(9.8)	(32.7)	(33.1)	(75.6)	3.9%	(1,896.7)	(0.1)	(10.8)	(32.0)	(33.1)	(76.0)	6.3%
Personnel costs	5	(551.6)	-	-	-	(1.0)	(1.0)	0.2%	(524.1)	-	-	-	-	-	
Other operating costs	6	(84.6)	-	-	(4.3)	(0.8)	(5.1)	6.0%	(75.0)	-	-	(3.3)	(0.8)	(4.1)	5.5%
Capitalized costs	7	43.0	-	-	-	-	-		27.8	-	-	-	-	-	
Amortisation, depreciation and provisions	8	(523.7)	-	-	-	-	-		(459.6)	-	-	-	-	-	
Operating earnings		**460.9**	**-**	**44.6**	**294.2**	**(75.8)**	**263.0**		**457.1**	**(0.1)**	**39.0**	**284.2**	**(68.5)**	**254.6**	
Share of profits (losses) pertaining to joint ventures and associated companies	9	14.7	-	14.7	-	-	14.7	100.0%	13.8	-	13.8	-	-	13.8	100.0%
Financial income	10	105.0	-	2.7	-	0.3	3.0	2.9%	80.1	-	2.8	1.0	0.1	3.9	4.9%
Financial expenses	10	(221.2)	-	(9.5)	(0.2)	-	(9.7)	4.4%	(211.3)	-	(1.2)	(0.3)	-	(1.5)	0.7%
Financial management		**(101.5)**	**-**	**7.9**	**(0.2)**	**0.3**	**8.0**		**(117.4)**	**-**	**15.4**	**0.7**	**0.1**	**16.2**	
Earnings before taxes		**359.4**	**-**	**52.5**	**294.0**	**(75.5)**	**271.0**		**339.7**	**(0.1)**	**54.4**	**284.9**	**(68.4)**	**270.8**	
Taxes	11	(92.6)	-	-	-	-	-		(119.3)	-	-	-	-	-	
Net profit for the year		**266.8**	**-**	**52.5**	**294.0**	**(75.5)**	**271.0**		**220.4**	**(0.1)**	**54.4**	**284.9**	**(68.4)**	**270.8**	
Attributable to:															
Shareholders of the parent company		251.4							207.3						
Minority shareholders		15.4							13.1						
Earnings per share	**12**														
basic		**0.171**							**0.141**						
diluted		**0.171**							**0.141**						

Legend of column headings, related parties:
A non-consolidated subsidiaries, B Associated and jointly controlled companies, C Related parties with significant influence (shareholder municipalities), D Other related parties:

2.04.02

STATEMENT OF FINANCIAL POSITION AS PER CONSOB RESOLUTION 15519/ 2006

	notes	31-Dec-17	of which related parties						31-Dec-16 adjusted	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Assets															
Non-current assets															
Property, plant and equipment	13	2,015.7	-	-	-	-	-		2,019.2	-	-	-	-	-	
Intangible assets	14	3,127.0	-	-	-	-	-		2,968.0	-	-	-	-	-	
Goodwill	15	384.1	-	-	-	-	-		375.7	-	-	-	-	-	
Equity investments	16	148.8	0.2	136.7	-	7.2	144.1	96.8%	148.5	0.3	136.6	-	7.2	144.1	97.0%
Non-current financial assets	17	125.2	0.2	48.1	18.7	30.2	97.2	77.6%	110.2	-	57.9	19.3	14.6	91.8	83.3%
Deferred tax assets	18	150.5	-	-	-	-	-		80.3	-	-	-	-	-	
Financial instruments - derivatives	19	66.1	-	-	-	-	-		109.5	-	-	-	-	-	
Total non-current assets		**6,017.4**	**0.4**	**184.8**	**18.7**	**37.4**	**241.3**		**5,811.4**	**0.3**	**194.5**	**19.3**	**21.8**	**235.9**	
Current assets															
Inventories	20	121.2	-	-	-	-	-		104.5	-	-	-	-	-	
Trade receivables	21	1,760.9	0.1	26.8	58.4	21.0	106.3	6.0%	1,645.2	-	14.3	45.0	19.1	78.4	4.7%
Current financial assets	17	41.5	0.1	7.3	2.4	1.6	11.4	27.5%	29.4	0.2	14.1	1.8	1.2	17.3	58.8%
Current tax assets	22	29.8	-	-	-	-	-		33.9	-	-	-	-	-	
Other current assets	23	303.3	-	1.0	2.7	14.2	17.9	5.9%	252.7	-	0.9	4.6	14.6	20.1	8.6%
Financial instruments - derivatives	19	40.2	-	-	-	-	-		56.5	-	-	-	-	-	
Cash and cash equivalents	17.30	450.5	-	-	-	-	-		351.5	-	-	-	-	-	
Total current assets		**2,747.4**	**0.2**	**35.1**	**63.5**	**36.8**	**135.6**		**2,473.7**	**0.2**	**29.3**	**51.4**	**34.9**	**115.8**	
Non-current assets held for sale	24	22.9	-	-	-	-	-		-	-	-	-	-	-	
Total assets		**8,787.7**	**0.6**	**219.9**	**82.2**	**74.2**	**376.9**		**8,285.1**	**0.5**	**223.8**	**70.7**	**56.7**	**351.7**	

Legend of column headings, related parties:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies:
C Related parties with significant influence (shareholder municipalities)
D Other related parties:

	notes	31-Dec-17	of which related parties						31-Dec-16 adjusted	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
net assets and liabilities															
Share capital and reserves	25														
Share capital		1,473.6	-	-	-	-	-		1,468.1	-	-	-	-	-	
Reserves		820.2	-	-	-	-	-		742.5	-	-	-	-	-	
Profit (losses) for the year		251.4	-	-	-	-	-		207.3	-	-	-	-	-	
net assets of the Group		**2,545.2**	**-**	**-**	**-**	**-**	**-**		**2,417.9**	**-**	**-**	**-**	**-**	**-**	
Non-controlling interests		160.8	-	-	-	-	-		144.2	-	-	-	-	-	
Total net equity		**2,706.0**	**-**	**-**	**-**	**-**	**-**		**2,562.1**	**-**	**-**	**-**	**-**	**-**	
non-current liabilities															
Non-current financial liabilities	26	2,892.2	-	-	4.0	-	4.0	0.1%	2,933.1	-	-	4.7	-	4.7	0.2%
Post-employment and other benefits	27	142.3	-	-	-	-	-		145.8	-	-	-	-	-	
Provisions for risks and charges	28	432.5	-	-	-	-	-		397.6	-	-	-	-	-	
Deferred tax liabilities	18	45.5	-	-	-	-	-		27.2	-	-	-	-	-	
Financial instruments - derivatives	19	34.5	-	-	-	-	-		44.1	-	-	-	-	-	
Total non-current liabilities		**3,547.0**	**-**	**-**	**4.0**	**-**	**4.0**		**3,547.8**	**-**	**-**	**4.7**	**-**	**4.7**	
current liabilities															
Current financial liabilities	26	279.6	-	0.8	1.1	-	1.9	0.7%	182.3	-	0.8	14.7	-	15.5	8.5%
Trade payables	29	1,395.9	0.1	17.7	18.7	34.2	70.7	5.1%	1,274.1	-	10.4	19.0	31.1	60.5	4.8%
Current tax liabilities	22	37.9	-	-	-	-	-		21.0	-	-	-	-	-	
Other current liabilities	30	769.4	-	3.8	8.3	-	12.1	1.6%	633.0	-	6.7	11.5	-	18.2	2.9%
Financial instruments - derivatives	19	46.0	-	-	-	-	-		64.8	-	-	-	-	-	
Total current liabilities		**2,528.8**	**0.1**	**22.3**	**28.1**	**34.2**	**84.7**		**2,175.2**	**-**	**17.9**	**45.2**	**31.1**	**94.2**	
Total liabilities		**6,075.8**	**0.1**	**22.3**	**32.1**	**34.2**	**88.7**		**5,723.0**	**-**	**17.9**	**49.9**	**31.1**	**98.9**	
Liabilities that can be associated with non-current assets held for sale	24	5.9	-	-	-	-	-		-	-	-	-	-	-	
total net assets and liabilities		**8,787.7**	**0.1**	**22.3**	**32.1**	**34.2**	**88.7**		**8,285.1**	**-**	**17.9**	**49.9**	**31.1**	**98.9**	

Legend of column headings, related parties: A Non-consolidated subsidiaries B Associated and jointly controlled companies: C Related parties with significant influence (shareholding municipalities) D Other related parties:

2.04.03
CASH FLOW STATEMENT AS PER CONSOB RESOLUTION 15519/ 2006

	31 December 17	Which of related parties
Pre-tax profit	**359.4**	
Adjustments to reconcile net profit to the cash flow from operating activities:		
Amortisation and impairment of property, plant and equipment	167.2	
Amortisation and impairment of intangible assets	216.3	
Allocations to provisions	140.2	
Effect of valuation using the equity method	(14.7)	
Financial expense / (Income)	116.2	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	21.2	
Change in provisions for risks and charges	(30.2)	
Change in provisions for employee benefits	(9.3)	
Total cash flow before changes in net working capital	**966.3**	
(Increase) / Decrease in inventories	(7.8)	
(Increase) / Decrease in trade receivables	(205.7)	
Increase / (Decrease) in trade payables	99.7	
(Increase) / Decrease in other current assets/ liabilities	92.8	
Change in working capital	**(21.0)**	
Dividends collected	11.1	
Interests income and other financial income collected	74.9	
Interests expense and other financial charges paid	(129.0)	
Taxes paid	(147.5)	
Cash flow from (for) operating activities (a)	**754.8**	
Investments in property, plant and equipment	(150.3)	
Investments in intangible fixed assets	(290.2)	
Investments in companies and business units net of liquid assets	(116.3)	
Sale price of property, plant and equipment and intangible assets (including lease-back transactions)	7.8	
Divestment of equity investments and contingent considerations	0.2	
(Increase) / Decrease in other investment activities	(10.0)	
Cash flow from (for) investing activities (b)	**(558.8)**	
New issues of long-term bonds	-	
Repayments and other net changes in borrowings	33.0	
Lease finance payments	(3.1)	
Acquisition of Interests in consolidated companies	(1.6)	
Share capital increase	0.2	
Dividends paid out to Hera shareholders and non-controlling interests	(140.9)	
Change in treasury shares	15.4	
Other minor changes	-	
Cash flow from (for) financing activities (c)	**(97.0)**	
Effect of change in exchange rates on cash and cash	**-**	

equivalents (d)		
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**99.0**	
Cash and cash equivalents at the beginning of the year	351.5	
Cash and cash equivalents at the beginning of the year	450.5	

2.04.04
LIST OF RELATED PARTIES

The figures in the table as at 31 December 2017 refer to the related parties listed below:

GROUP A - NON-CONSOLIDATED SUBSIDIARIES AND JOINT VENTURES

Aresenergy Eood
Black Sea Comp. Compr.Gas Ltd
EsilScarl under liquidation
Sigas Doo

GROUP B- ASSOCIATED AND JOINTLY CONTROLLED COMPANIES:

AdriaLink Srl
Aimag Spa
Centro Idrico of NovoledoSrl
Energo doo
EnomondoSrl
Estenergy Spa
GhirlandinaSolareSrl
H.E.P.T. Co.Ltd
Natura Srl under liquidation
Oikothen Scarl
Q.Thermo Srl
S2A Scarl
Set Spa
SGR Servizi Spa
So.Sel Spa
Tamarete Energia Srl

GROUP C - RELATED PARTIES WITH SIGNIFICANT INFLUENCE:

Municipality of Bologna
Municipality of Casalecchio di Reno
Municipality of Cesena
Municipality of Ferrara
Municipality of Imola
Municipality of Modena
Municipality of Padua
Municipality of Ravenna
Municipality of Rimini
Municipality of Trieste
Con.Ami
Holding Ferrara ServiziSrl
Ravenna Holding Spa
Rimini Holding Spa

GROUP D - OTHER RELATED PARTIES:

Acosea Impianti Srl
Acquedotto del Dragone Impianti Spa
Aloe Spa
Amir Spa-Asset
Aspes Spa
Baldassi Srl
CaleniaEnergia Spa
Cartasi
CO.RA.B. Srl
Dama Srl
Eurizon Capital SGR Spa
Executive Advocacy Srl
Fiorano Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
ImolaGru Srl
Istituto Centrale Banche Popolari

KT Finance Srl
Maranello Patrimonio Srl
Megas Net Spa
Rabofin Srl.
Rest Srl
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
SCR Servizi Srl
Serramazzoni Patrimonio Srl
Sinapsi Srl
Sis Società Intercomunale of Servizi Spa under liquidation
Società Italiana Servizi Spa-Asset
Team Srl
Teikos Lab Srl
Unicareti-Asset
Vallicelli Sollevamenti Srl
Auditors, directors, strategic executives, family members of strategic executives

2.04.05
COMMENTARY NOTES TO RELATIONS WITH RELATED PARTIES SERVICE MANAGEMENT

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

WATER SECTOR

The water service is managed and carried out by Hera Group in the regions of Emilia Romagna, Veneto, Friuli-Venezia Giulia and Marche. It is carried out on the basis of conventions with the relevant local area Authorities, with a variable duration, which is usually twenty years.
Hera's manages the integrated water service including the combined activities of collection, purification and distribution of potable water for residential and industrial use as well as the sewerage and purification service. The agreements signed with the local area authorities also require the operator to carry out the planning and construction of new networks and plants to be used in providing the service. The conventions regulate the economic aspects of the contractual agreement, as well as the modes of managing the service, and the performance and quality standards.
As of 2012, the Government tasked the AEEGSI with regulating tariffs; as part of this function, the authority established a first transitional tariff period 2012-2013, a consolidation period 2014-2015 and a regular tariff method for 2016-2019; as part of the latter resolution (AEEGSI resolution no. 664/2015/R/IDR) the National Authority also established that the Conventions be adapted on the basis of a scheme model it had identified. The tariffs applied for 2016 are those approved by the Local Area Authorities pending approval by the National Authority, which has since intervened.
For the purpose of carrying out the service, the operator uses networks, facilities and other equipment owned by the company itself or the municipalities or asset companies. These assets, part of the inaccessible water stores, or granted or leased to the provider, must be returned to the municipalities, asset companies or local area authorities at the end of the concession to be made available to the incoming provider. Any work carried out by Hera for the water service must be returned to above mentioned entities following payment or the residual value of the assets in question.
Hera's relations with users are regulated by sector laws and Service Charters drafted by the operator based on templates approved by Local Area Authorities in compliance with provisions set out by the AEEGSI regarding the quality of the service and the resource. .

ENVIRONMENT SECTOR

The urban waste service managed by Hera is carried out in its areas of competence on the basis of agreements signed with the local Authorities and covers the exclusive management of collection, transportation, street sweeping and cleaning, waste transportation to recovery and disposal etc. The agreements signed with the Local Area Authorities 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, as supplemented, beginning in 2013, by the Tares/Tari regulation.
The Hera Group is required to obtain provincial authority to operate urban waste treatment plants. Additionally, for 2016 the Group's subsidiary Herambiente signed the service agreement with ATERSIR, in accordance with article 16 of Regional Law 23/2011 for the disposal of unsorted urban waste.

ENERGY SECTOR

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report on operations Inrete Distribuzione Energia Spa, the Hera Group company that is the successor of Hera Spa in gas and electricity distribution, enjoys the increased residual durations established for the providers that encouraged operations of partial privatization and business combination. 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 INRETE Distribuzione Energia Spa, a company of the Hera Group, carries out gas distribution services is broken down into 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 financial statements, to which this report is attached, is represented mainly by Resolutions no. 774/2016/R/gas of 22 December 2016 ("Tariff update for gas distribution and metering services for 2017") and no. 775/2016/R/gas of 22 December 2016 (inter-period update of the tariff regulation for distribution and metering of natural gas for the 2017-2019 three-year period.Approval of regulations governing tariffs for natural gas distribution and metering services for the regulatory period 2014-2019 (subsequently, RTDG), with which the new version of the RTDG is approved for the regulatory period 2014-2019, following the changes regarding recognized operating costs, determining the component of the tariff to cover the cost of metrological checks, accounting for the system costs of metering and management at a distance and concentrators and defining the standard costs of electronic measurement units for the 2017-2019 three-year period. Beginning 1 January 2014, in fact, 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 367/2014/R/GAS, taking into account subsequent modifications and additions. Pursuant to article 28 of the RTDG 2014-2019, the mandatory natural gas distribution and metering tariffs are broken down into 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 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 value of the components referred to in paragraph 27.3, letters c), d), e), f), g) and h) of the RTDG 2014-2019 is established by the Authority and is subject to quarterly updates.
With regard to the mandatory tariffs for natural gas distribution and metering services and different gas tariff options in effect for 2016, these tariffs were approved by the Authority through Resolution 645/2015 / R / Gas (Update of tariffs for gas distribution and metering services for 2016 and amendments to the RTDG) of the TUDG and RTDG.
In line with the provisions of Article 40, paragraph 9 of the RTDG, the fixed components of the mandatory tariffs relating to distribution and metering services were divided into three brackets based on the class of the type of measure.
With regard to electricity, the credit lines (with a thirty-year and renewable duration pursuant to current regulations) concern energy distribution activities, including, among other things, the management of distribution networks and operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development measures, and metering activities. The suspension or revocation of the concession can take place, as established by the sector Authority, when breaches and violations occur which are attributable to the concessionary company and which seriously and extensively affect the provision of electricity distribution and metering services. The concessionary company is obliged to give customers the rates set by current regulations and the resolutions adopted by the sector Authority. The tariff regulation in force at the date of approval of the financial statements, to which this report is attached, is represented mainly by Authority Resolution no. 654/2015/R/Eel of 23 December 2015 (Tariff regulation of electricity transmission, distribution and measurement services, for the 2016-2023 regulation period) that replaced the previous resolution ARG/ELT 199/2011 and its subsequent modifications and additions (Authority regulations for the provision of electricity transmission, distribution and metering services for the 2012-2015 regulatory period and provisions on economic conditions for the provision of connection services), effective until December 31st 2015.With Resolution 654/2015/R/Eel, the Authority defined tariff regulations for electricity transmission, distribution and metering services for the 2016-2023 regulatory period, approving the Integrated Text of the provisions for the disbursement of electricity transmission and distribution services ("TiIT"), the integrated text of the provisions for the provision of the electricity metering service (TIME) and the integrated text of the economic conditions for the provision of the connection service (TIC), effective from 1 January 2016.
The mandatory tariff for the distribution service covers the costs of transporting electricity through distribution networks. It is applied to all end customers, with the exception of low-voltage households for which a reform has been initiated by resolution 582/2015 / R / Eel, which will be fully operational on 1 January 2018. The tariff has a trinomial structure and is expressed euro cents per collection point per year (fixed quota), euro cents per KW per year (share of power) and euro cents per kWh consumed (share of energy).

The mandatory tariff for the distribution service is updated annually by the Authority through appropriate measures.

2.05
EQUITY INVESTMENTS

2.05.01
LIST OF CONSOLIDATED COMPANIES

SUBSIDIARIES

Registered name	Registered office	Share capital specified	Percent held		Total interest
			Direct	Indirect	
Parent company: Hera Spa	Bologna	1,489,538,745			
Acantho Spa	Imola (BO)	23,573,079	77.36%		77.36%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasApsAmga Servizi Energetici Spa (ex Sinergie)	Padova	11,168,284		100.00%	100.00%
AlimpetSrl	Borgolavezzaro (NO)	50,000		75.00%	75.00%
AlipackagingSrl	Zero Branco (TV)	20,000		75.00%	75.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sarl	La Wantzenau (France)	25,000		75.00%	75.00%
Aliplast Iberia SL	CalleCastilla -Leon (Spain)	815,000		75.00%	75.00%
Aliplast Polska SP O.O	Zgierz (Poland)	200,000 PLN		75.00%	75.00%
Amga Calore&Impianti Srl	Udine	119,000		100.00%	100.00%
Amga Energia&Serviz iSrl	Udine	600,000		100.00%	100.00%
Aresgas EAD	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
ASA Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Black Sea Gas Company E. o.o.d	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Cerplast Srl	Formigine (MO)	100,000		75.00%	75.00%
EnergiaBaseTrieste Srl	Padova	180,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	100,000		52.50%	52.50%
FrulloEnergiaAmbienteSrl	Bologna	17,139,100		38.25%	38.25%
Gran Sasso Srl	Pratola Peligna (AQ)	162,810		100.00%	100.00%
Herambiente Spa	Bologna	271,648,000	75.00%		75.00%
HerambienteServiziIndustriali 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		86.88%	86.88%
Hera Luce Srl	San Mauro Pascoli (FC)	1,000,000	100.00%		100.00%
Hera ServiziEnergia Srl	Forlì	1,110,430		57.89%	57.89%
HERAtech Srl	Bologna	1,000,000	100.00%		100.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbienteSrl	Trieste	1,010,000		82.50%	82.50%
InreteDistribuzioneEnergia Spa	Bologna	10,000,000	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	13,484,242	49.59%		49.59%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		49.59%	49.59%
Medea Spa	Sassari	4,500,000	100.00%		100.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%

Tri-Generazione Scarl	Padova	100,000		70.00%	70.00%
Umbroplas tSrl	GualdoCattaneo (PG)	98,800		75.00%	75.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Variplast Srl	Quinto di Treviso (TV)	50,000		75.00%	75.00%
Verducci Servizi Srl	Gulianova (TE)	50,000		86.88%	86.88%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

JOINTLY CONTROLLED COMPANIES

Registered name	Registered office	Share Capital (euro)	Percent held		Total interest
			Direct	Indirect	
Enomondo Srl	Faenza (RA)	14,000,000		37.50%	37.50%
Estenergy Spa	Trieste	1,718,096		51.00%	51.00%

ASSOCIATED COMPANIES

Registered name	Registered office	Share Capital (euro)	Percent 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%

2.05.02
KEY FIGURES IN THE FINANCIAL STATEMENTS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Summary of key figures of the financial statements of subsidiaries pursuant to Article. 2429, last paragraph, of the C.C.

thousand euros	Acantho Spa	AcegasApsAmga Spa	AcegasApsAmga Servizi Energetici Spa	Alimpet Srl	Alipackaging Srl	Aliplast Spa	Aliplast France Recyclage Sarl	Aliplast Iberia Sl	Aliplast Polska Spoo	Amga Calore & Impianti Srl
ASSETS										
Property, plant and equipment	59,462	999,038	70,314	11,859	5	22,625	493	645	522	4,362
Working capital	33,061	252,777	37,051	6,342	259	39,966	2,460	692	419	10,302
Total assets	**92,524**	**1,251,815**	**107,365**	**18,201**	**264**	**62,591**	**2,953**	**1,337**	**941**	**14,664**
LIABILITIES										
Share capital	23,573	284,677	11,168	50	20	5,000	25	815	45	119
Reserves	3,333	151,456	21,429	2,186	25	17,433	794	-31	169	3,227
Net Profit /(Loss)	3,105	34,440	2,600	1,242	15	7,489	-174	0	62	62
Provisions	4	16,919	0	12	0	508	0	0	0	1
Post-employment benefits	610	21,724	1,264	332	3	136	0	0	0	574
Payables	61,899	742,599	70,904	14,379	201	32,025	2,308	553	664	10,681
Total liabilities	**92,524**	**1,251,815**	**107,365**	**18,201**	**264**	**62,591**	**2,953**	**1,337**	**941**	**14,664**
INCOME STATEMENT										
Value of the production	56,368	442,312	53,852	16,936	761	84,695	6,188	1,862	1,980	9,199
Production costs	-50,910	-384,145	-54,991	-14,857	-741	-74,259	-6,361	-1,861	-1,904	-9,070
Financial (expense) / Income	-1,131	-10,576	299	-381	0	-64	-1	-1	-13	-19
Taxes for the period	-1,221	-13,151	3,440	-456	-5	-2,883	0	0	0	-48
Net Profit /(Loss)	**3,105**	**34,440**	**2,600**	**1,242**	**15**	**7,489**	**-174**	**0**	**62**	**62**

thousand euros	Amga Energia & Servizi Srl	AresGas AD	Asa Scpa	Black Sea Gas Company Eood	Cerplast Srl	EnergiaBase Trieste Srl	Feronia Srl	Frullo Energia Ambiente Srl	Gran Sasso Srl	Herambiente Spa
ASSETS										
Property, plant and equipment	214	74,453	4,172	781	1,256	781	4,277	64,519	68	1,030,142
Working capital	45,135	2,852	15,590	1,294	3,146	26,516	5,749	13,298	5,901	223,326
Total assets	**45,349**	**77,305**	**19,762**	**2,075**	**4,402**	**27,297**	**10,026**	**77,817**	**5,969**	**1,253,468**
LIABILITIES										
Share capital	600	11,541	1,820	3	100	180	100	17,139	163	271,600
Reserves	4,398	10,956	622	758	1,728	1,690		23,813	514	40,385
Net Profit /(Loss)	5,684	367	0	4	217	1,704	459	3,966	453	14,218
Provisions	276	367	15,654	0		3	6,021	8,131	0	113,654
Post-employment benefits	638	0	139	0	36	0		1,936	0	9,433
Payables	33,753	54,074	1,527	1,310	2,321	23,720	3,446	22,832	4,840	804,178
Total liabilities	**45,349**	**77,305**	**19,762**	**2,075**	**4,402**	**27,297**	**10,026**	**77,817**	**5,969**	**1,253,468**
INCOME STATEMENT										
Value of the production	104,175	19,172	4,710	3,098	4,818	45,857	176	29,872	11,521	405,062
Production costs	-96,303	-17,309	-4,816	-3,085	-4,483	-43,365	-593	-22,802	-10,888	-382,740
Financial (expense) / Income	127	-1,455	121	-5	-21	-57	56	-629	-15	-18,477
Taxes for the period	-2,315	-41	-15	-4	-97	-731	820	-2,475	-165	10,373
Net Profit /(Loss)	**5,684**	**367**	**0**	**4**	**217**	**1,704**	**459**	**3,966**	**453**	**14,218**

thousand euros	Herambiente Servizi Industriali Srl	Hera Comm Srl	Hera Comm Marche Srl	Hera Luce Srl	Hera Servizi Energia Srl	Heratech Srl	Hera Trading Srl	HestAmbiente Srl	Inrete Distribuzione Energia Spa	Marche Multiservizi Spa
ASSETS										
Property, plant and equipment	1,191	118,454	10,553	38,583	6,063	328	4,329	96,306	1,093,095	143,048
Working capital	21,207	1,062,424	29,356	34,188	20,609	52,703	470,581	21,736	226,551	91,739
Total assets	**22,398**	**1,180,878**	**39,910**	**72,771**	**26,672**	**53,031**	**474,910**	**118,042**	**1,319,646**	**234,786**
LIABILITIES										
Share capital	1,748	53,537	1,977	1,000	1,110	981	22,600	1,010	9,809	13,484
Reserves	600	48,176	8,251	23,693	8,824	-412	5,230	16,180	463,112	36,399
Net Profit /(Loss)	997	106,154	5,399	3,398	2,543	3	26,008	6,028	22,952	29,748
Provisions	1,299	3,123	16	100	334	-	-	7,022	99,956	48,897
Post-employment benefits	581	5,142	360	675	401	9,640	547	1,309	11,918	6,898
Payables	17,173	964,747	23,906	43,905	13,460	42,820	420,526	86,493	711,898	99,361
Total liabilities	**22,398**	**1,180,878**	**39,910**	**72,771**	**26,672**	**53,031**	**474,910**	**118,042**	**1,319,646**	**234,786**
INCOME STATEMENT										
Value of the production	44,988	2,617,545	79,708	48,007	29,595	114,485	2,147,397	55,756	389,056	126,777
Production costs	-43,575	-2,502,670	-71,946	-43,531	-25,940	-114,124	-2,110,984	-44,959	-341,056	-109,767
Financial (expense) / Income	21	35,415	28	601	-53	-47	-117	-2,341	-20,920	18,265
Taxes for the period	-437	-44,137	-2,389	-1,679	-1,059	-311	-10,289	-2,428	-4,127	-5,526
Net Profit /(Loss)	**997**	**106,154**	**5,399**	**3,398**	**2,543**	**3**	**26,008**	**6,028**	**22,952**	**29,748**

thousand euros	Marche Multiservizi Falconara Srl	Medea Spa	SiGas Doo	Sviluppo Ambiente Toscana Srl	Tri-Generazione Srl	Umbro Plast Srl	Uniflotte Srl	Variplast Srl	Verducci Servizi Srl	Waste Recycling Spa
ASSETS										
Property, plant and equipment	3,286	12,610	894	1,704	3,487	1,271	80,522	841	170	35,117
Working capital	3,764	3,583	147	422	1,452	3,926	20,365	1,240	850	26,508
Total assets	**7,050**	**16,192**	**1,041**	**2,126**	**4,939**	**5,197**	**100,887**	**2,081**	**1,020**	**61,625**
LIABILITIES										
Share capital	100	4,500	2,284	10	100	99	2,254	50	50	1,100
Reserves	188	175	-1,284	425	161	1,389	6,918	214	5	9,061
Net Profit /(Loss)	492	788	-49	-168	135	760	5,183	89	90	493
Provisions	17	22	-	-	-	6	2	-	-	6,218
Post-employment benefits	1,094	197	-	-	-	210	2,816	100	5	1,513
Payables	5,159	10,512	90	1,859	4,543	2,733	83,714	1,628	870	43,240
Total liabilities	**7,050**	**16,192**	**1,041**	**2,126**	**4,939**	**5,197**	**100,887**	**2,081**	**1,020**	**61,625**
INCOME STATEMENT										
Value of the production	8,699	8,494	135	0	2,448	8,341	51,129	3,100	1,825	51,399
Production costs	-8,012	-7,085	-183	-99	-2,074	-7,294	-42,225	-2,964	-1,714	-50,283
Financial (expense) / Income	-27	-218	-1	-69	-177	1	-2,008	-5	5	-345
Taxes for the period	-167	-403	-	-	-62	-288	-1,713	-42	-26	-277
Net Profit /(Loss)	**492**	**788**	**-49**	**-168**	**135**	**760**	**5,183**	**89**	**90**	**493**

Summary of key figures of the financial statements of joint ventures pursuant to Article. 2429, last paragraph, of the C.C.

thousand euros	Enomondo Srl	EstEnergy Spa
ASSETS		
Property, plant and equipment	36,931	471
Working capital	12,665	63,780
Total assets	**49,596**	**64,251**
LIABILITIES		
Share capital	14,000	1,718
Reserves	11,259	11,524
Net Profit /(Loss)	5,383	11,681
Provisions	475	2
Post-employment benefits	61	111
Payables	18,418	39,215
Total liabilities	**49,596**	**64,251**
INCOME STATEMENT		
Value of the production	23,791	127,422
Production costs	-15,641	-111,239
Financial (expense) / Income	-574	200
Taxes for the period	-2,193	-4,702
Net Profit /(Loss)	**5,383**	**11,681**

Summary of key figures of the financial statements of associated companies pursuant to Article. 2429, last paragraph, of the C.C.

thousand euros	Aimag Spa	Q.tHermo Srl	Set Spa	Sgr Servizi Spa	So.Sel Spa	Tamarete Energia Srl
ASSETS						
Property, plant and equipment	208,224	3,148	169,658	2,226	4,096	78,849
Working capital	65,387	821	23,801	83,684	9,711	12,965
Total assets	**273,611**	**3,969**	**193,459**	**85,910**	**13,807**	**91,814**
LIABILITIES						
Share capital	78,028	10	120	5,982	240	3,600
Reserves	47,844	3,755	84,311	24,864	3,112	1,241
Net Profit /(Loss)	9,475	-314	17	13,510	292	223
Provisions	26,981	-	-	16	19	1,390
Post-employment benefits	3,464	-	201	903	3,030	
Payables	107,819	518	108,810	40,635	7,114	85,360
Total liabilities	**273,611**	**3,969**	**193,459**	**85,910**	**13,807**	**91,814**
INCOME STATEMENT						
Value of the production	91,925	-	96,619	153,146	15,941	19,278
Production costs	-83,141	-	-92,916	-133,138	-15,220	-15,434
Financial (expense) / Income	3,393	-374	-3,417	85	-4	-3,426
Taxes for the period	-2,702	60	-269	-6,583	-425	-195
Net Profit /(Loss)	**9,475**	**-314**	**17**	**13,510**	**292**	**223**

2.06
OUTLINE OF ARTICLE149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

thousand euros	31 December 17
Services provided to certify the financial statements	563
Provision of other services for the issue of an attestation	244
Other services rendered	80
Total	**887**

2.07 DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENT PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE NO. 58/98

1 – The undersigned Mr. Stefano Venier in his capacity as Managing Director, and Mr. Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154 bis, paragraphs 3 and 4, of the Legislative Decree no. 58 dated 24 February 1998

- the adequacy with reference to the nature of the company; and
- the actual application of the administrative and accounting procedures for the preparation of the Consolidated financial statements for 2017.

2 – We also declare that:

2.1 – the Consolidated Financial statements:

a. were prepared in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002;
b. are consistent with the data contained in the accounting books and entries;
c. provide a true and accurate representation of the balance sheet and income statement of the issuer and of all its consolidated companies.

2.2 – The Directors' Report includes a reliable analysis of the trend and of the operating profit, the situation of the issuer and of all the consolidated companies together with the description of the major risks and uncertainties to which they are exposed.

The CEO — The Manager in charge of the corporate accounting statements

Stefano Venier — Luca Moroni

Bologna, 27 March 2018

2.08
REPORT BY THE INDEPENDENT AUDITOR

Deloitte.

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Hera S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Hera group (Group), which comprise the statement of financial position as of December 31, 2017, the income statement, statement of comprehensive income, statement of changes in net equity, cash flows statement for the year then ended, a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December, 31 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Hera S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Revenue recognition – revenue earned but not yet billed

Description of key audit matter

As disclosed in the notes to the consolidated financial statements in the paragraph addressing *"Accounting policies and consolidation principles - Revenue and costs recognition "*, revenue from sales of electricity, gas and water is recognised and accounted for when the service is rendered and includes an accrual for revenue earned but not yet billed at the reporting date. As disclosed in Note 1, this accrual, which as of December 31, 2017 amounted to Euro 367 million, is determined, as far as electricity and gas are concerned, by estimating the daily consumption by customer, based on the customer's historical profile, adjusted to reflect the weather conditions and other factors that could impact consumption, while, as far as the integrated water network is concerned, by estimating the revenue guaranteed by the regulated reference tariff (guaranteed revenue commitment, *"VRG"*).

We have considered the procedure used for the determination of the above accrual to be a key matter for the audit of the Group's consolidated financial statements for the year ended on December 31st, 2017 in view of: *i)* the discretionary component inherent in the estimated nature of the accrual; *ii)* the materiality of its total amount; *iii)* the high number of the Group's users; *iv)* the resources needed to perform the related audit procedures, as well as the need to seek support from IT specialists to test the calculation algorithms adopted by the Group for the determination of the accrual.

Audit procedures performed

The audit procedures performed by us on the accrual for revenue earned but not yet billed at the reporting date included the following:

- analysis of the IT procedures adopted by the Group for the determination of the accrual for revenue earned but not yet billed and of the related calculation algorithms, with the support of our IT specialists;
- identification and understanding of the key controls implemented by the Group to monitor the risk of an incorrect accrual and testing of the effectiveness thereof. This work was performed with the support of our IT specialists;
- testing on a sample basis to verify the completeness and accuracy of the data used by management to determine the accrual;
- testing, based on a sample of users, of the process for the estimation of quantities consumed and the application of the correct reference tariffs;
- a comparative analysis of the key parameters pertaining to users and consumption used for the determination of the above accrual;
- verification of the correct determination of the guaranteed revenue using the regulated reference tariff;
- review of the adequacy of disclosure provided on the recognition of revenue earned but not yet billed at the reporting date.

Recognition and measurement of derivative financial instruments

Description of key audit matter

On account of the business in which it operates and of its financial structure, the Group holds derivatives to hedge its exposure to the risk of fluctuations in interest rates, in exchange rates and in natural gas and electricity prices. As disclosed in the paragraph in the notes to the consolidated financial statements addressing *"Accounting policies and consolidation principles - Financial instruments - Derivatives "*, the

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Group enters into transactions, which, if they satisfy the requirements laid down by International Financial Reporting Standards to qualify for hedge accounting, are designated as hedging instruments and are classified as fair value hedges or as cash flow hedges; alternatively, they are classified as held for trading.

The determination of the fair value of derivatives is performed by the Group using models developed internally that include an estimation component. Moreover, the recognition methods vary based on the nature of the derivative. Lastly, the impact of the fair value measurement of derivatives is material to the results and financial position. Specifically, as disclosed in detail in Note 19 to the consolidated financial statements, the following are recognised in the consolidated financial statements for the year ended 31 December 2017: i) in the statement of financial position, assets and liabilities arising from the measurement of derivatives of Euro 106 million and Euro 81 million, respectively, and cash flow hedge reserve of Euro 4 million; ii) in the income statement, net operating income and net financial costs arising from the measurement of derivatives of Euro 2 million and Euro 34 million, respectively, as well as net operating income and net financial income realised during the year with reference to derivatives of Euro 7 million and Euro 15 million, respectively. For these reasons, we have considered the fair value measurement of derivatives to be a key matter for the audit of the Group's consolidated financial statements for the year ended on December 31, 2017.

Audit procedures performed

The audit procedures performed by us on the measurement of derivatives included the following:

- identification and understanding of the key internal controls implemented by the Group, as well as testing to check compliance with internal policy for the determination of the fair value of derivative financial instruments, for the designation of hedging instruments, for the measurement of their prospective and retrospective effectiveness and, in particular, for the cataloguing, validation and control of pricing models and market parameters;

- understanding of the fair value hierarchy allocation criteria, of the valuation techniques and methodologies used to verify the effectiveness of hedging relationships and for the measurement of any ineffectiveness and an analysis of the reasonableness thereof in compliance with market standards and best practices;

- analysis and verification of the sources used by the Group for the determination of market parameters and verification of the reliability of the key market inputs used;

- verification of the consistency of the accounting treatment adopted by the Group with applicable accounting standards;

- independent determination, on a sample basis, of fair value, with the support of financial instrument pricing specialists;

- verification, on a sample basis, of the formal documentation for the designation and verification of the measurement of effectiveness, as well as verification of the accuracy of the effectiveness test.

Lastly, we examined the completeness of the disclosures provided in the explanatory notes and their compliance with applicable accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Hera S.p.A. has appointed us on April 23, 2014 as auditors of the Company for the years from December 31, 2015 to December 31, 2023.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Hera S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Hera Group as of December 31st, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Hera Group as of December 31st, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Hera Group as of December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Deloitte.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Hera S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
April 4, 2018

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

4

Remuneration Report

Introduction

Results of the meeting vote on the report on remuneration

Section I

1 Introduction
2 Scope of application
3 Governance Model
3.01 Remuneration policy definition and approval process
3.02 Role, composition and responsibilities of the Remuneration Committee
3.02.01 Cycle of activity of the Remuneration Committee
3.02.02 Carried out and scheduled activities
4 Hera group remuneration policy
4.01 Aims and Fundamental Principles
4.02 Correlation between remuneration, risk profile and company performance
4.03 The Group's leadership model
5 Balancing remuneration elements and remuneration components
5.01 Fixed remuneration
5.02 Short-term variable remuneration - The Balanced Scorecard system (BSC)
Recipients
Incentive and objective definition process
Performance measurement
5.03 Deferred variable remuneration for management retention;
5.04 Non-monetary benefits
6 Remuneration of Directors and the General Operations Manager
6.01 Non-executive Directors
6.02 Executive Directors and the General Operations Manager
7 Compensation
7.01 Compensation for cases of resignation, lay-off or termination of the employment relationship
7.02 Claw-back clause

Section II

Introduction

1 Description of the compensation paid to Directors and General Managers
Executive Chairman
CEO
Vice Chairman
Non-executive Directors
General Manager
Statutory Auditors
Compensation received in Group companies

TABLE 1: Compensation paid to members of administrative and control bodies, General Managers and other management with strategic responsibilities.

Table 3B:
Monetary incentive plans for members of the administrative body, General Managers and other management with strategic responsibilities.
Shares paid to members of administrative and control bodies, and General Managers.

Resolution Proposal

Introduction

This document was drafted in compliance with the regulations of Article 6 of the Code of Self Discipline for listed companies issued by Borsa Italiana Spa, as well as with Article 123-ter Legislative Decree no. 58/1998 (Testo Unico della Finanza, TUF), which requires listed companies to make available to the public a Remuneration Report prepared on the basis of the regulations laid out in article 84-quater and Annex 3A, Schedule 7-bis of the Regulation implementing the TUF adopted by Consob through resolution no. 11971 of 14 May 1999 (the "Issuer's Regulation").
Additionally, this report provides evidence of the investments held by the members of the Board of Directors, the members of the Board of Statutory Auditors, the General Operations Managers or spouses not legally separated and the minor children of such persons.

This report, approved by the Board of Directors on the proposal of the Remuneration Committee on 27 March 2018, defines and illustrates:

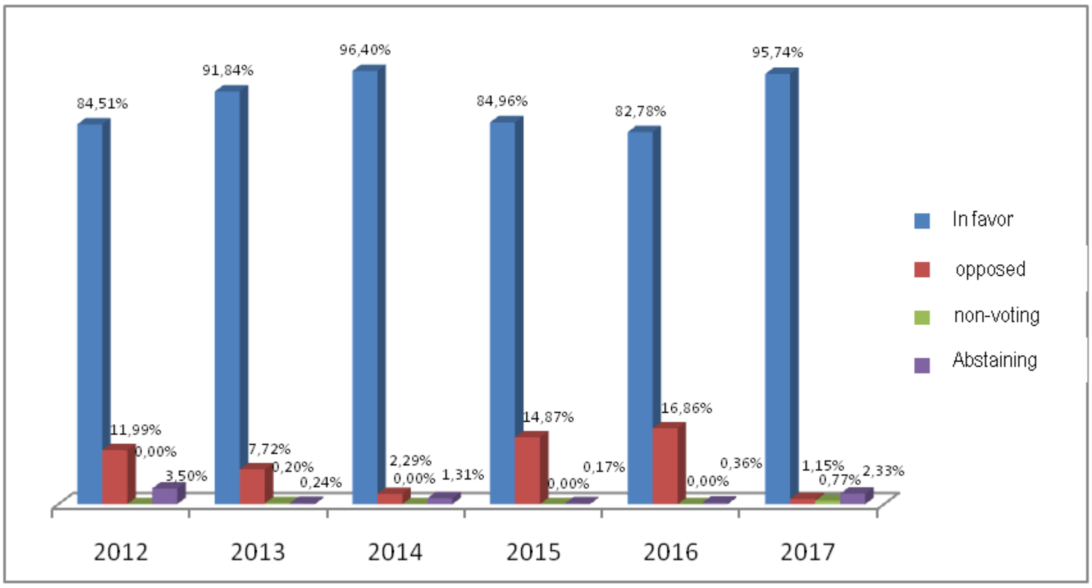
- in section I, Hera's policy for the remuneration of top managers, Directors and the General Operations Manager, specifying the general objectives pursued, the bodies involved as well as the procedures adopted for defining and implementing the policy;
- in Section II, the compensations nominally paid in 2017 to the members of the administrative and control bodies and to the General Operations Manager.

To facilitate the reading and comprehension of this report, a brief glossary is provided below with some of the most commonly used terms:

Bsc (Balanced scorecard)	it refers to the incentive system adopted by the Group and is connected to the variable short-term component of remuneration, once the pre-established individual and company objectives are achieved
The Group	it refers to all of the companies included in Hera Spa's scope of consolidation.
Deferred variable remuneration for management retention	it refers to the incentive system adopted by the Group and is connected to a variable component of deferred remuneration, once the pre-established individual and company objectives are achieved
Ral (Gross annual compensation)	it indicates the gross annual fixed component of remuneration for all the employees of one of the Group companies.
Rda (Direct annual compensation)	Rga + accrued yearly sum of the deferred annual component earned by the employees of one of the Group companies.
Rda (Global annual compensation)	Ral + variable annual component earned by the employees of one of the Group companies.
Rga target	Ral +theoretical maximum variable annual component that the employees of one of the Group companies can earn.
Company top management	refers to the Group's top figures: the executive chairman and the CEO.

Results of the meeting vote on the report on remuneration

The shareholders' meeting held on 27 April 2017 expressed a favourable opinion concerning section I of the report on remuneration, in compliance with art. 123-ter, paragraph 6, Tuf, with 95.74% favourable votes in favour of the shares with voting rights.



Section I

1 Introduction

The first section of this report outlines the basic principles and characteristics of the remuneration policy as applied to the top figures of the Hera Group, including the General Manager of Operations.
The fundamental principle which underpins the Group's culture and directs its choices is its commitment to combining economic and social value with the ultimate goal of satisfying the legitimate expectations of all stakeholders. Hera seeks to be a business that withstands the test of time and to improve society and the environment for future generations to come.
The sense of responsibility that is the hallmark of its corporate culture and mission translates into an approach to remuneration that is similarly responsible. The remuneration policy was conceived as a factor that contributes to improving corporate performance and the creation of value in the medium to long-term.
With a view to responsible reward and in keeping with the recommendations contained in Article 6 of the Borsa Italian Spa Code of Conduct, the Board of Directors, with the support of the Remuneration Committee, has therefore defined the remuneration policy for 2017.
Pursuant to paragraph 6 of article 123-ter of the TUF, the meeting is called on to decide on this Section I of the Remuneration Report.

2 Scope of application

In compliance with the provisions of Annex 3A for the implementation of the TUF adopted by Consob through Resolution no. 11971 of 14 May 1999 (Issuers' Regulation), the remuneration policy described in this document applies to the members of the administrative bodies and to the General Manager of Operations.

The table below lists the members, currently in office, of the Board of Directors and the Board of Statutory Auditors of Hera Spa, appointed at the Shareholders' Meeting of 27 April 2017, as well as the General Manager of Operations.

BOARD OF DIRECTORS	
Name and Surname	**Office**
Tomaso Tommasi di Vignano	Executive Chairman
Stefano Venier	CEO
Giovanni Basile	Vice Chairman (independent)
Francesca Fiore	Director (independent)
Giorgia Gagliardi	Director (independent)
Massimo Giusti	Director (independent)
Sara Lorenzon	Director (independent)
Stefano Manara	Director (independent)
Danilo Manfredi	Director (independent)
Alessandro Melcarne	Director (independent)
Erwin P.W. Rauhe	Director (independent)
Duccio Regoli	Director (independent)
Federica Seganti	Director (independent)
Marina Vignola	Director (independent)
Giovanni Xilo	Director (independent)

BOARD OF STATUTORY AUDITORS	
Name and Surname	**Office**
Myriam Amato	Chairman
Antonio Gaiani	Standing auditor
Marianna Girolomini	Standing auditor
Stefano Gnocchi	Alternate auditor
Valeria Bortolotti	Alternate auditor

MANAGEMENT WITH STRATEGIC RESPONSABILITIES	
Name and Surname	**Office**
Roberto Barilli	Hera Spa General Manager of Operations

3 Governance Model

3.01 Remuneration policy definition and approval process

The bodies and persons involved in the preparation and approval of Hera Spa remuneration policy report, as well as the bodies or persons in charge of correctly implementing this policy, are listed below:

Entity or person responsible	Responsibility/ Activity
Shareholders' meeting	Non-binding approval of the First Section of the Report on Remuneration.
Board of Directors	Following the recommendation of the Remuneration Committee, defines, examines and approves a remuneration policy for directors and management with strategic responsibilities to be presented to the Shareholders' meeting for approval
Remuneration Committee	Formulates proposals to present to the Board of Directors for compensating the Executive Chairman, Vice President, CEO and General Manager and for adopting general remuneration criteria for managers.
Executive Chairman	Proposes policies for Group managers to the Remuneration Committee
Human Resources General Manager	Supports the Remuneration Committee, specifically with technical aspects. Oversees the proper implementation of compensation policy

3.02 Role, composition and responsibilities of the Remuneration Committee

The Remuneration Committee has the task of formulating proposals to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and the General Manager, as well as based on the suggestions put forward by the CEO, for the adoption of general remuneration criteria for managers.

The Committee also regularly evaluates the adequateness, overall consistency and concrete application of the general policy adopted for the remuneration of Executive Directors and the General Operations Manager.

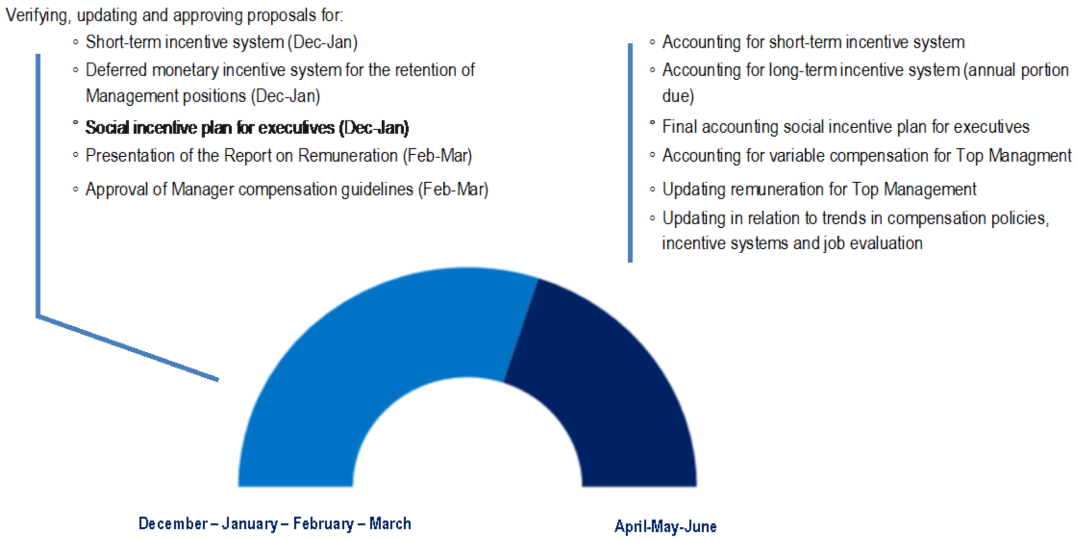
In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.

This Committee, initially set up at the meeting of the Board of Directors on 4 November 2002 and most recently renewed, in its latest format, on 10 May 2017, comprises the following non-executive, independent directors: Giovanni Basile acting as Chairman, Francesca Fiore, Massimo Giusti and Stefano Manara Note that the Chairman Giovanni Basile as well as one of the members of the Committee, Massimo Giusti, have experience in accounting and finance, deemed suitable by the Board of Directors at the time of appointment. The executive Chairman and the CEO may attend the Committee meetings upon express invitation of the Chairman of the Committee.

The Remuneration Committee met 3 times during 2015, and two of the meetings were attended by all members of the committee while one meeting was attended by the majority of the members. All meetings were attended by the Chairman, the CEO and the General Manager of Human Resources and Organisation of Hera Spa, while 2 meetings were attended by Hera Spa General Manager of Corporate Social Responsibility. The meetings of the Remuneration Committee lasted, on average, of one hour and thirty minutes.

3.02.01 Cycle of activity of the Remuneration Committee

The Committee's activities are carried out in order to implement the yearly plan, which includes the following phases:



3.02.02 Carried out and scheduled activities

During the meetings held in the 2017 financial year, all regularly recorded in the minutes, the following subjects were discussed:

- Balanced Scorecard system 2017 for Group Directors, Executives and Managers.
- Remuneration report for the 2016 financial year
- Variations in the 2016 financial statement, corporate objectives component;
- Accounting for 2016 variable remuneration for company top management;
- Salary guidelines for 2017;
- Variations in the remuneration of company top management.

4 Hera group remuneration policy

4.01 Aims and Fundamental Principles

The Company defines and applies a General Policy on remuneration designed to attract, motivate and retain resources which possess the professional qualities needed to effectively pursue the Group's objectives.
The Policy is defined in such a way as to align the interests of management with those of shareholders, with the main goal being the creation of sustainable value in the medium to long-term, through the consolidation of the link between reward and performance, both of individuals and the Group.
Within this context of responsible rewards, the guiding principles adopted for defining the remuneration policy for the top management are:

- constant reference to the external market, for the reference sector as well, in order to check the consistency of the company's remuneration scheme, with the dual purpose of retaining directors and keeping costs down;
- focus on internal consistency between the level of remuneration offered and the complexity of the role performed;
- the use and constant updating of the methodology for evaluating offices, with the objective of guaranteeing standardised remuneration comparisons and analyses that are consistent with the development of the Group's organisational framework over time.

4.02 Correlation between remuneration, risk profile and company performance

The Hera Group has defined an integrated risk management and internal control system in relation to the financial information process pursuant to the provisions of Article 123-bis, paragraph 2, letter b) of the TUF. 123-bis, comma 2, lett. b) del Tuf.
This system is aimed at identifying, evaluating, managing and monitoring the main risks that could compromise the achievement of the objectives of dependability, accuracy, reliability and timeliness of financial information. The Hera System takes its inspiration from the internationally recognised Coso Framework reference model, for the analysis, implementation and evaluation of the risk management and internal control system.
In relation to the industry to which it belongs, the risk profile of the Hera Group occupies an intermediate position, between operators that concentrate more on regulated activities and operators involved in more risky free-market activities. Overall, the risk profile is very conservative.
The remuneration currently offered is directed at preventing management from behaving in a way that would expose the company to excessive risks or the non-sustainability of the Group's results in the medium to long-term.
In order to underline congruence with the risk profile, the current remuneration policy involves a annual incentive plan (variable remuneration) based on a balanced scorecard system, with the objective of balancing the various perspectives of company stakeholders (reference shareholders, the market, institutional investors, customers, employees, the territory, etc.) with regard to the creation of value, sustainable performance and development as well as dividend policy;
In relation to the solid growth of the Group in terms of business results, company size and territorial presence and the investment made over the years to win valuable resources in key roles for the development and sustainability of the company strategy, a deferred incentive plan was laid down to retain the management, representing the most appropriate retention tool in line with the distinctive features of the Group.
The performance targets, based on which the variable remuneration components are assigned, are put to the Board of Directors by the Remuneration Committee. In the proposal, the Committee differentiates between economic-financial indicators and sustainability indicators and provides details concerning the correlation between variation in results and variation in remuneration.

4.03 The Group's leadership model

With a view to responsible reward and with the aim of strengthening the connection among remuneration, performance and managers' behaviour, the Group's leadership model is considered a reference for remuneration policies.

Thanks to a re-reading of the competitive environment and the new challenges that the Group is called on to face, the model was reviewed and updated in 2016 using a participatory method that involved all managers in identifying the new key skills. This process additionally involved a wide-ranging market benchmark and a detailed analysis of the strategic challenges.

The new model is based on 4 levels: I / us, today / tomorrow and involves 4 areas of final outcomes (each characterized by two distinctive skills): shaping the results, (energy and resolution, implementation), establishing a common ground (cooperation; influence), adding value (excellence and simplification; management of complexity) and constructing the future (innovation; valorising people).
The model is characterized by an exemplary style and an agile approach.
Each skill has been articulated in terms of distinctive behaviours for all the individual role (directors, managers, middle managers, managerial employees and employees) on the basis of a scale from 1 to 5, ensuring that the model represents the behavioural reference for the population in question.

In 2017 the new leadership model replaced the previous one in all human resources management processes, including the Performance Management process.

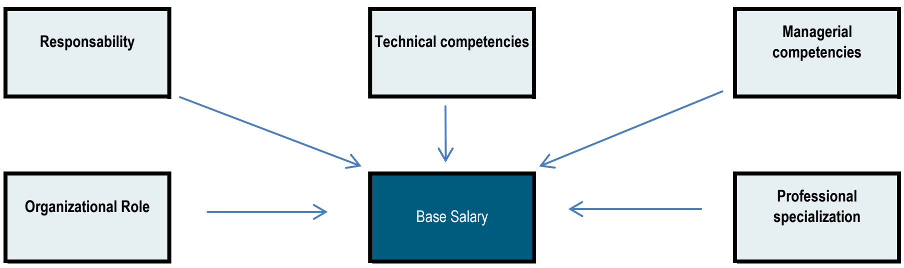
5 Balancing remuneration elements and remuneration components

The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable components, taking the specific risk profile of the company into account.
The fundamental components of remuneration for Hera Group Directors are:

- Fixed remuneration
- short-term variable remuneration
- Deferred variable remuneration for management retention;
- non-monetary benefits

5.01 Fixed remuneration

The fixed component of remuneration is usually determined by the professional specialisation and the organisational role along with related responsibilities. It is therefore a reflection of technical, professional and managerial skills.



For each manager, the reference remuneration level is established on the basis of the organizational position he or she holds, benchmarked with the selected foreign markets. These markets are drawn from the remuneration surveys the Group participates in, carried out by specialized companies in the sector. On the whole, the remuneration level used as a benchmark is in the medium band for the market (first quartile/median). These market references, combined with performance evaluation, form the basis of individual remuneration reviews.

5.02 Short-term variable remuneration - The Balanced Scorecard system

Recipients

The scope of the Balanced Scorecard system extends to include all Hera Spa and Group subsidiary company Directors and Executives. The scope includes 53 Directors and 102 Executives. A similar evaluation form is planned for the Executive Chairman and the CEO.

Incentive and objective definition process

The short-term incentive system includes an individual Balanced Scorecard for each of the recipients. Each BSC includes a series of objectives belonging to three evaluation areas:

- objective-oriented projects, defined according to the Group's Strategic Map;
- economic objectives of the individual Budget Units, evaluated through economic-financial type indicators;
- discretionary evaluation, based on the extent of the adoption of the types of behaviour set out in the leadership model adopted by the Group.

Each area is divided into a series of pre-set objectives, each with a specific performance indicator. The relative weight of each area under the scope of the individual BSC is different for Directors and Executives, and corresponds to the total of the weight of the individual objectives belonging to the same area.

Performance measurement

A target is defined for each objective. The amount of the reward to be paid to each recipient is determined according to whether the set targets are actually reached (result) and the specific weight of the individual objective.
The result of the evaluation carried out using the aforementioned individual Balanced Scorecard system is weighted through a company results profile, which takes into account the performance recorded by the Group with reference, for 2017, to four parameters:

- EBITDA
- Net Profit
- Net Financial Position (PFN)
- Customer Satisfaction Index (ICS)

The weighing percentage to be applied to each individual result is defined according to the performance profile achieved by the company within a range between 40% and 115%.
The maximum bonus, expressed in percentage terms of gross annual fixed remuneration of directors/managers, varies according to the results of the incentive system and the office held by the manager, specifically:

- directors: a variable payment equal to 28.8% of the total gross fixed fees [(28.8%) = maximum company's weight (115%) *maximum individual variable (25%)];
- managers: two different levels of maximum variable compensation, respectively equal to 19.6% [(19.6%) = maximum company's weight (115%) *maximum individual variable (17%%)] and 25.3% = maximum company's weight (115%) *maximum individual variable (22%)] of the total gross fixed fees.

The table below illustrates the mechanism for measuring accrued bonuses:

Component	**Description**	**Example calculation**
A	Annual gross compensation (€)	100.000 euro
B	Target bonus (100% Ral)	25%
C	Target bonus (€) = A x B	25.000 euro
D	Individual objectives achieved (%)	90%
E	Corporate performance weighting factor (%)	106%
F	**Amount of bonus granted (€) = C x D x E**	**23.850 euro**

With regard to transactions of strategic importance of an exceptional nature, with significant effects on the results of the company, the Board of Directors, following the proposal of the Remuneration Committee, can award discretionary bonuses to executive directors and management with strategic responsibilities.

5.03 Deferred variable remuneration for management retention;
During the meeting held on 22 March 2016, the Board of Directors approved the implementation of a retention plan for a selecetd number of executives, taking into account the importance of their organizational position, the assessment of their performance in the development process and their age. Furthermore, the Board of Directors considered it appropriate to provide for an annual evaluation mechanism for accessing and renewing / non-renewing the allocation of the monetary plan.
The 2016 benefit matures in the years 2016 - 2017 - 2018 and is paied out in 2019. The value of the benefit is equal to 50% or 100% of the Ral in the three-year period, that is 17% or 33% of the Ral for the year.
The decision of the Board of Directors was affected by the assessment of a series of elements:

- from the moment Hera was founded, the Group has grown significantly in terms of company size, territorial presence and final results;

- from the point of view of the executive management, the Group's current composition is the result of carefully balancing between newly acquired skills coming from the market and specific skills already present.;
- currently the Group enjoys solid reputation and visibility on the market and consequently it is appropriate to direct retention measures tailored to those executives holding strategic roles, achieving high-level result and with high market risk.

The calculation model for the accrual of the annual benefit and the calculation model for determining the premium to be paid after the end of the three-year period are shown below.

Accrual of the annual benefit

Component year n	=	RAL year n*	X	50% o 100% / 3	X	Level of Group results achieved	X	Development process assessment parameter
Component year n+1	=	RAL year n+1*	X	50% o 100% / 3	X	Level of Group results achieved	X	Development process assessment parameter
Component year n+2	=	RAL year n+2*	X	50% o 100% / 3	X	Level of Group results achieved	X	Development process assessment parameter

Paying out the annual bonus n + 3

Value of bonus	=	Component year n	+	Component year n+1	+	Component year n+2

5.04 Non-monetary benefits and social incentive plan

In line with best practices, they also receive D&O Liability insurance coverage against civil responsibility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

Furthermore, it provides for the assignment of a company car to be used by managers holding specific organizational positions.

In addition, beginning in 2017, an additional incentive plan was introduced in relation to the achievement of Group objectives, which provides for the payment of Welfare bonuses that can be spent on the services included in the company's welfare plan.

Benefits are paid out according to the level of achievement of the Group KPIs, criteria already used to assess the overall results of the Bsc system following a layout that, for each individual indicator, provides for a premium only in the case that the established target is surpassed.

The maximum value upon reaching 100% of the objectives included in the plan is equal to 6% of the individual theoretical variable and in details:

- Directors

a maximum social bonus equal to 6% of 25% of the total gross fixed fees (amounting to 1.5% of Ral);

- Managers

two different levels of maximum social bonus, respectively equal to 6% of 22% % of the total gross fixed fees (amounting to 1.3% of Ral) and 6% of 17%of the total gross fixed fees (amounting to 1% of Ral) .

In addition, consistently with the implementation of the Group welfare plan launched in 2016, all Group employees have been granted access to a Flexible Benefit plan providing for the assignment of a 360 Euros bonus in 2017.

Finally, with reference to all the Group's employees with non-managerial positions, the plan provides for possibly converting up to 50% of the business result bonus into goods and services included in the corporate welfare plan.

6 Remuneration of Directors and the General Operations Manager

6.01 Non-executive Directors

The following different types of directors can be found within the Board of Directors:

- Executive Directors holding specific offices to whom specific powers are delegated;
- non-executive Directors (hereinafter referred to as "Non-executive Directors").

The current breakdown of the Hera Spa Board of Directors is as follows:

- Executive Directors: the Chairman of the Board of Directors Tomaso Tommasi di Vignano and the CEO Stefano Venier;
- Non-executive Directors: the Vice Chairman of the Board of Directors Giovanni Basile, and Directors Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Stefano Manara, Danilo Manfredi, Alessandro Melcarne, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola and Giovanni Xilo.

With regard to Non-executive Directors, following their appointment, the Shareholders' Meeting on 27 April 2017 established that they would receive a gross annual payment of Euro 40,000, in addition to reimbursement of living expenses sustained while carrying out their office.
The Board of Directors, with regard to the offices held by Directors in Group companies, as well as in the HERA Group committees (Executive Committee, Remuneration Committee, Control and Risks Committee and Related Parties Transactions Committee) decided to award these Directors a total sum of Euro20,000 gross per year.
The same Board of Directors decided, on 28 June 2017, to award the Vice Chairman a fixed annual sum of Euro 85,000 for the duration of his office, which includes the indemnity due as a director and any other fees for offices held in Group companies.
Note that, in line with best practices and the instructions in the Corporate Governance Code, there are no provisions for a variable component in the payment of Non-executive Directors.
In line with best practices, they also receive D&O Liability insurance coverage against civil responsibility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

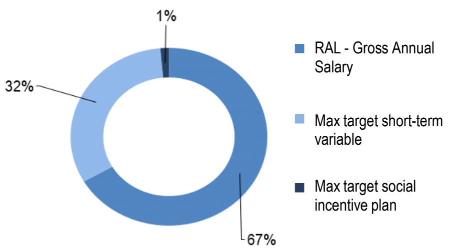
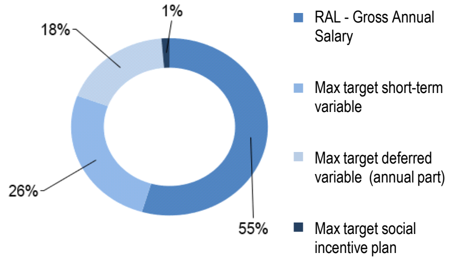
6.02 Executive Directors and the General Operations Manager

On 28 June 2017, the Board of Directors resolved that the Chairman and CEO will be paid a fixed compensation in the amount of Euro 380,000 gross each for the entire length of their terms, taking effect 27 April 2017 and including all services/offices held in the Hera Group's subsidiary and associate companies as well.
The Chairman, CEO and General Manager come under the scope of the remuneration policies defined for the top management of the company, whose methodology is based, as stated previously, on the weighting methods for the positions, market comparisons and an incentive scheme based on the Balanced Scorecard system.
With reference to the variable component of the short-term remuneration policy, the Chairman and CEO were paid a variable compensation associated with the achievement of the Group's performance objectives for the 2017 financial year: they received for the year 2017 a bonus equal to 40% of the fixed remuneration for assigned target results according to their performance profile and in keeping with the over-performance criteria of the company's Bsc (Balanced scorecard) incentive system, which

took into account the economic and financial results for 2017 (NFP, Ebitda and Net Result) and the results of the 2017 Customer satisfaction survey (Ics).
The degree of achievement of these objectives, likewise determines the rate of weighting that is applied to the achievement of individual results by directors and executives covered by the balanced scorecard system.
Within the scope of the executive management retention tools (at significant market risk), a deferred variable remuneration plan was introduced for the CEO, related to the achievement of the Group's economic and financial results in the 2016, 2017 and 2018 financial years.. The maximum economic value for the three-year period in question is 100% of the Ral with payments expected at the end of the 2018 financial year when the associated financial statements will be approved by the Shareholders' Meeting, provided that at that date he is still fully operative in the Group companies.

In addition, beginning in 2017, an additional incentive plan was introduced for the Executive Chairman and the CEO in relation to the achievement of Group objectives, which provides for the payment of Welfare bonuses that can be spent on the services included in the company's welfare plan, with a layout analogous to the layout outlined in paragraph 5.04.
The maximum value upon reaching 100% of the objectives included in the plan is equal to 6% of the individual theoretical variable and, more specifically, to 6% of 40% of gross fixed fees (amounting to 2.4% of total gross fixed fees).

With reference to the offices of Executive Chairman and CEO, the remuneration package composition is summarized below:

Position	Compensation	euros	Composition of the compensation package
Executive Chairman	Gross annual salary	380,000	
	Maximum target RGA	562,400	
	Maximum target RDA	562,400	
	Maximum target RDA + Social incentive plan	571,520	
CEO	Gross annual salary	380,000	
	Maximum target RGA	562,400	
	Maximum target RDA	687,800	
	Maximum target RDA + Social incentive plan	696,920	

a variable payment equal to 25% of the total gross fixed fees on reaching 100% of the targets is established for the General Operations Manager. Individual performance is subsequently weighted through a company results profile, which takes into account the performance recorded by the Group with reference to the current year. The weighting involves a maximum increase of individual results in the amount of 15%, thus generating a maximum variable compensation equal to 28.8% of the total gross fixed compensation.
In relation to non-monetary benefits, in addition to the insurance policies outlined previously in point 6.01, the company car is available for use.

Lastly, beginning in 2017, an additional incentive plan was introduced in relation to the achievement of Group objectives, which provides for the payment of Welfare bonuses that can be spent on the services included in the company's welfare plan, with a layout analogous to the layout outlined in paragraph 5.04.

The maximum value upon reaching 100% of the objectives included in the plan is equal to 6% of the individual theoretical variable and, more specifically, to 6% of 25% of gross fixed fees (amounting to 1.5% of Ral).

7 Compensation

7.01 Compensation for cases of resignation, lay-off or termination of the employment relationship

On the renewal of the BoD, during the 27 April 2017 Shareholders' meeting, a clause was introduced according to which if Executive Directors are removed from office(except for cases of just cause), they will be paid an amount, as compensation for damages, comprehensive of any other claim, equal to the sum they would have received as remuneration, pursuant to art. 2389 of the civil code, In the amount of 18 monthly salaries.

7.02 Claw-back clause

On the renewal of the BoD, during the 27 April 2017 Shareholders' meeting, a claw-back clause was introduced providing for ex-post changes to the remuneration system for executive managers.
According to this clause, executive managers are required to return variable components of the remuneration received (or to retain specific amounts subject to deferment) calculated on the basis of data that subsequently turned out to be incorrect, with effect from the date of their appointment and for the entire length of their turn; the return request can be initiated, once the associated investigations have been carried out, within three years from the payment, with reference to the year in which the case occurred.

Section II

Introduction

This second section of the report outlines the items that make up the remuneration of members of the administrative and control bodies, as well as General Manager, with the aim of highlighting the consistency with the General Policy described in Section I.
With reference to the policies for directors' remuneration, it should be noted that, with respect to the positions held by the directors (excluding the Chairman, Chief Executive Officer and Vice Chairman) in the Group companies, in the Remuneration and Risks and Controls Committees well as the Executive Committee, the directors involved are awarded a total salary of Euro 20,000 gross per year to be added to the remuneration established by the Shareholders' Meeting of Euro 40,000.
The value of the bonus received in 2017 by each figure is also indicated, in relation to the degree of achievement of the targets set in the previous year.

1 Description of the compensation paid to Directors and General Managers

This section contains the details of payments made during 2017, with reference, as far as the variable part is concerned, to the accrual criterion.

The following aspects are highlighted:

Executive Chairman

The fixed compensation for Mr. Tomaso Tommasi di Vignano is composed exclusively of wages associated with his relationship as director. The aforementioned compensations also include all services and offices held in the Hera Group's subsidiary and associate companies. Note that during 2017 he received a bonus with regard to the results of the previous year, equal to Euro120,750, following the achievement of an overall performance index of 115%.

Ceo

The fixed compensation paid to Mr. Stefano Venier is composed exclusively of gross annual remuneration as a Group executive and also includes all services/offices held in the Hera Group's subsidiary and associate companies. Note that during 2017 he received a bonus with regard to the results of the previous year, equal to Euro120,750, following the achievement of an overall performance index of 115%.

Vice Chairman

Mr. Giovanni Basile received a fixed payment of Euro 85,000 as the fixed annual gross salary for the office of Vice Chairman.

Non-executive Directors

For the office of non-Executive Director of the company Mara Bernardini, Forte Clò, Giorgia Gagliardi, Massimo Giusti, Riccardo Illy, Stefano Manara, Luca Mandrioli, Danilo Manfredi, Cesare Pillon, Tiziana Primori e Bruno Tani received a fixed payment for the office of Director and a further payment for their involvement in Committees or in Boards of Directors of subsidiaries or associated companies, as set out in the Group remuneration policy.

Subsequently, on 27 April 2017, following the renewal of the entire administrative body and their appointment to the office of non-Executive Directors, Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Aldo Luciano (outgoing beginning 5 October 2017 and substituted through cooptation by Alessandro Melcarne on 8 November 2017), Stefano Manara, Danilo Manfredi and Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola and Giovanni Xilo received a fixed payment for the office of Director and a further payment taking effect 1 May 2017 for their involvement in Committees or in Boards of Directors of subsidiaries or associated companies, as set out in the Group remuneration policy.

General Manager

The General Manager of Operations, Mr. Roberto Barilli, received compensation of Euro342,262 in the form of gross annual remuneration. Note that during 2017 he received a bonus with regard to the results of the previous year, equal to Euro 97,872, following the achievement of an individual performance index of 100% and a Group performance index of 115%.

He additionally received a non recurring fee of 20,000, over the course of 2017.

Statutory Auditors

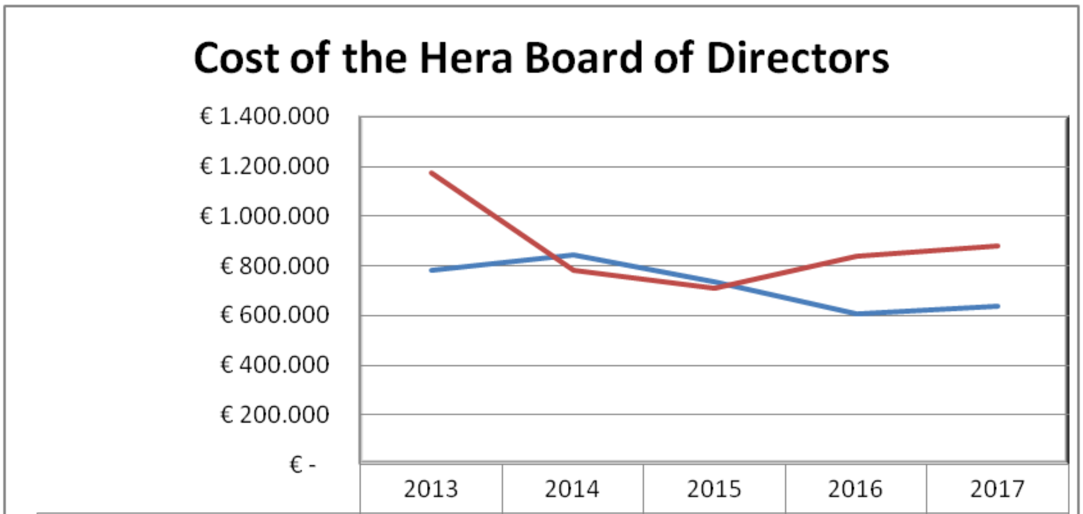
The members of the Board of Statutory Auditors received fixed compensation for the office of Auditor determined by the Shareholders' Meeting.

Compensation received in Group companies

Remuneration for the Executive Directors, Directors, General Manager and Managers for positions held within Group company structures and/or committees, are redirected in their entirety to Hera Spa. The total redirected to the Parent Company for the year 2017 was approximately 641,427 Euros.

The cost of the Board of Directors of Hera Spa for the year 2017 was Euro 878,935, net of remuneration amounting to Euro 641,427 (for a gross total amount of Euro 1,520,362) received by Hera for the participation of directors / managers in administrative bodies of its affiliates.

The change in the real cost of the Board of Directors for the year 2017 is due to an increase of the number of members of the administrative body, reaching 15, allowing minority shareholders to appoint an additional director.



	2013	2014	2015	2016	2017
Total redirected to the Parent Company	€ 782.302	€ 845.223	€ 737.688	€ 608.321	€ 641.427
Real cost of the Hera Board of Directors	€ 1.174.956	€ 780.069	€ 707.312	€ 836.679	€ 878.935

Bologna, 27 March 2018

The Chairman of the Board of Directors:
(TomasoTommasi di Vignano)

TABLE 1: Compensation paid to members of administrative and control bodies, General Managers and other management with strategic responsibilities.

Administrative body

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equitycompensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Tomaso Tommasi di Vignano	Executive Chairman	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2016 31 December 19									
I) Compensation in the company preparing the financial statements				370,333		120,750		8,186	1,661	500,930		
(II) Compensation from subsidiaries and associated companies												
(III) Total				370,333		120,750		8,186	1,661	500,930		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Venier	CEO	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2016 31 December 19									
I) Compensation in the company preparing the financial statements				371,537		120,750		16,782	3,166	512,235		
(II) Compensation from subsidiaries and associated companies												
(III) Total				371,537		120,750		16,782	3,166	512,235		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compen sation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giovanni Basile	Vice Chairman	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				85,000				4,026		89,026		
(II) Compensation from subsidiaries and associated companies												
(III) Total				85,000				4,026		89,026		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compens ation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Francesca Fiore	Director	27 Apr 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				27,111	13,333			266		40,710		
(II) Compensation from subsidiaries and associated companies												
(III) Total				27,111	13,333			266		40,710		
Notes					I) as a member of the remuneration Committee beginning 1 May 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giorgia Gagliardi	Director	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				40,000				235		40,235		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				235		60,235		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Massimo Giusti	Director	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				40,000	20,000			496		60,496		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			496		60,496		
Notes					I) as a member of the Internal Control Committee until 27 April 2017, and subsequently as a member of the Remuneration							

					Committee.							

Name and surname	**Office**	**Period during which office was held**	**Expiry of term of office**	**Fixed compensation**	**Compensation for participation on committees**	**Variable non-equity compensation**		**Non-monetary benefits**	**Other compensation**	**Total**	**Fair value of equity compensation**	**Retirement or employment termination indemnity**
						Bonuses and other incentives	**Profit sharing**					
Sara Lorenzon	Director	27 April 2017 31 December 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				27,111	13,333			160		40,604		
(II) Compensation from subsidiaries and associated companies												
(III) Total				27,111	13,333			160		40,604		
Notes					I) as a member of the Control and Risk Committee beginning 1 May 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Manara	Director	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				40,000	20,000			473		60,473		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			473		60,473		
Notes					I) as a member of the Internal Control Committee until 27 April 2017, and subsequently as a member of the Remuneration Committee.							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Danilo Manfredi	Director	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				40,000	6,444			327		46,771		
(II) Compensation from subsidiaries and associated companies				13,556						13,556		
(III) Total				53,556	6,444			327		60,327		
Notes				II) for offices held in Group companies beginning 27 April 2017	I) as a member of the Control and Risk Committee until 27 April 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Alessandro Melcarne	Director	08 Nov 17 31 Dec 17	Next shareholders' meeting									
I) Compensation in the company preparing the financial statements				5,889				35		5,924		
(II) Compensation from subsidiaries and associated companies				2,944						2,944		
(III) Total				8,833				35		8,868		
Notes				II) for offices held in Group companies beginning 08 November 2017								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Erwin P.W. Rauhe	Director	27 April 2017 31 December 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				27,111				681		27,792		
(II) Compensation from subsidiaries and associated companies				13,333						13,333		
(III) Total				40,444				681		41,125		
Notes				II) for offices held in Group companies beginning 01 May 2017								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Duccio Regoli	Director	27 April 2017 31 December 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				27,111	13,333			618		41,062		
(II) Compensation from subsidiaries and associated companies												
(III) Total				27,111	13,333			618		41,062		
Notes					I) as a member of the Control and Risk Committee beginning 1 May 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Federica Seganti	Director	27 April 2017 31 December 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				27,111	13,333			326		40,770		
(II) Compensation from subsidiaries and associated companies												
(III) Total				27,111	13,333			326		40,770		
Notes					I) as a member of the Executive Committee beginning 01 May 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Marina Vignola	Director	27 April 2017 31 December 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				27,111				227		27,338		
(II) Compensation from subsidiaries and associated companies				13,333						13,333		
(III) Total				40,444				227		40,671		
Notes				II) for offices held in Group companies beginning 01 May 2017								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giovanni Xilo	Director	27 April 2017 31 December 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				27,111				545		27,656		
(II) Compensation from subsidiaries and associated companies				13,333						13,333		
(III) Total				40,444				545		40,989		
Notes				II) for offices held in Group companies beginning 01 May 2017								

Outgoing directors

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Mara Bernardini	Director	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016 31 December 2016									
I) Compensation in the company preparing the financial statements				13,000	6,500			335		19,835		
(II) Compensation from subsidiaries and associated companies												
(III) Total				13,000	6,500			335		19,835		
Notes					I) as a member of the Control and Risk Committee until 27 April 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Forte Clò	Director	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016									
I) Compensation in the company preparing the financial statements				13,000				884		13,884		
(II) Compensation from subsidiaries and associated companies				6,500						6,500		
(III) Total				19,500				884		20,384		

Notes				II) for offices held in Group companies until 27 April 2017								
Name and surname	**Office**	**Period during which office was held**	**Expiry of term of office**	**Fixed compensation**	**Compensation for participation on committees**	**Variable non-equity compensation**		**Non-monetary benefits**	**Other compensation**	**Total**	**Fair value of equity compensation**	**Retirement or employment termination indemnity**
						Bonuses and other incentives	**Profit sharing**					
Riccardo Illy	Director	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016									
I) Compensation in the company preparing the financial statements				13,000	6,500					19,500		
(II) Compensation from subsidiaries and associated companies												
(III) Total				13,000	6,500					19,500		
Notes					I) as a member of the Executive Control until 27 April 2017							

Name and surname	**Office**	**Period during which office was held**	**Expiry of term of office**	**Fixed compensation**	**Compensation for participation on committees**	**Variable non-equity compensation**		**Non-monetary benefits**	**Other compensation**	**Total**	**Fair value of equity compensation**	**Retirement or employment termination indemnity**
						Bonuses and other incentives	**Profit sharing**					
Tiziana Primori	Director	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016									
I) Compensation in the company preparing the financial statements				13,000				859		13,859		
(II) Compensation from subsidiaries and associated companies				6,500						6,500		
(III) Total				19,500				859		20,359		
Notes				II) for offices held in Group companies until 27 April 2017								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Luca Mandrioli	Director	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016									
I) Compensation in the company preparing the financial statements				13,000	6,500			184		19,684		
(II) Compensation from subsidiaries and associated companies												
(III) Total				13,000	6,500			184		19,684		
Notes					I) as a member of the Control and Risk Committee until 27 April 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Cesare Pillon	Director	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016									
I) Compensation in the company preparing the financial statements				13,000	6,500			-1,532		17,968		
(II) Compensation from subsidiaries and associated companies												
(III) Total				13,000	6,500			-1,532		17,968		
Notes					I) as a member of the Control and Risk Committee until 27 April 2017							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Bruno Tani	Director	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016									
I) Compensation in the company preparing the financial statements				13,000				580		13,580		
(II) Compensation from subsidiaries and associated companies				6,500						6,500		
(III) Total				19,500				580		20,080		
Notes				II) for offices held in Group companies until 27 April 2017								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Aldo Luciano	Director	27 April 2017 05 October 2017										
I) Compensation in the company preparing the financial statements				17,649				635		18,284		
(II) Compensation from subsidiaries and associated companies				8,602						8,602		
(III) Total				26,251				635		26,886		
Notes				II) for offices held in Group companies until 05 October 2017								

Control body

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Myriam Amato	Chairman of the Board of Statutory Auditors	27 April 2017 31 December 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				81,863				133		81,996		
(II) Compensation from subsidiaries and associated companies				35,797						35,797		
(III) Total				117,660				133		117,793		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Marianna Girolomini	Standing Auditor	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				80,000				390		80,390		
(II) Compensation from subsidiaries and associated companies				94,345						94,345		
(III) Total				174,345				390		174,735		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Antonio Gaiani	Standing Auditor	1 Jan 2017 31 Dec 2017	Annual Financial Report approval as of 31 December 2019									
I) Compensation in the company preparing the financial statements				80,000				399		80,399		
(II) Compensation from subsidiaries and associated companies				76,600						76,600		
(III) Total				146,600				399		146,999		

Notes												

Members of the Board of Statutory Auditors no longer in office

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Sergio Santi	Chairman of the Board of Statutory Auditors	1 January 2017 27 April 2017	Annual Financial Report approval as of 31 December 2016 31 December 2016									
I) Compensation in the company preparing the financial statements				39,000				3,289		42,289		
(II) Compensation from subsidiaries and associated companies				34,618						34,618		
(III) Total				73,618				3,289		76,907		
Notes												

General Managers

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Roberto Barilli	General Manager of Operations	1 Jan 2017 31 Dec 2017										
I) Compensation in the company preparing the financial statements				341,326		117,872		17,251	3,484	479,933		
(II) Compensation from subsidiaries and associated companies												
(III) Total				341,326		117,872		17,251	3,484	479,933		
Notes						Including a non recurring fee 20,000						

Table 3B: Monetary incentive plans for members of the administrative body, General Managers and other management with strategic responsibilities.

Name and surname	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Tomaso Tommasi di Vignano	Executive Chairman		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	120,750						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total									

Name and surname	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Stefano Venier	CEO		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	120,750						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total									

Name and surname	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Roberto Barilli	General Manager of Operations		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	97,872						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total									

Name and surname	Offices held in Hera Spa	Subsidiaries	No. shares held at the end of the preceding financial year	No. shares purchased	No. shares purchased	No. shares held at the end of the preceding financial year
TomasoTommasi di Vignano (1)	Executive Chairman	Hera Spa	31,764	,-	,-	31,764
Stefano Venier	CEO	Hera Spa	,-	,-	,-	,-
Giovanni Basile	Vice Chairman	Hera Spa	,-	,-	,-	,-
Francesca Fiore	Director	Hera Spa	,-	,-	,-	,-
GiorgiaGagliardi	Director	Hera Spa	,-	,-	,-	,-
Massimo Giusti	Director	Hera Spa	,-	,-	,-	,-
Sara Lorenzon	Director	Hera Spa	,-	,-	,-	,-
Stefano Manara	Director	Hera Spa	,-	,-	,-	,-
DaniloManfredi	Director	Hera Spa	,-	,-	,-	,-
Alessandro Melcarne (beginning 8 November.2017)	Director	Hera Spa	,-	,-	,-	,-
Erwin P.W. Rauhe	Director	Hera Spa	,-	,-	,-	,-
DuccioRegoli	Director	Hera Spa	,-	,-	,-	,-
Federica Seganti	Director	Hera Spa	,-	,-	,-	,-
Marina Vignola	Director	Hera Spa	,-	,-	,-	,-
Giovanni Xilo	Director	Hera Spa	,-	,-	,-	,-
Mara Bernardini (in office until 27 April 2017)	Director	Hera Spa	40,000	,-	,-	40,000
Forte Clò (in office until 27 April 2017)	Director	Hera Spa	,-	,-	,-	,-
Riccardo Illy (in office until 27 April 2017)	Director	Hera Spa	,-	,-	,-	,-

Luca Mandrioli (in office until 27 April 2017)	Director	Hera Spa	,-	,-	,-	,-
CesarePillon (in office until 27 April 2017)	Director	Hera Spa	,-		,-	,-
TizianaPrimori (in office until 27 April 2017)	Director	Hera Spa	,-	,-	,-	,-
Bruno Tani (in office until 27 April 2017)	Director	Hera Spa	170,000	,-	,-	170,000
Aldo Luciano (from 27 April 2017 to 05 October 2017)	Director	Hera Spa	,-	,-	,-	,-
Myriam Amato	Chairman of the Board of Statutory Auditors	Hera Spa	,-	,-	,-	,-
Antonio Gaiani	Member of the Board of Statutory Auditors	Hera Spa	,-	,-	,-	,-
Marianna Girolomini	Member of the Board of Statutory Auditors	Hera Spa	,-	,-	,-	,-
Sergio Santi (2) (in office until 27 April 2017)	Chairman of the Board of Statutory Auditors	Hera Spa	40,752	,-	,-	40,752
Roberto Barilli	General Manager of Operations	Hera Spa	,-	,-	,-	,-

(1) indirect possession through spouse (2) of the 40,752 shares held, 1,652 of which are held through subsidiaries, trust companies or third parties.

Resolution Proposal

Dear Shareholders,
the Shareholders' Meeting is called on to vote on "Section I" of the remuneration report, which refers to the remuneration policies of your company and the procedures employed to adopt and implement this policy. This report has been prepared in compliance with the provisions of current laws and regulations and the Code of Self-discipline of listed companies, which Hera adheres to
If you agree with the content of this report, we ask you to vote in favour of Section I of the remuneration report by adopting the following resolution:
“ Hera Spa Shareholders' meeting, in compliance with the regulation of Art. 123-ter of the Tuf, as well as Art. 84-quater of the Consob Issuers Regulations:

- having acknowledged the policies concerning remuneration adopted by the Group;
- having read the first section of the report on remuneration;

resolves

to approve the first section of Hera Group "report on remuneration"

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