Consolidated Financial Statements 2019

GRUPPO HERA

Hera Group - Consolidated financial statements at 31 December 2019 approved by the Hera Spa BoD on 25 March 2020 and to be approved by the Shareholders Meeting held on 29 April 2020

Table of contents

Introduction

Chapter 1

Directors' Report

Chapter 2

Hera Group Consolidated Financial Statements

Introduction

Letter from the Chairman to Shareholders

Dear Shareholders,

The 2019 financial year, whose results we hereby present for your approval, was an intense year in many respects and also brought great satisfaction.

Just before the end of the year, the Group strengthened its **joint venture in EstEnergy** with Ascopiave, which brought Hera's customer base up to 3.3 million, thus consolidating its third-place ranking on the national energy sales market, following only the two ex-incumbent operators, and outperforming, ahead of time, the target set in the business plan to 2022. This operation began to contribute to results as of 1 January 2020, by fostering growth in commercial activities that will also affect the remaining quarters of the current year.

Other operations intended to enlarge the Group's scope of operations in the waste treatment sector, carried out during 2019, also significantly strengthened of our plant base, making it even more strategic in light of the increasing shortcomings seen in the Italian context and further solidifying the Group's leadership in this sector. These operations likewise represented a tangible step forwards in achieving long-term strategic objectives, the benefits of which will be increasingly clear in the future.

The results for the year were once again characterized by **internal growth** fuelled by the directly managed development of a wide range of diversified market expansion projects, along with heightened efficiency reached in all areas of activity. The success the Group has achieved on almost all fronts in which it is engaged allowed us to attain results which are impressive even in relation to our long tradition of growth.

In light of these results, 2019 once again closed with a substantial **increase in EBITDA, now at 1,085 million euro, up 5.2%** compared with the previous year. This indicator, which grew by 54 million euro in 2019, is particularly noteworthy considering that the 70 million euro impact of lower margins on safeguarded customers and the end of some incentives on renewables was more than offset during the year.

With the start of its 18th year of operations since its establishment, the Group achieved **further value creation** in 2019, as confirmed by its high returns, 9.4% on invested capital and 10.4% on equity, both significantly above the cost of financing.

In 2019, the Group also made an unprecedented amount of operating **investments,** coming to **approximately 534 million euro**, mainly used to further expand the **Group's potential** prior to the upcoming calls for tenders for the renewal of licences in regulated services.

Management was the source of **a 40% increase in the generation of self-financing resources**, guaranteeing a further consolidation of financial solidity, **reducing the net debt/Ebitda ratio to 2.48x** and ensuring greater solidity in terms of potential for future growth. In fact, thanks to this solidity, the Group is prepared to absorb the potential financial burden deriving from its future commitment to acquiring the entire share capital of EstEnergy, which would bring the aforementioned financial ratio to around 3x. The **rating agencies** that monitor us also consider this to be a **reassuring level of solidity**.

These management achievements reflect our robust multi-business model and the strategies pursued for further prospective growth. At the beginning of 2020, the **new business plan to 2023** was presented featuring **objectives which are even more challenging than the old plan**. These objectives were favourably received by the market after engaging in our customary dialogue with shareholders, as is shown by stock market prices which reached an all-time high of 4.5 euro during the current year, confirming Hera's **ranking as 27th by capitalisation** on the Italian stock market and **first among Italian multi-utilities**.

You may also consult the **Sustainability Report**, presented alongside these year-end Statements, to see how the 2019 performance was supported by a responsible socio-environmental policy and attention given to the main stakeholders. This attention was even more incisive in the current year, when your Group proactively launched extraordinary plans to protect the company's assets, guarantee services and concrete support for employees, customers, suppliers, and local areas in facing the challenges of the current health emergency.

In order to fully reflect the Group's desire to continue providing a reliable point of reference, we have decided to respect all the commitments we have undertaken, including not delaying this year's Shareholders Meeting and fulfilling the promises made regarding dividends, proposed by the Board of Directors at 10 cents per share, as set out in the business plan.

On behalf of the CEO as well, I would like to **thank the Board of Directors and the Board of Statutory Auditors** for the activities they have carried out throughout their term of office, in which they have supported the choices that led the Group to achieve a 91.7% increase in the overall return for shareholders, in terms of growth in shared value and cumulative dividends, between 2017 and 2019.

Finally, **special thanks to all Group personnel** for the sense of responsibility they have demonstrated in reacting promptly to the necessary organizational changes and difficulties imposed by the current emergency, ensuring full continuity in all our primary utility services which are particularly strategic for the country, especially at this time.

We can count on the structural solidity of these premises and the resilience our activities have displayed over time in facing the turbulence seen during the last 17 years, so as to remain a solid point of reference for all our interlocutors, guaranteeing that we achieve **results consistent with the growth profile maintained thus far and in line with the indications of the new business plan**.

Thank you for your kind attention.

Executive Chairman

Tomaso Tommasi di Vignano

Mission

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

For Hera, being the best is a way of creating pride and trust for:

our customers, who receive quality services that satisfy their expectations, thanks to Hera's constant responsiveness;

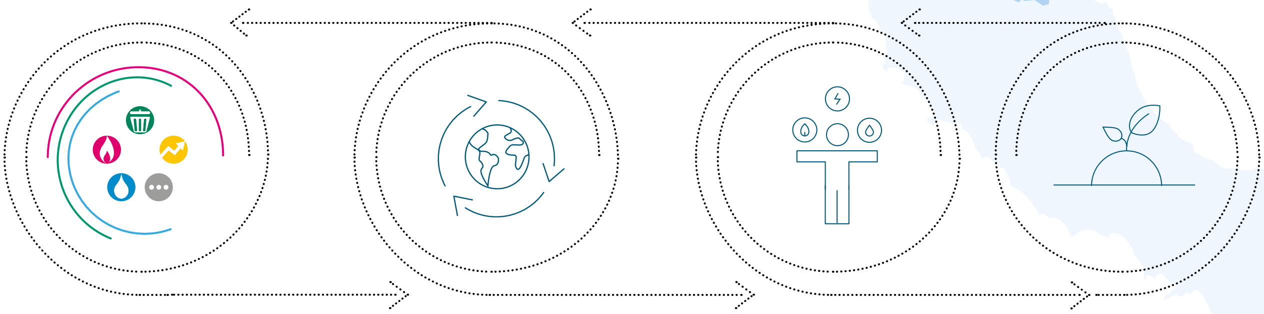
our employees, because the women and men who work for the company, with their skills, engagement and passion, are the foundation of its success;

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

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

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

Strategy



Hera pursues a **multibusiness** growth strategy concentrated on three core business areas: **waste management**, **water services** and **energy**. This allows us to maintain a balanced portfolio that includes both regulated and free-market activities, and that lays the foundations for a path of steady growth.

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

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

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

Overall, the Group's strategy combines business development with the needs of the ecosystem in which it operates, enhancing the reciprocal trust-based relationship it enjoys with its local areas.

Business areas and national ranking

Waste management

1 operator
in the waste sector
by waste treated

7.2 million
tons treated

☆ Collection and street sweeping

Treatment and selection

Recycling, recovery and disposal

Water

2 operator
in the water cycle
by volume of water supplied

289.3 million m³
of water supplied

☆ Abstraction, conveyance and treatment

☆ Distribution and sales

☆ Sewerage and purification

Gas

3 operator
in gas distribution
by volume dispensed

3.0 million m³
distributed

☆ Distribution

Sales

2.05
million customers

3 operator
in energy sales

3.3 million energy customers served

Electricity

5 operator
in electricity distribution
by volume dispensed

3 thousand GWh
distributed

☆ Distribution

Sales

1.25
million customers

Public lighting

4 operator
in public lighting

Municipalities served
181

Lighting points
549 thousand

☆ activities regulated by Arera

Main operating indicators

mn€	2019	2018		
Revenues	6,912.8	6,134.4	∧	+12.7%
Ebitda	1,085.1	1,031.1	∧	+5.2%
Net profits	402.0	296.6	∧	+35.5%
Investments	509.2	431.8	∧	+17.9%
Net debt	2,691*	2,586	∧	+4.06%
Net debt/Ebitda	2.48*	2.51	∨	-0.008%

* 2019 adj

1 bn€
Ebitda

The Hera Group reaches an important milestone in its history

Ebitda: trends by business and market

regulated market 51% — 553.4 million euro

free market 49% — 531.7 million euro

1,085,100,000€

Gas
31.5%

Waste management
24.3%

Water cycle
24.5%

Electricity
16.4%

Other businesses
3.3%

Stock included in the Ftse Mib, with the best performance ever

Stock and ratings

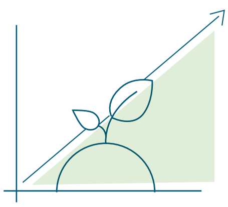
Year-end performance better than main peers and the European sector reference index DJ Stoxx Utilities.

S&P's BBB positive outlook

Moody's Baa2 stable outlook

Green finance

July 2019: new 500 million euro green bond issued, eight years to maturity and annual coupon 0.875%.



+46% over 2018

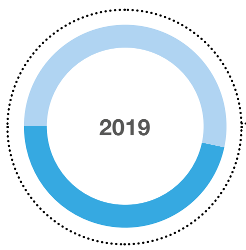
official price 3.909 euro compared to 2.674 euro at 31 December 2018

4.0420 euro/share

highest historical price, on 20 December 2019

Shareholders

Stability and balance in shareholder breakdown; highly diversified group of shareholders (the largest shareholder owns less than 10%).



53.4%
free float

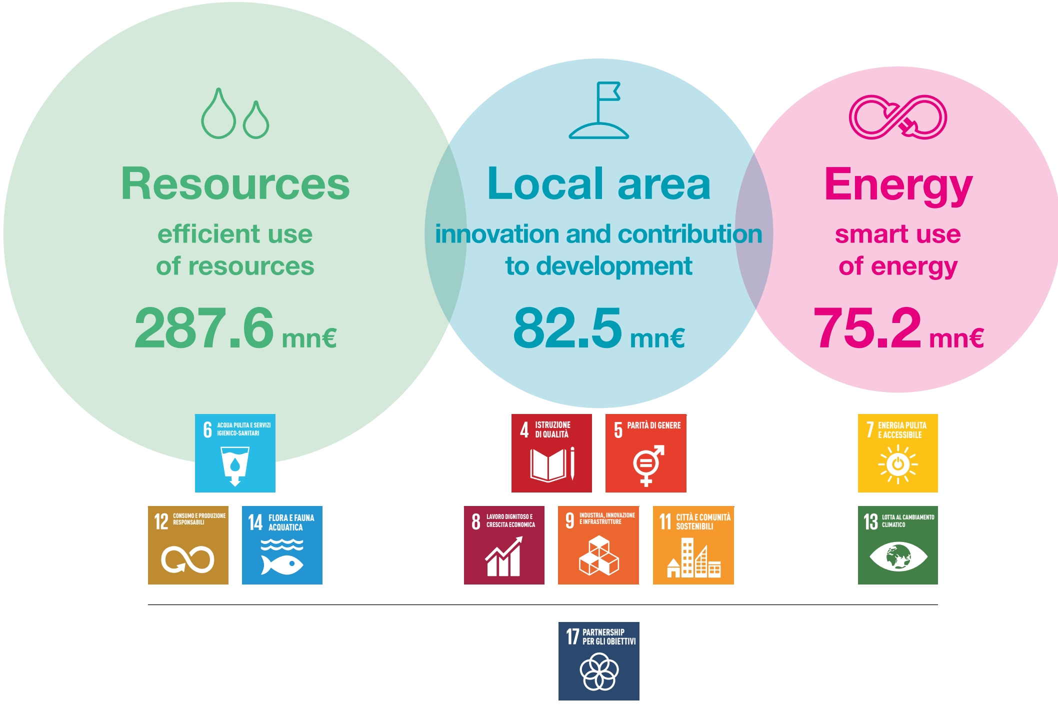
46.6%
public shareholders agreement

Sustainability and shared value

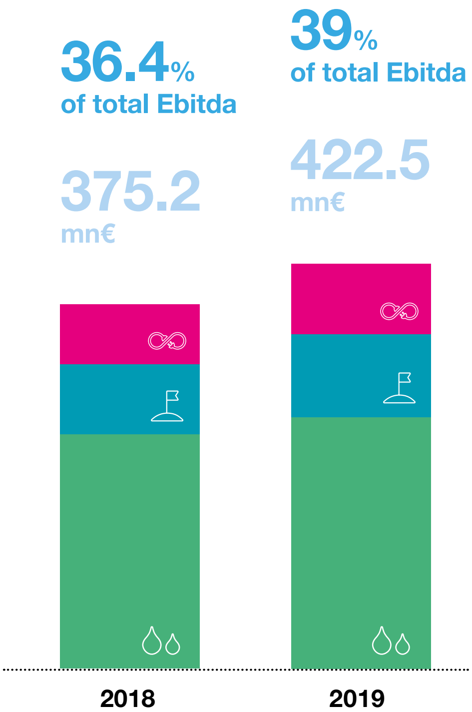
Sustainability and shared value are the foremost operating principle outlined in the Hera Group's Code of ethics and one of the cornerstones of its strategy, bringing operating and financial targets together with environmental and social goals.

Driver

2030 UN Agenda



Shared value Ebitda



Sustainability KPIs*

Carbon footprint for energy production (kg/MWh)	453 (482 in 2018)
Reduction in energy consumption (Iso 50001)	>5% compared to 2013
Sorted waste	64.6% (62.5% in 2018)
Plastic recycles and sold by Aliplast Spa	72.8 t (+14% compared to 2017)
Reduction in water consumption	5.5% compared to 2017
Customer satisfaction rate	73/100
Employee satisfaction rate	68/100
Workplace accident index (accidents/hours of work X 1,000,000)	14 (-23% compared to the 2014-2018 average)

*See the paragraph below for further information

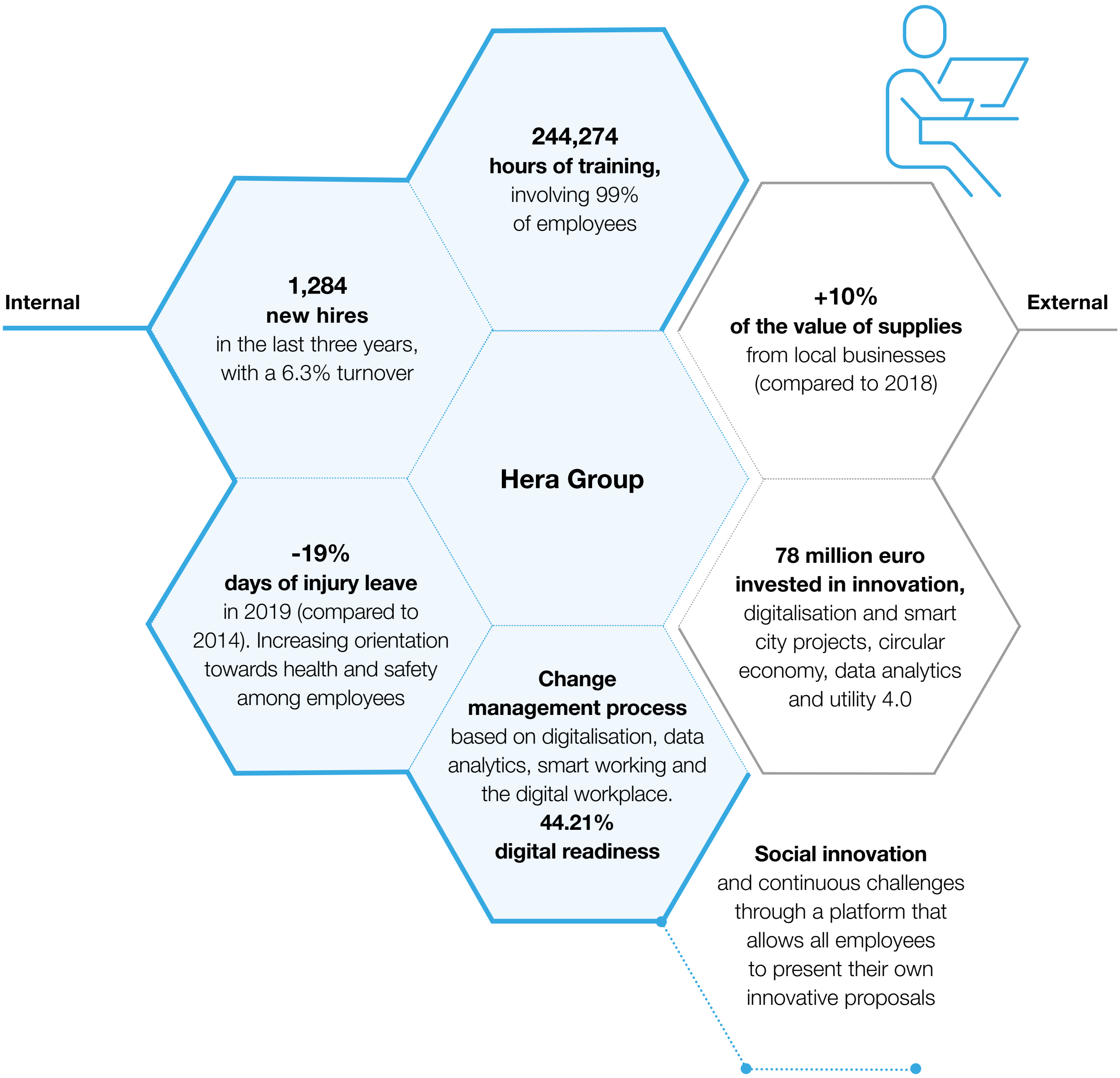
Hera's ratings with respect to Esg standards

Body	Rating	
Integrated governance index	1st place	First place overall for green finance
MSCI	A	Rating unchanged with respect to 2018, outperforming in carbon footprint evaluation
CDP	B	Rating unchanged with respect to 2018, but with improvement in the following areas: Governance, Opportunities disclosure, Risk disclosure, Risk management process, Business impact assessment & financial planning, Value chain engagement
Sustainalytics	79 Outperformer	Rating improved by 4 points compared to 2018, now included among Outperformer companies

The Group's sustainability report is drafted according to the Gri standards (core level), adopting two new Gri standards concerning Water and Occupational health and safety one year in advance.

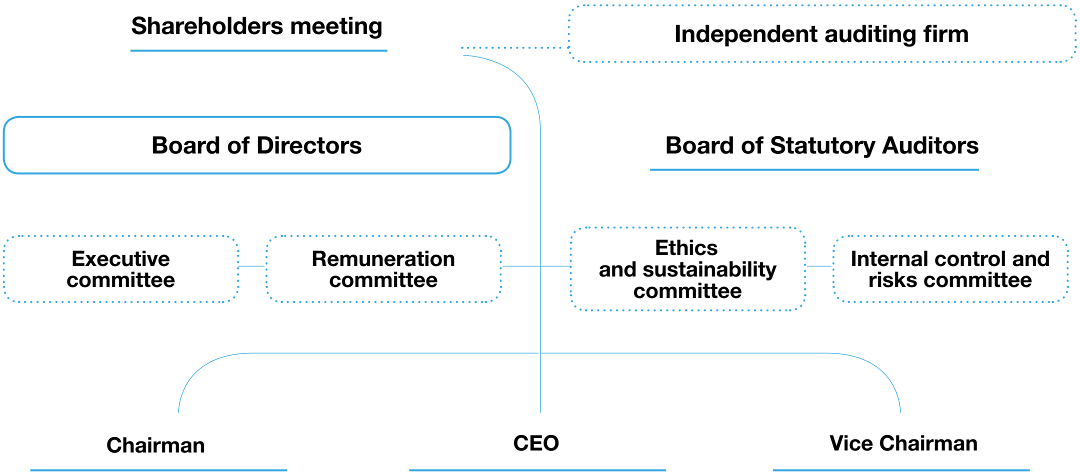
People and stakeholders

Over time, Hera has proven itself a leading figure in the multi-utility sector, continuing to display internal and external growth. The Group's strategy is shaped by focusing on the interests of its various key stakeholders.



Governance system

Hera's corporate governance is aimed at understanding and evaluating the stimuli coming from an increasingly complex context in order to continue growing and, at the same time, further consolidate the close links with the area served that have distinguished the Group since its establishment. Constant dialogue and specific knowledge of the actors involved have led us to develop an open and transparent way of doing business. This distinctive trait has been implemented over the years thanks to the creation of corporate bodies that are integrated with each other and, in line with the **Corporate governance code** and the **Code of ethics**, enable the expectations of all those interacting with Hera to be satisfied.



Shareholders meeting

Board of Directors

Member	Office	Executive committee	Remuneration committee	Internal control and risks committee	Ethics and sustainability committee
Tomaso Tommasi di Vignano	Chairman	C			
Stefano Venier	CEO	M			
Giovanni Basile	Vice Chairman	M	C	C	
Francesca Fiore	Member		M		
Giorgia Gagliardi	Member				
Massimo Giusti	Member		M		C
Sara Lorenzon	Member			M	
Stefano Manara	Member		M		
Danilo Manfredi	Member				
Alessandro Melcarne	Member	M			
Erwin P.W. Rauhe	Member			M	
Duccio Regoli	Member			M	
Federica Seganti	Member				M
Marina Vignola	Member				
Giovanni Xilo	Member				

Board of Statutory Auditors
Chairman: Myriam Amato
Standing auditors:
Antonio Gaiani
Marianna Girolomini

Independent auditing firm
Deloitte & Touche Spa

Key

P Chairman of the Committee

C Member of the Committee

* The other members of the Ethics and sustainability committee are Mario Viviani and Filippo Maria Bocchi

1

Directors' Report

1,086.5
million Ebitda

406
million Net profit

506.9
million investments

ROE 10.7 %
Return on Equity

ROI 9.4 %
Return on Investment

2.48 x
Net debt/Ebitda ratio

1.01
Trends and contexts, strategic approach and Group management policies

1.01.01
Trends and contexts

Hera makes ongoing efforts to interpret the signs coming from the contexts in which it operates, in an attempt to obtain an overall view of what lies ahead for the Group and its stakeholders. In order to anticipate future developments, the main drivers of change and their inextricable interrelations are outlined below. Particular attention will go to identifying macro-trends in the Group's various contexts and its main management policies, i.e. industrial strategy and its links to sustainability (concerning the environment, technology and human capital).

Macroeconomy and finance

The global economy in 2019

The world economy showed moderate growth in 2019, with a slowdown compared to the expansion seen in 2018. According to the data provided by the International Monetary Fund (IMF), growth in global GDP came to slightly under 3% in 2019, as against 3.6% in 2018. The causes for this contraction lie mainly in rising geopolitical tension (first and foremost, the controversy between the United States and Iran), the ongoing trade war between the United States and China, in progress since 2018, and social and economic deterioration in some areas of South America.
The slowdown concerned all of the world's main economies. The Chinese economy continued its gradual deceleration, showing a growth rate of 6.1%, down half a percentage point compared to one year earlier. Growth in the USA economy was also more restrained, settling at +2.3%, compared to +2.9% in 2018.

The European economy in 2019

Within the eurozone, economic growth was slight (+1.2% over the previous year) and dropped compared to the rate of growth recorded in 2018 (+1.9%). Uncertainty as to the outcome of Brexit was seen during the entire year, and weaknesses appeared in the manufacturing and automobile sectors, along with instances of social tension (e.g. the gilet jaunes in France) and situations of political instability, such as in Italy. The inflation rate in the eurozone remained rather low, settling at close to +1.3% at the end of 2019.

World and European economic outlook

The IMF revised downwards its forecast for the rate of global growth in upcoming years with respect to the estimates released in October 2019, as a result of the ongoing trade wards and rising geopolitical tension. Growth in world GDP is expected to come to +3.3% in 2020 and +3.4% in 2021, while for the eurozone, the most recent projections saw growth coming to +1.3% and +1.4% over the next two years; progress in the current worldwide epidemic will however require these figures to be revised. The IMF, for example, updated its forecast in the second half of February, estimating a further slowdown in Chinese growth coming to 0.4 p.p. compared to the previous forecast, resulting in a 0.1 p.p. reduction in global growth; this situation will be updated in the months to come.

2019 data and outlook for the Italian economy

In line with the trends seen in the eurozone, in 2019 the IMF observed a very slight growth in the Italian economy, coming to +0.3%. The Bank of Italy's initial analyses link this slowdown to a reduced contribution to growth coming from business investments (which in any case increased by +1.4%, half of the +3.1% seen in 2018) and national consumption (with a modest improvement in household consumption, resulting from an increase in available income; public administration spending dropped). Foreign trade improved; a downward trend was seen in imports (-0.4%) and exports showed a +1.2% increase, despite the significant reduction that appeared in the last quarter.
Preliminary estimates for the 2019 consumer price index show an increase coming to 0.5% over 2018, due to the price of transportation, housing and expenses for water, electricity and combustibles. As regards the job market, the unemployment rate fell below 10%, down 0.7 p.p. compared to 2018.

Covid-19

The projections calculated by the IMF for the development of the Italian economy before the epidemic broke out were not particularly optimistic, but pointed towards a slight upturn over the next two years. GDP was expected to grow by 0.5% in 2020 and by 0.7% in 2021, leaving room for faint signs of recovery. These projections will have to be updated by the main international institutes to account for the epidemic, and a downward adjustment for growth in our country is quite likely.

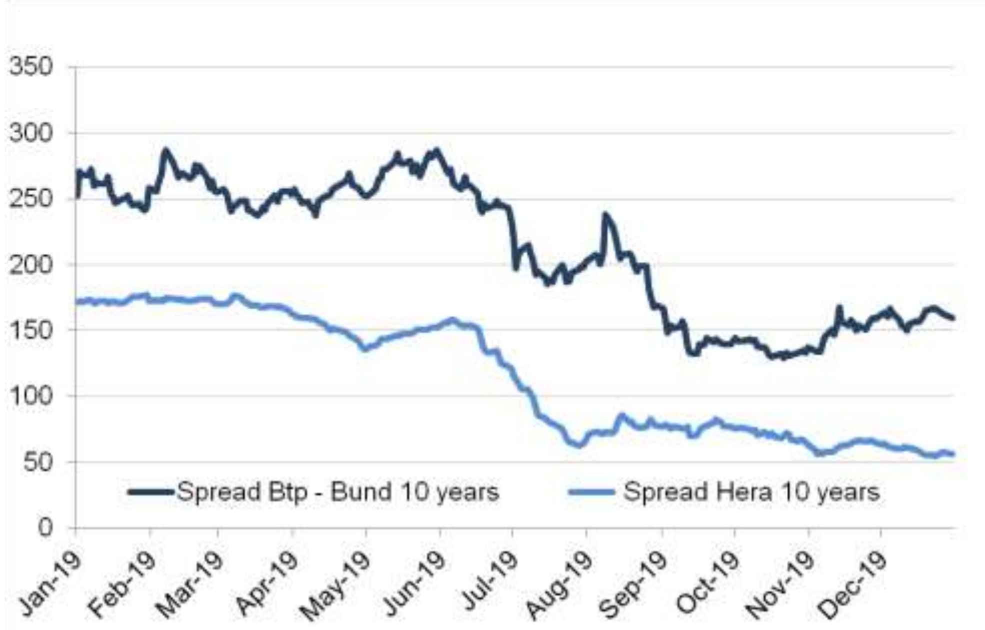
Macro-financial data: global, European and national markets

Financial markets felt the effects of macro-economic uncertainty in 2019, showing contrasting signs that alternated recovery with a fall in the volume of financial instruments traded. The first meeting held by the European central bank (ECB) under its new president Lagarde maintained the monetary policy measures seen previously, as regards both interest rates and asset purchasing; the Ecb's forward guidance expects rates not to rise above their current level until inflation comes sufficiently close to 2%.
With the goal of bringing inflation to this level, furthermore, the ECB stated its wish to continue with an accommodative monetary policy at least until mid-2020. In order to deal with the Coronavirus crisis without additional reductions in interest rates, the ECB announced further liquidity auctions for banks, relaxing the criteria for assigning money so that it can flow more easily towards small-to-medium enterprises. The bond-buying program, furthermore, which as of 1 November came to 20 billion euro per month with no preset maturity, increased by 120 billion. Supervision criteria for banks were also revised, to give them greater flexibility in facing these extraordinary circumstances. The ECB also introduced an additional special

purchasing program (Pepp – Pandemic Emergency Purchase Program) amounting to 750 billion, as a response to the uncertainty has compromised liquidity on the European secondary market. These purchases, which will continue for the entire duration of the Covid-19 crisis (and in any case at least until the end of 2020), will not be subject to the capital key rule (that is, they may not proportionally reflect the amount held by each country among ECB shareholders); the purchases may be made with a certain degree of flexibility, and Greek bonds will also be included.
The yield curve continued however to show a downward trend, reaching negative rates even for long-term maturities. The 10-year swap yield, for example, fell below zero with forward rates showing no signs of rising.

The 10-year **Btp-Bund spread** decreased by roughly 100 bps compared to the previous year and, after approaching 300 bps over the year, settled at around 150 bps in December.

Hera's 10-year spread remained considerably lower than the Btp-Bund spread for the same time period, thanks to the Group's good credit rating, which helped consolidate its continuous growth.



Businesses and regulation

Trends in Group businesses

The weakness seen in the Italian economy, as described above, was reflected by **energy consumption**, which dropped slightly compared to the previous year. According to the preliminary data released by the company responsible for the national transmission grid (Terna), total demand for electricity in Italy came to 319.6 TWh, falling by 0.6% compared to 2018.
Over the year, 88.8% of the demand was met by national generation, which increased by 283.8 TWh over the previous year, while imports amounted to 38.2 TWh.
In 2019, **net national generation from renewable sources** came to 39.8% of total production, amounting to 112.9 TWh, up over the 111.5 TWh produced in 2018, bringing the amount of consumption covered by renewables to 35%. This result is mainly due to an increase in photovoltaic generation (+9%, from 22.3 TWh in 2018 to 24.3 TWh in 2019) and wind power (+14%, from 17.6 TWh to 20.1 TWh). A decrease was seen, instead, in hydroelectric generation, which fell by 6%, settling at slightly under 47 TWh.
According to the initial estimates provided by the Authority for energy markets (Gme), natural gas consumption began to rise after the decrease recorded one year earlier, going from 72.1 billion m^3 in 2018 to 73.8 billion m^3, thus rising by 2.3%. The most significant increase in consumption came from higher demand in thermoelectric plants, which settled at 25.7 billion m^3, with a significant +10% growth over the previous year. This consumption was boosted by the higher cost of CO2 emission permits – unfavourable to carbon generation – and a phase in which lower prices were seen for gas, which lasted for all of 2019.

As regards **waste**, the annual production of municipal waste in Italy comes to roughly 30 million tons, with an average of slightly below 500 kilos per inhabitant. Updated information for 2019 is not currently available, but considering the correlation between this figure and certain socio-economic indicators (first and foremost, GDP and consumer spending), the amount is expected to be essentially in line with 2018.

Water consumption in Italy comes to approximately 9 billion cubic metres and, according to the estimates available at present (calculations based on the Regulatory authority for energy, networks and the environment's yearly report for 2019 and Blue Book 19 on Istat data), agriculture continues to be the sector with the highest consumption, followed by energy production, with lesser amounts consumed in industry, for household use and in services.

The context in terms of competition

As regards competition in the sectors in which utility companies typically operate, a rise in the degree of competition was seen once again in 2019, in both free-market and regulated businesses.

As regards free-market businesses, competition is intense and is increasingly concentrated on the customer experience offered to clients and the competitive nature of the services proposed.
In the energy market, the level of competition is very high and is leading towards a gradual fall in average margins, with the churn rate rising in both gas and electricity sales.
A few elements found in this context have contributed to increasing competition in last resort services – the safeguarded electricity service, default gas and last resort gas supply. In particular, for the default gas service and last resort gas supply, the duration of concessions has been reduced by one year compared to the previous two years. Increasing interest has also been shown by operators towards tenders for safeguarded electricity service concessions.

In the area of industrial waste treatment and recovery, the competitive arena is marked by the presence of large European players who offer integrated services along the entire waste chain and purchase plant capacity and competences on the market. The context within which these operators compete shows an ongoing capacity gap, with an additional estimated 27 million tons of waste disposal required in waste-to-energy plants each year. Within Italy, the situation is similarly critical and this gap varies between 9 and 10.5 million tons per year, with extreme differences appearing from one region to another.
This context means that over 2019 prices for all main types of waste treatment in Italy came into line with the higher ones seen on the European market. This increase is primarily due to the persistent difficulty shown by in the Italian system in constructing the necessary number of plants.

As regards **regulated businesses**, the Hera Group operates within the market regulated by the Regulatory authority for energy, networks and the environment (Arera). In regulated markets, European regulations set out the basic procedures for both the mechanisms with which prices are defined and payment for/transfer of the good being bought or sold. The supervisory Authority approves the rules concerning access to the market and its operation, and obligations concerning transparency must be respected.
The beginning of the procedures used for assigning gas distribution, integrated water cycle and waste management service concessions was seen in 2019. In the upcoming years as well, these businesses will continue to take into account the deadlines for the various tenders for concession assignments. In gas distribution, however, the amount of time involved in announcing the tenders, and in awarding the concessions at a later date, is expected to be longer than originally planned.

Legislative and regulatory context

The **legislative and regulatory measures** approved by Arera in 2019 with the greatest consequences for the Hera Group include: the approval of the 2019-2021 Strategic Framework; the beginning of the fifth regulatory period for gas distribution and measurement; infra-period updating for regulations in the electricity distribution service; the beginning of the third tariffary period for the integrated water cycle and the definition of regulations for arrears; the beginning of the new tariffary period for the integrated waste management service.

2019-2021 strategic framework: objectives

Arera, with resolution 242/2019/A, approved the **strategic framework for the 2019-2021 three-year period**. This document, subdivided across areas and into sectors, is an important tool for transparency towards stakeholders. Among the strategic objectives concerning more than one sector, note the more central role given to consumers (who will be provided with tools giving them greater awareness in making choices), the valorisation of technological innovation and new approaches intended to guarantee that goals in decarbonisation and development of a circular economy are reached.
Among the strategic goals with relevance for the energy area, importance is given to developing markets that are efficient and integrated across Europe. Arera thus intends to promote a reform of dispatching and imbalances, complete the capacity market and reinforce monitoring tools to contrast unauthorised practices. In the gas market, measures will be aimed at bringing Italian prices into line with European ones, enhancing infrastructures and overcoming long-term contracts. The strategic framework furthermore contains a focus on the retail market and reaching the **end of protected markets**. Arera intends to guarantee that the transition to the free market comes about with full awareness on behalf of end customers and without distortions in competitiveness, furthermore taking into due account the evolution of prosumers and the services surrounding the system, encouraging aggregation in demand. On this matter, as regards counterparty risk in regulated services, with reference going to system charge collection, on the one hand tools aimed at measuring operators' financial solidity will be introduced, and on the other systems for providing minimal guarantees and mechanisms for recovering unpaid fees will be developed. In the area of energy infrastructures, importance will go to selectivity in interventions on networks and to an efficient use of resources, with the aim of combining providers' operating and financial balance with objectives in service efficiency improvement. A few measures aimed in this direction include: progressively and gradually overcoming the current approach towards cost recognition, differentiated as it is between operating costs and capital costs, in favour of an integrated approach (totex); completing (in gas distribution) the progress made on aligning recognised costs and efficient costs, overcoming the current differentiations based on the size of operators. As regards the water and waste services, Arera has noted the need to overcome the sharp differences found within the country in both infrastructures and service quality and transparency.

Foreseeable future

The impact of regulation on each business is largely foreseeable, thanks to the tariff regulations approved for the upcoming regulatory periods, and prospect for the single services are specific to each sector.

Gas sector: distribution and measurement

In the **gas distribution and measurement sector,** with resolution 570/2019 the Authority approved tariffary regulations for the fifth regulatory period, covering 2020-2025. The methodology set out in the framework is, for the first three years, 2020-2022, essentially in line with the previous period, effectively postponing until the second half of the regulatory period, also covering three-years, the most innovative interventions. And yet, even within this context of methodological continuity, a few interventions planned by Arera for 2020 are particularly significant, such as a reduction in operating costs for distribution services and a higher level of efficiency enhancement required from businesses, in addition to an alignment between the rate of return on the service and the value of distribution (6.3%). Concerning the significant drop in the recognition of operating costs introduced by resolution 570/2019, in February 2020 Inrete Distribuzione Energia Spa, the Group's foremost distributing company, along with other main operators in the sector contested this measure at the Lombardy-Milan Tar. As regards the technical and commercial service quality, Arera guaranteed that the rules would not be changed, even while including new and gradual obligations for upgrading distribution networks.

Electricity sector: distribution and measurement

For the **electricity distribution and measurement** sector, with resolution 568/2019, Arera approved the unified text for tariff regulations in the 2020-2023 regulatory semi-period. In this case as well, the measures approved are fundamentally similar to the methodology used in the first semi-period, but a few new tools were introduced in order to make the most of synergies among sectors and improve the service offered. For example, a net revenue sharing mechanism was introduced, since optic fibre has passed into the electricity infrastructures. With resolution 566/2019, Arera furthermore updated, for the 2020-2023 regulatory semi-period, regulations for bonuses-penalties for service quality. The Authority wishes to improve services for customers and reduce the gap still seen from one region to the next; this will come about by adopting special regulations for areas experiencing greater difficulties and introducing extraordinary forms of regulation for innovative experiments proposed by operators. While waiting for a complete application of the clean energy package, definitively approved by the European commission in spring 2019, a few of the measures adopted by Arera are already aimed at promoting an energy transition towards renewable sources, regarding collective self-consumption in particular.

Integrated water service

As regards the **integrated water service**, with resolution 580/2019, Arera approved the tariff method for the third regulatory period, covering 2020-2023 (MTI-3), which combines elements that remain unchanged with respect to the previous period and innovative aspects. The new method indeed confirms the structure of a guaranteed revenue and an upper limit on annual increases in tariffs, differentiated according to the specific characteristics of each Water Manager (so-called "asymmetrical" regulation). From the point of view of the cost of capital, a gradual decrease is foreseen in remuneration for a few specific ongoing works (with the exception of those defined as strategic). The rate covering financial and fiscal charges is instead essentially the same as in the previous regulatory period (5.24%). Note furthermore the introduction of significant incentives going towards interventions intended to promote energy efficiency and environmental sustainability, for example promoting the recovery of materials and energy from purification sludge; in the process of applying the circular economy package, for example, the government began revising decree 99/92 concerning the use of purification sludge in agriculture, also introducing regulations for energy recovery from this sludge. For the costs linked to arrearage, the unpaid amount of sales volumes recorded in a given year is expected to be recognised (unpaid ratio at 24 months); with the goal of reducing arrearage during this regulatory period, resolution 311/2019 was aimed at unifying water managers' debt collection processes nationwide. Lastly, as of 2020 the bonuses and penalties involved in promoting technical service quality will be quantified, as will, as of 2022, bonuses and penalties for contract quality, established by the new national mechanism described in resolution 547/2019.

Integrated waste cycle

Within this regulatory context, one significant new element consists in the introduction of tariffary regulations for the integrated waste cycle (concerning the period covering 2018-2021). In order to recognise an increase in compensation that reflects objectives in improving the quality of the services offered or changes in the scope of operations, Arera has set out a regulatory framework that is valid nationwide on the one hand, and asymmetrical on the other. For the two-year period covering 2020-2021, resolution 443/2019 defined a tariffary regulation for the entire municipal and similar waste chain (thus including treatment activities). The principles of full cost recovery and Rab-based regulation, linked to setting a the rate of return on invested capital at 6.3%, are the basis for the sector's tariffary regulation. In the new tariff method, a great deal of significance goes to incentives for developing activities in material and energy valorisation, by implementing mechanisms through which the ensuing revenues are shared between service managers and customers, including the mechanisms recognised by Conai covering the higher charges for packaging waste collection. Arera's recent activity does not overlook promoting the quality of the services offered: a regulation that calls for both generic and specific levels of quality in the services offered to customers will indeed be introduced.

During 2019, the Ministry of the Environment began the work foreseen by European enabling act (L.117/2019) concerning the implementation of directives on waste (Directive 2018/851/EU on waste, Directive 850/2018/EU on landfills, Directive 2018/852/EU on packaging and Directive on end-of-life vehicles, batteries and electronic waste 2018/849). This enabling act is intended to introduce a **reform of national legislation on waste management**. The new legislative framework is expected ot be published within 2020. On a European level, Directive 019/904/EU on single-use plastics was published, introducing new elements as to production, commercialisation and waste management for certain categories of plastic products.

The framework for **regulating district heating services** is nearing completion, through a consolidation of the requirements concerning technical and commercial quality, adapting the basic mechanisms of the more time-tested energy regulation. More specifically, regulations have been introduced for service transparency in the regulatory period covering 1 January 2020 – 31 December 2023 and technical quality for the regulatory period covering 1 July 2020 – 31 December 2023. Lastly, concerning the right of withdrawal from supply contracts, the regulations have been revised so as to offer greater protection to the investments made by operators.

The updates in the regulatory periods illustrated above have also caused, as described, slight changes in the **definition of the rates of return** in each single sector; this was possible because the regulations allow Arera, while updating the single regulatory periods, to intervene in setting the sector's level of risk (Beta), while all the other parameters that make up rates of regulatory return (risk free rate, premium country risk, etc.) are set by a specific regulation that is renewed every six years and updated every three.

The main factors involved in tariffs for each regulated activity, based on the legislative framework in force in 2019 and expected to last until the end of the current regulatory periods, are shown below.

	Natural gas distribution and measurement	Electricity distribution and measurement	Integrated water service	Integrated waste cycle
Regulatory period	2014-2019 4th regulatory period (resolution 573/13) 2020-2025 5th regulatory period (resolution 570/19)	2016-2019 first sub-period of the 5th regulatory period (resolution 654/15) 2020-2023 second sub-period of the 5th regulatory period (resolution 568/19)	2016-2019 2nd regulatory period (resolution 664/15) 2020-2023 3rd regulatory period (resolution 580/19)	2018-2021 1st regulatory period (res. 443/19) (1)
Regulatory governance	Single level (Arera)	Single level (Arera)	Double level (Ega, Arera)	Double level (Local authority, Arera)
Invested capital recognised for regulatory purposes (RAB)	Previous cost revised (distribution) Average between standard cost and actual cost (measurement) Parametric recognition (centralised capital)	Parametric recognition for assets until 2007 Previous cost revised for assets as of 2008	Previous cost revised	Previous cost revised
Regulatory lag for investment recognition	1 year	1 year	2 years	2 years
Return on invested capital (2) (real, pre-tax)	2019 6.3% Distribution 6.8% Measurement 2020-2021 6.3% Distribution and measurement	2019-2021 5.9%	2018-2019 5.31% 2020-2021 5.24% +1% for investments as of 2012, covering the regulatory lag	2020-2021 6.3% +1% for investments as of 2018, covering the regulatory lag
Recognised operating costs	Average value of actual costs by company grouping (size/density), based on 2011 (for revenues until 2019) and 2018 (for revenues as of 2020) Sharing efficiencies achieved with respect to recognsied costs Update with price-cap	Average value of actual sector costs based on 2014 (for revenues until 2019) and 2018 (for revenues as of 2020) Sharing efficiencies achieved with respect to recognsied costs Update with price-cap	Efficiency-applicable costs (3): actual values for manager 2011 adj. for inflation Updatable costs: actual values with 2 year lag Added charges for specific purposes (previsional)	Actual costs for manager with 2 year regulatory lag (beginning with 2020 tariffs on 2018 costs) Added costs for quality improvement and changes in manager's scope (previsional) Balance for 2018-2019 based on 2017 costs (gradual)
Annual efficiency factor operating costs	Annual X-factor 2019: Distribution: 1.7% large businesses 2.5% medium businesses Measurement and commercialisation: 0% As of 2020: Distribution: 3.53% large busnisses 4.79% medium businesses Measurement: 0% Commercialisation: 1.57%	Annual X-factor 2019: Distribution: 1.9% Measurement: 1.3% As of 2020: Distribution: 1.3% Measurement: 0.7%	Efficiency-applicable mechanisms based on: Sharing manager's 2016 efficiencies Level of sharing differentiated for the distance between actual cost and manager's efficient cost	
Incentive mechanisms		Sharing for net revenues derived from the tranfer of fibre optics into electricity infrastructures	Sharing for costs of electricity based on energy savings achieved Recognition of 75% of margins from activities aimed at environmental and energy sustainability	Sharing for revenues deriving from material and energy sales (range 0.3-0.6) and CONAI incentives
Annual limit on tariff increases			Asymmetric, based on: investment requirements management cost estimates changes in scope Possibility of motion guaranteeing operating-financial balance	Asymmetric, based on the presence of: changes in scope quality level improvement Possibility of motion guaranteeing operating-financial balance

The regulation reference unit for defining reference revenues for regulated businesses is the Rab (Regulatory asset base), i.e. the value of net invested capital calculated according to the rules defined by Arera.

Resolution 443/19 is applied to operators in the integrated waste cycle, including treatment and disposal or recovery activities only if they are included in the company's consolidated scope. A specific measure will instead be introduced for tariffary regulation of compensation for plants falling outside this scope.
This measure will be effective as of the 2020 tariff year, following the application procedure foreseen in the measure itself.

For the energy and waste sectors the Wacc methodology is applied, while for the integrated water service the amounts indicated refer to coverage of the financial and fiscal charges.

Efficiency-applicable costs refer to internal operating costs, which can be directly controlled by operators.

Technology, the environment and human capital

The institutional and regulatory conditions of today's markets requires existing infrastructures to be modernised ever more frequently, with faster telecommunications, higher efficiency and flexibility in energy networks and network services, as well as investments in intangible assets such as the research and development (R&D) related to feasibility and spread of new technologies.
Countries that have traditionally given great attention to technological development and that show stable links with overall productivity in this area (China, USA and UK are a few examples) invest increasingly in intellectual property. Most of these investments are increasingly oriented towards two groups of technologies: internet, digitalisation and artificial intelligence; renewable energies and storage.
These investments have an effect on the job market and the environmental context. The arrival of robotisation and artificial intelligence, accompanied by moving management from the field to advanced remote control centres, requires working processes to be deeply rethought. The purpose of this is to make them more flexible and integrate those activities that can be managed by evolved machines with human activities, reallocating to the latter the distinctive added value that is typical of human capital. From an environmental point of view, one of the most important innovations involves substituting fossil fuels with renewable sources. This however requires significant financial investments whose economic benefits are not always immediately tangible, since they only appear over the long term if well-focused systems of incentives or compensation for externalities are lacking.
It became clear at the 2019 World Economic Forum that the companies who have automated their most operative tasks are the ones that will hire the most in upcoming years, and will thus have to concentrate on the skills of the future. A report published by the OECD in February 2019 shows that technological innovation alone is not sufficient to increase productivity; in addition to exogenous reasons involving global, economic and social contexts, this is due to endogenous reasons linked to an organisation's ability to ma, update and develop the skills of human capital. Today's digital leaders must be at the forefront in promoting the values of continued learning, because our chances of success depend on our ability to work throughout all corporate processes and in all individual behaviour. The organisational context is no longer limited to a company's physical boundaries or the logical ones of its business strictly speaking, but must now cover the interrelations that characterise it and its objectives in sustainable development. The external projection of a company's mission becomes extremely significant for multi-utilities who, given that they manage key elements of the environment (water, materials, energy) must commit themselves to reaching objectives that pertain to the community and the area served: put briefly, they must "create value". This type of action has positive repercussions on a corporate environment and on its ability to recruit the best resources, who wish for their work to have an effect on a larger scale and with broader objectives, including the external context.

Technological scenario

The digital and technological opportunities now seen on the market give utilities the chance to increase the number and variety of their activities and be more flexible and dynamic across all levels of the value chain.
Digital evolution is the cornerstone of current technological transformation, since it is an enabling factor in evolutions that insist on extensive infrastructures and relations with individuals.
The main information and communication technology (ICT) trends seen in the sector can be grouped into Internet of Things (IoT), Automation, Artificial intelligence (AI), Data analytics, Cloud and information security.

Trends in the world of ICT: enabling elements (Cloud, IoT), technologies (AI, automation) and cybersecurity

As regards the technologies applied to utility infrastructures, the category receiving the most attention includes field sensors (which allow important data to be collected concerning network functionality and state of maintenance) and technologies supporting remote management of plants and other resources in the local area.
Applying the IoT to an industrial context is often referred to as the Industrial internet of things (IIoT). In this direction, network infrastructures managed by utilities have become increasingly smart, that is, assets able to communicate with the manager and provide important data for the networks' oepratinos and evolution.
The volume of data collected through field sensors has become quite considerable; utilities make the most of them in terms of optimising asset management through the data analytics associated with new technologies based on artificial intelligence.
As regards interaction with customers, instead, the latter are increasingly accustomed to interacting with service managers through digital channels and mobile tools, such as smartphones and tablets. This context is based on the need for a single vision in managing all customer requests (customer centrality), interacting with customers through various channels (omnichannel) and reducing response time (flexibility and speed). Utilities, therefore, are changing their way of interacting with customers, making increasing use of dedicated channels and chatbot to offer timely responses, along with data analysis tools to study and predict the behaviour of their customers, whether current or potential. Offering services and tools that are ever more oriented towards checking one's own consumption, and managing other devices directly "at home" are two ways to reinforce ties with customers and learn about the main features of their behaviour.
The enabling factors of the digital revolution also include clouds, which allow significant volumes of data to be collected, managed and stored, along with giving simple access to it for gradually decreasing costs and easily scalable technologies in situations of growth. Europe's policies concerning digitalisation have laid the foundations for increasing confidence in clouds and their adoption as a rapid and cost-effective instrument for digitally transforming companies, providing better guarantees in

terms of reliability, security and privacy. Italy, just like the rest of Europe, is becoming increasingly digital thanks to the significant progress made in the use of services in cloud mode that, in a few cases, is the only mode offered by software providers and information platforms. The availability of accessible cloud services has gradually shifted the focus of utilities and other companies from an approach based on ownership of software and infrastructures towards more versatile solutions such as Software as a service, Platform as a service or Infrastructure as a service.

The most significant and innovative technologies also include solutions in industrial automation, such as Robotic Process Automation (RPA) and the application of Artificial intelligence algorithms. The former help reduce the highly repetitive and manual activities entrusted to a company's personnel, freeing up resources for activities with higher added value. Furthermore, solutions in process automation (which can be applied to many typically corporate areas) represent a starting platform for developing more advanced solutions, based on Artificial intelligence and self-learning systems. Developments that are already in the works allow machines to interact directly with individuals, adapting to different behaviour, or again to analyse higher volumes of data or images than could be imagined with traditional technology, in order to identify interactions and correlations able to optimise the choices made by management.

As is the case in other sectors, for utilities as well attention towards issues in information security is on the rise, due to both their nature as public utility services, and the likeliness that these networks are infrastructures spread out over the local area, and thus potentially more exposed to the attacks.

This phenomenon is growing: the European commission, for example, has reported that in 2016, in the European Union alone, 4 thousands cases of ransomware were seen on a daily basis, and that in 2018 over 80% of European companies suffered from at least one information attack.

The human and economic resources dedicated to the issue of cybersecurity are expected to evolve in upcoming years as well, so that the best technologies and solutions capable of facing possible attacks can continually be used. From the benchmark analyses provided by the most prominent observers of the information market (Gartner, Forrester, IDC and others), information security spending is estimated at between 4% and 10% of annual ICT spending in companies. Between 2012 and 2018, average spending in cybersecurity per employee almost doubled and over the next few years this trend will continue. Indeed, the International Data Corporation (IDC) expects this item of expenditure to increase globally at an average annual rate of 10% until 2022.

Environmental scenario

The increase in individual awareness of environmental and social inclusion issues is one of the factors sought after by market operators, i.e. by the best resources. Our planet's climate has always changed over time; the new and worrying aspect consists in humanity's contribution to accelerating this change.

Climate change: regulations, causes, impact and initiatives announced

Changes in individual expectations and priorities as regards environmental issues have been accompanied by praiseworthy ambitions at a global and European level; the most outstanding include the 17 goals on the 2030 Agenda for Sustainable Development, the objectives contained in the Paris Agreement on climate change (whose objective is to keep global warming under 2ºC), those included in the long-term climate strategy, referred to as A Clean Planet For All, presented by the European Commission during one of the most recent Conferences of the parties to the Convention on climate change (Cop 24)[1], which stressed the need to maintain global warming below 1.5° C and outlined a new total decarbonisation scenario, reached through greenhouse gas emission neutrality within 2050 and, more recently, those contained in the Green Deal[2].

The European Green Deal lies at the heart of the political program of the new Von Der Leyen Commission and, according to the intentions of the community executive, it will bring actions favouring a containment of global warming together with opportunities for developing Europe's industrial layout, with important effects concerning employment. The political package will be made up of over 50 legislative and strategic initiatives which will come to light over 2020 and 2021, covering a wide range of sectors including energy and mobility.

Energy and transportation indeed contribute significantly to climate-changing gas emissions in Europe, considering among other things the still heavy use of fossil sources. Over the past decade, renewable sources have become progressively more important within the mix of electricity generation in the EU (e.g. wind and solar power), but have still not been able to make their way into the mobility sector and struggle to emerge as an alternative for solutions in warming/cooling.

Europe's strategy in laying out the conditions for an energy transition in **transportation** will thus have to concentrate on promoting technologies with a lower environmental impact for private mobility (e.g. electric cars), public mobility (e.g. renewable gasses, hydrogen) or again for freight transport (e.g. intermodality).

Along similar lines, the transition in the **energy** sector will be based on an increased role of electricity to satisfy final consumption, along with power generation from renewable sources. However, it will also have to unite aspects including reliable procurement and competitiveness for the industrial system, which require an integrated approach to the sector, making the most of the strong points of electricity and gas, also including the ideas involved in sector coupling.

The focus of the European Commission and the international community in responding to climate change will then be extended to other sectors, including waste management and water.

The European Green Deal will be built around the promotion of circular solutions involving the entire production chain, from production to consumption of a given good, as well as **waste management**. Until present, indeed, some important steps have been made in this direction, and yet the most significant legislation has focused on some links in the chain (e.g. waste management) or some areas of production (e.g. the plastics sector). The EU thus aims at giving greater attention to the phase

---

[1] Cop 25, which came to a close on 15 December 2019, simply confirmed the conclusions of the previous Conference of Parties and deferred a discussion of all new issues, including the intentions of member countries as regards reducing emissions, to the upcoming Cop 26 in Glasgow.

[2] The European Commission's new president insisted repeatedly on the centrality of the environment in her executive action and promised a Green Deal for Europe in her first 100 days in office (beginning on 1 December 2019). The draft for the strategy presented by the European Commission stresses its ambition to become the first carbon-neutral continent, within 2050, i.e. a region where CO_2 emissions produced are offset by an equal amount of absorption. This ambition will take the shape of a European climate law and, in light of this, the 2030 target for greenhouse gas reduction might be increased by at least 55%.

of production/importing of manufactured goods that are as reusable and recyclable as possible, enhancing the recycled materials market and replacing virgin materials, including some specific chains that must be individually reoriented.

The main **consequences** of climate change, highlighted by recent European studies, include an increase in sea level, a reduction in the volume of glaciers and the snow cover, as well as effects on health linked to climate-sensitive diseases. Some zones risk being submerged and, last but not least, extreme weather conditions have gradually increased in intensity and frequency.
It is increasingly necessary to adopt a sustainable management system for **water resources** that is able to reconcile needs in storage and conservation, efficiency in consumption and the possibility of reusing waste water, which at the same time allows natural ecosystems to be reconstituted. The exhaustion of water resources is furthermore one of the main threats to economic growth: energy production is one of the leading causes of freshwater resource consumption.

In order to sustain the projects mentioned above, on 14 January 2020 the European Commission presented its **investment plan for a sustainable Europe**, which will mobilise the EU funds required for the transition towards a climatically neutral economy, which is green, competitive and inclusive. This plan, which includes other initiatives announced in the draft for the Green Deal, is structured around three areas: allocating a certain amount of public spending to actions for the climate and the environment (as well as attracting private funding, thanks to the European investment bank); providing incentives to encourage and reorient public and private investments; giving practical sustainment to public authorities and promoters for the phases of planning, processing and implementing sustainable projects. In line with the other European countries, the Italian government stressed its intention to follow up on the Green Deal with its 2020 Budget Law, launched a **green pact** which, through incentive mechanisms intended for the industrial and production sector, aims at the transition towards a circular economy model. Among the tools designed to contrast climate change included in the new Budget Law, a few examples that must be mentioned include: introducing tax credits (coming to 36%) for sustainable expenses made by businesses in purchasing recycled products; channelling resources towards municipal administrations for projects in improving energy efficiency and ensuring public asset security; introducing funds for activating sustainable projects in urban upgrading and energy conversion, to incentivise the use of renewable sources.

Human capital scenario

Trends in the economic, political, environmental and social system, combined with exponential growth in digital transformation, impact various aspects of human capital. Developments in technological applications, along with significant growth in the technological ability to manage data, make it all the more important to invest in the human ability to interpret phenomena, aimed at generating value. The relation between man and machine is increasingly aimed at integration on the workplace, rather than simply enhancing cost efficiency in a rationale based on substitution. Future paths in technological development require companies to increase their management abilities, orienting their choices based on ethical aspects no less than technical ones. Increased digitalisation shapes models for education, and yet risks creating a sharp gap between those who rapidly acquire excellent digital skills and those who struggle to gain this knowledge. Abilities in interpersonal relations become increasingly important, as do abilities in interpreting and managing complex contexts. Increases in the information and tools available for collaboration at a distance cause changes in the way of working and measuring performance. Individual priorities are also changing with respect to the past: the need for stability in employment and retribution observed until present is matched by a search for challenging contexts, attractive in their ability to offer a connected environment in terms of human relations.

1.01.02

Strategic approach and management policies

Macroeconomic and financial factors

The Hera Group pursues a debt structure that is compatible with business requirements in terms of the length of financing and exposure to interest rates. The Group currently shows and strives to constantly maintain a financial management capable of maximising its yield profile while maintaining a cautious risk strategy.
Hera carefully plans its financial resources, cash flows and debt over the long term; the average cost of debt is continually optimised through forms of liability and financial risk management aimed at seizing favourable market opportunities.

The capital market and the Green financing framework

In line with these goals, as regards capital markets, in July 2019 Hera issued a green bond with an overall value of five hundred million euro, maturing in eight years, with the coupon set at 0.875%, and a 1.084% return, as part of the company's funding strategy. This green bond was listed on the Dublin and Luxembourg regulated stock exchanges and on Borsa Italiana's Extra Mot platform; the transaction saw significant participation coming from green and sustainable investors. The funds raised will be used to finance or refinance numerous projects included in the Business plan, which pursue some of the goals on the UN's 2030 Agenda in the areas of energy efficiency, circular economy and sustainable waste management and water infrastructures.
Note furthermore that in 2019 Hera drafted its own **Green financing framework (Gff)**, available on the Group's website. This is a programming document that informs investors as to the green projects financed (the document has received ISS-oekom certification). As regards the process of optimising the Group's financial structure, two bonds, maturing in 2021 and 2024, were also repurchased (the amounts of repurchased debt come to 40 million euro and 171 million euro respectively).

The banking market

As regards the banking market, at 31 December 2019 Hera had 363 million euro in liquidity, 600 million euro in committed lines of credit and 537 million euro in uncommitted lines of credit (of which 37 million euro currently used).
The lines of credit and the corresponding financial assets are distributed among major Italian and foreign banks, and their conditions are highly competitive.

Derivative financial instruments used for hedging

The Group's financial management furthermore includes the use of derivative financial instruments mainly used for hedging; in 2019 the latter were perfectly in line with the underlying debt.

Average cost of debt

Taken as a whole, these transactions on bond or banking markets allowed for an optimisation in the conditions for a further reduction in the average cost of medium-term debt, which in 2019 settled at 3.5%.

Ratings

Over the year, the Group continue communicating as usual with the rating agencies Moody's and Standard & Poor's (S&P): both agencies maintained their positive opinion of the creditworthiness of the Group, which has a solid medium-long term investment grade. Moody's (Baa2, stable outlook) and S&P (BBB/A-2, positive outlook) confirmed their opinion for reasons including the positive results reached over the year in the Group's credit metrics.
The Group's risk profile was positively evaluated by rating agencies, in terms of the solidity and good balance of the portfolio of businesses managed, as well as its good operating performance, its liquidity risk and its resilient creditworthiness indicators. It must however be stressed that the Group's rating is closely related to Italy's, since the majority of its Ebitda derives from domestic business and is thus exposed to the country's macroeconomic trends and its political scenario.
Hera Spa's actions and strategies are always particularly prudent and aimed at guaranteeing that adequate ratings are maintained and improved.

Business factors: industrial strategy

The Group presented its business plan in January 2020, which sets out **Hera's strategy** in effectively responding to the **complex context** outlined until present.

The Group's strategic orientation

The three foremost strategic guidelines in the plan to 2023 are:
industrial growth, an indispensable condition in order to continue distributing increasing value, benefitting all stakeholders within the ecosystem in which the Group operates;
risk management, in particular adopting the medium-long term approach required to deal with the risks to which utilities are exposed and identify the most effective steps to mitigate them (e.g. climate risks);
circular economy, as a reference model for bringing Hera's business activities into line with the paradigms of reduction, reuse, recycling, recovery and regeneration.
Furthermore, the Group will leverage and continue to elaborate some of its assets and strong points, such as its wide and diversified service portfolio (marked by a significant amount of regulated activities), its financial solidity, its constant search for innovative solutions in promoting higher efficiency and better service quality, and its continuous investment in training for its own resources so that its employees' skills evolve alongside the overall context.

Free-market businesses

As regards free-market businesses, the Group's strategy will unfold mainly in the areas of industrial growth and circular economy.

In **energy markets**, growth in the customer base is expected to reach **3.5 million customers by 2023**. This target was revised upwards compared to the previous plan, thanks to the contribution coming from the recent partnership with Ascopiave, which consolidated the Group’s position in North-Eastern Italy.
Growth in the customer base will results, first and foremost, from **marketing development**, supported by innovative offers, **added value services** and increasing **customer experience** for each type of client.
Among marketing offers, mention must go to the ones aimed at promoting business **circularity** through **renewable energy supply**, or initiatives supporting **energy efficiency**, through means including applying the principles of **behavioural** economics to influence individual habits.
Once again in the area of circular initiatives, the Group will aim at developing and implementing solutions in energy savings for public administrations, industrial firms and condominiums, with offers tailored to the specific needs of each category of customers.
Over the period covered by the plan, furthermore, the Group will continue participating in competitive procedures for last resort markets (held annually for the gas service and every two years for the safeguarded electricity service). The leading role played by Hera until present in this area is expected to be confirmed.
Lastly, an important new feature in this line of business will consist in the gradual liberalisation of the protected electricity market, which will give the Group opportunities in terms of widening its customer base.

In the waste treatment and recovery sector, the Group intends to confirm its national commercial and technological leadership, which is due to its avant-garde set of plants, in line with European best practices, and will be further developed in upcoming years, with the goal of obtaining the maximum reuse possible of natural resources. In this sense, based on the experience gained with the Sant’Agata Bolognese plant, over the period covered by the plan biomethane production is expected to increase thanks to an anaerobic digester.
Attention towards circularity will also guide the strategy of the subsidiary company Aliplast Spa, thanks to which the Group is now involved in rigid plastic recovery and recycling and is carrying out initial experiments in molecular pet recycling.

Development of the industrial customer portfolio will be based on integrated and circular marketing solutions that can be adapted to the specific needs of each customer and offer complete waste management, which may also include looking for opportunities in water and energy efficiency within the production processes of industrial customers.

Regulated businesses

As regards regulated businesses as well, which mainly concern distribution infrastructure management, the strategic guidelines set out above will be fully implemented. Industrial growth will be fuelled by a significant investment plan (to which roughly 70% of total Group investments will go over the period covered by the plan) and by participating in tenders for regulated service assignment in most of the areas served by Hera.

As regards tenders for gas distribution service concessions, part of the competitive procedures concerning the areas managed by the Group are expected to come to a close within 2023. This estimate is based on the initial tenders held nationwide, which showed some postponement due to delays in initiating the tenders, the complexity of the procedures and the appeals later filed by some of those participating.
In the water cycle the Group will take part in the procedures used for assigning this service in the Rimini area, and for municipal waste tenders are expected to be concluded in all areas of Emilia Romagna. The Group’s goal is to be confirmed as the reference operator in all areas already served, counting on its level of service quality and its innovative solutions made available to users.

The introduction of new technologies will not only be a distinctive feature to be highlighted during tenders, but also an enabling factor in extracting efficiencies from operations and offering to communities services that are up to date with the technological evolution of the context. The Group has in fact made plans to replace metres in gas and electricity networks and in water infrastructures. In particular, Hera has developed a new gas metre – called NexMeter – that is able to interrupt the flow of gas and make the user’s system safe in the event of significant earthquakes, gas leaks or smaller latent leakage. These interventions meet the need to increase resilience towards exogenous conditions in network infrastructures, an important action to undertake in mitigating the increasing climate risks.

In the integrated water cycle, the Group’s strategy will be focused on water resource protection, through both increased activity in searching for network leakage and services in **water management** intended to promote increasing sustainability and awareness in water management, both inside and outside the company. Particular will also be given to reusing purified water, following the principles of a circular economy. Purified water can be reused (e.g. in agriculture) and can also stimulate local regeneration initiatives (e.g. maintaining hydrologic balance in times of drought).

The same principles will also be applied to the district heating business, with a strategy focused on technological network and plant renovation and on maximising hear recovery and its final use, through means including extensions of or improved interconnections between previously existing systems.

Promoting circular behaviour will be a cornerstone of Group strategy in municipal waste, by introducing new technological solutions able to increase the quantity and quality of sorted waste, and through communication and training initiatives aimed at raising awareness among citizens and getting them more involved.

The strategy outlined until present will lead to an increase in Group Ebitda, reaching the target of 1.25 billion euro by 2023. All business areas will contribute to this growth in Ebitda and, over the period covered by the plan, positive balance will be confirmed in the contribution coming from free-market and regulated activities.

Investments totalling roughly 2.9 billion euro have furthermore been included in the strategic plan, an amount higher than the previous five-year period. These investments will respect the proper balance in proportions among the macro-areas served by the Group and will be mainly concentrated in regulated activities, with the interventions going to modernisation and infrastructure development, as described above.

The business plan confirms the Group's strong attention towards sustainability, which has always been in Hera's DNA and now respects the goals contained in the 2030 Agenda. Almost 75% of the growth expected over the period covered by the plan will be fuelled by shared value projects, i.e. those that are able to respond to the UN's calls to action. The amount of shared value Ebitda and investments in 2023 will reach 530 and 750 million euro respectively, coming to 42% of overall Ebitda and 35% of total Group investments, thus helping construct a business model that is ever more resilient and regenerative.

Technological, environmental and human capital factors: sustainable development

In order to meet the needs of the areas served and satisfy customers, three critical factors in success have been identified: technology, circularity and the ecosystem.
Technological evolution, taken as a whole, and digitalisation in particular, are elements that cover the nation's entire industrial scene. The Group wishes to make the most of the opportunities offered by new technology and extract cost efficiencies and related synergies from data management, which will take on a significant role in facilitating the expansion of a smart approach across the area served, in particular in the case of smart cities.

The Group continually carries out studies to understand which goals defined by the 2030 Agenda for sustainable development and the fight against climate change (as confirmed by a series of legislative and regulatory agreements) it can better contribute to reaching with its activities, projects and policies, all anchored to a circular economy. **Circular economy** is a response to a range of critical elements that must be faced by modern society, which go from increasingly scarce resources to a reduction of emissions into the atmosphere, or again a reduction in non-recoverable waste. Over the years, the Group has developed industrial strategies inspired by sustainability, and its future actions will be equally aimed at goals in circularity and decarbonisation, with effective solutions and determination.

Belonging to a reference **ecosystem** in a continually changing context furthermore increases companies' resilience towards transformations of the context and accelerates changes in the corporate environment thanks to external contamination. The Group's strategy has always been based on a close relation with the areas served and its ecosystem; today, this distinctive element is considered an asset by investors rating agencies.

Sustainable development

Hera contributes heavily towards six of the 2030 Agenda's sustainable development goals: 7) affordable and clean energy, 13) combat climate change, 6) clean water and sanitation, 12) responsible consumption and production, 9) industry, innovation and infrastructure and 11) sustainable cities and communities.
For further details on the actions the Group intends to promote, contributing in a broad sense to 169 targets within the 11 Goals on the UN 2030 Agenda mapped into the 2019 Csv framework, see the Group's website (Social responsibility section) and its Sustainability report ("Shared value" section). Note, furthermore, that over 2019 two training events on SDGs were organised, to consider Hera's current and potential contribution to the 2030 Agenda. The main actions include those aimed at promoting energy efficiency and sustainable water management, selecting qualified suppliers in terms of environmental and social sustainability, developing employment and new skills, and working towards increased innovation and digitalisation.
The increasing energy sustainability towards which the Hera Group is moving is guided by a few significant investments, made during 2019 or ongoing: 4 industrial cogeneration plants, the Sant'Agata Bolognese plant which produces biomethane and injects it into the gas network, and the introduction of led light bulbs in public lighting, along with initiatives in reducing electricity consumption and its carbon footprint. The green offers (nature package and zero footprint, to name only two) that the Group expects to cover 58% of all gas and electricity customers by 2023, are evidence of an additional strategy planned in this sense.
As regards sustainable management of water resources, note above all Hera's intention to continue improving the sewerage-purification sector in the areas served, and the interventions for resource availability and purified water reuse contained in the business plan.

Generally speaking, with regard to the waste management sector, the continued work done by EU institutions in the area of circular economy has been confirmed, meaning that this trend is being consolidated as a paradigm towards which all models of production and consumption will move. In other words, the element underlying all activities in the Group’s strategy is its increasing attention to all kinds of footprints: from carbon to water, including the more general resource footprint left by the Group and its main stakeholders, from suppliers to customers and citizens.

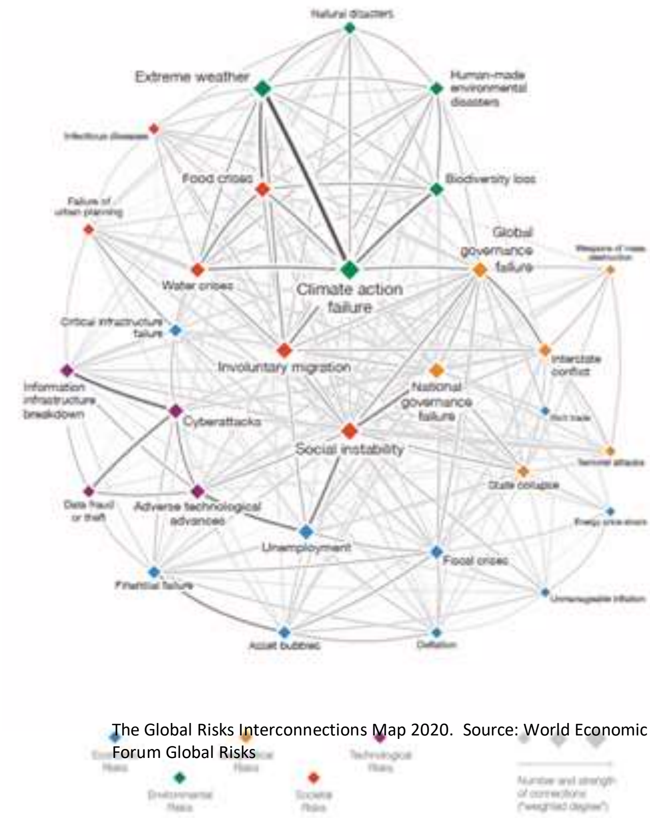
A path of sustainable industrial growth is a fundamental condition for continuing to distribute value to stakeholders in the areas served by the Group. The 2019 Global Risk Report, published by the World Economic Forum, presents climate change and technological risks as the two families of risk that most concern multi-utilities, and that could produce the most significant impact worldwide.

The evolution expected in the context in which one operates makes it even more necessary to anticipate and mitigate the significant risks that utilities such as Hera will have to face, working towards constructing an increasingly resilient and regenerative model.

Circularity is the primary strategy in designing the businesses of the future and concretely contributing to the future wellbeing of the system in which companies act.

Evolving technology and digitalisation is an opportunity that will be carefully considered and grasped, to avoid underestimating the commitment required for a digital corporate and organisational transformation.

Digitalisation leads towards new development opportunities for businesses; adopting new solutions in Artificial intelligence is however necessarily tied to the specific activity in question, and machine learning is thus time-consuming and have to be repeated for each type of activity/process.



The Global Risks Interconnections Map 2020. Source: World Economic Forum Global Risks

The leading technological evolutions that concern the waste (first and foremost, plastic) and energy (biofuels and biogas) chains, as part of the search for concrete solutions that can be of aid in the challenges posed by climate change or natural resource depletion, are instead the progress made in the chemical industry and engineering. This progress is strategically exploited in order to define plastic recycling processes that are complementary to mechanical recycling, and in order to effectively recycle the less pure or less valuable portions of plastic as well. This same progress furthermore allows experimental solutions to be tried, which use the excess of renewable electricity (otherwise unusable) to divide water molecules into hydrogen and oxygen and then convert them into substitute natural gas with the addition of carbon (from CO_2).

Human capital development strategy

To effectively deal with this context, the Group is now equipped with a human capital development strategy that is able to generate value over time. The goal is to create and constantly develop a model of agile learning organization, understood as an organisation able to learn and rapidly translate this learning into action, within a purpose-driven strategy. Human resource management and development processes are designed to conserve the skills and distinctive values built up over time, and simultaneously search for all aspects that can generate an added value that is sustainable over the long term.

One important step taken in this direction consisted in reconsidering the workforce planning process. With strategic workforce planning, indeed, a greater knowledge of the dynamics of the workforce becomes possible, helping us understand the impact of business strategy on priorities in developing human resource processes. The strategic dialogue between different lines of business and the function of human resources, for example, allows the most significant ongoing trends to be analysed, sharing the meaning of the business challenges shaped over the years by the business plan, along with the risks and opportunities these challenges carry with themselves, and bringing all human resource processes within a coherent plan of action, able to orient their implementation and allow the correlated risk mitigation strategies to be managed.

In particular, it is becoming increasingly important to invest in the continuous development of an inclusive and performance-driven work environment, in which employees are the protagonists of their own self-development; to encourage an environment that reflects agile organization and to develop the latter; to redefine the rules so as to promote higher rotation in roles and processes and optimise people’s experience, through means including digital tools.

Furthermore, in order to make fully operational the automation and digitalisation processes that must involve all company employees, and thus require a transition in the working environment, it is increasingly urgent to develop paths in focused reskilling for personnel engaged in activities that, by their very nature, can be automated to a significant degree, helping employees along a path that valorises their employability.

With the aim of encouraging access to training that is increasingly tailored to the specific features of each role, and that takes people as its starting point, the Group's strategy is furthermore designed around a knowledge management system that is highly adaptable to various organisational and individual contexts. The development processes thus reward the resources who invest in their own learning and facilitate the application of learning agility as a condition for gaining access to roles with greater responsibility.

Hera's Human Resources function therefore pursues its social purpose, working in the interests of the environment, communities, employees, suppliers and customers, promoting the continuous development of the corporate environment within the Group and gradually bringing individuals in line with this goal.

In other words, after defining the factors that will lead the utilities of the future to success, goals in industrial growth, circularity and risk management are translated into corporate processes. To orient the actions to be undertaken, the priorities that will guide the Group's projects until 2023 have been identified.

1.02
Risk factors: actors, methodology and areas of management

1.02.01
Risk governance

The organisational structure adopted by the Hera Group allows it to manage the risk exposure involved in its various businesses while simultaneously ensuring that its management remains effective and profitable along the entire value chain.
The system of corporate governance adopted allows strategies to be oriented in a unitary and coherent way. The main managerial body that orients, monitors and provides information with respect to risk management strategies is the Risk committee. Alongside it, the Internal control and risk management committee, made up of members of the BoD, in accordance with article seven of the Corporate Governance Code, is tasked with overseeing the internal control system, the efficiency of company operations, the reliability of financial information, compliance with the law and regulations, and protection of company assets. These bodies, in order to reach the utmost coherence in management strategies, meet periodically. During 2019, the Risk committee held four meeting and the Internal control and risk committee held seven meetings.
The Group has adopted an approach to defence from risks set out over three levels, defining an appropriate separation between:

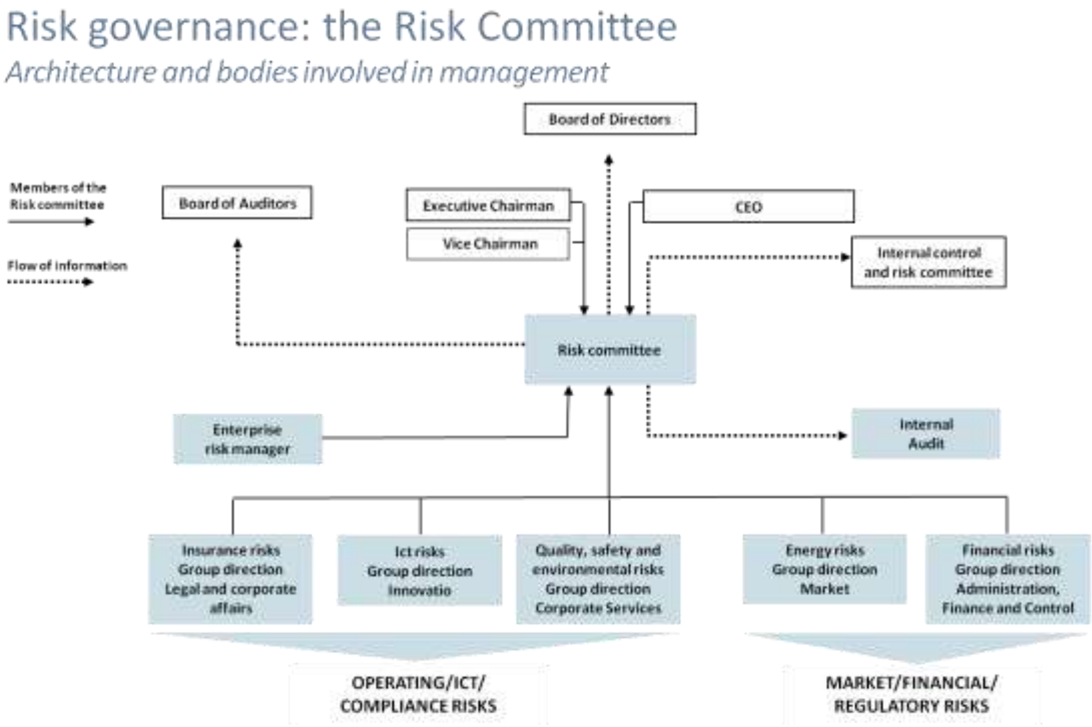
- the role of risk management, entrusted to risk owners at various level of organisation;
- the role of orienting and controlling risks, entrusted to the Risk committee, which turns to risk specialists who carry out second-level controls, meaning that they are asked to define, apply and update risk analysis methods and implement controls in their own area of responsibility (review challenge and control);
- the role of evaluating the adequacy of risk management processes, i.e. the internal control and risk management, assigned to the Internal Auditing Department.

The Risk committee defines the general guidelines for the risk management processes, guarantees that corporate risks are mapped and monitored, ensures that risk policies are defined, as are the protocols containing information for the Internal control and risk committee, the Internal Auditing Department and the Board of Auditors.

The Board of Directors approves the risk policies and the parameters used in measurement, and provides orientation for and evaluation of the adequacy of the internal control and risk management system. The Internal control and risk committee supports the Board of Directors in defining the orientation of the internal control and risk management system.

The Executive Chairman and the CEO supervise, each within their own area of responsibility, the functionality of the internal control and risk management system. The Vice Chairman supervises the coordination between the Risk committee and the Internal control and risk committee, maintaining an independent role.

The architecture of the Group's risk governance can be represented as follows:



1.02.02

Management methodology

Hera has adopted the Enterprise risk management (Erm) process in order to provide the Board of Directors with all that is required to evaluate the nature of corporate risks and define a risk profile that concerns the medium-long term in particular. The definition of the risk profile is made explicit by the Board of Directors, by approving the Group risk management policy and the risk limits it defines.
The risk management framework is subdivided into three fundamental areas:

- the **risk model**, which identifies the types of current and emerging risk to which the Group is potentially exposed, and which is periodically revised;
- the Group's **risk appetite**, which defines the level of risk that is acceptable according to the risk management strategy, and identifies:
  - key areas of risk;
  - risk metrics;
  - the limits associated with each key area of risk;
  - monitoring, escalation and updating processes, intended to promptly identify any instance in which a predefined level of risk is exceeded, identify and implement corrective actions, properly monitor all significant areas of risk and bring the limits into line with the Group's risk appetite;
- **risk management activities**, which effectively monitor the Group's potential risk profile as a whole and the way in which it is managed. The activities are subdivided into:
  - ongoing risk management, including a sector-specific approach entrusted to dedicated risk specialists/risk owners;
  - enterprise risk management, aimed at analysing changes in the Group's overall risk profile, supporting awareness in taking on risk and defining strategic objectives.

On 10 January 2020, the fifth Enterprise risk management report, related to the 2020-2023 business plan, was presented to the Board of Directors.
Over 2019, Erm analysis studied further details and refined its methodology in the following areas:

- Erm analysis backtesting of the previous year was done, aimed at evaluating the degree to which actual impacts were in line with estimated ones. The effects of these scenarios were furthermore quantified, if and when they had impacts on the plan;
- an analysis of Group resilience factors introduced in previous years to face risks that may compromise continuity in major activities allowed further mitigation interventions to be planned (in the 2020-2023 business plan), intended to increase the network infrastructures' ability to deal with adverse conditions deriving from potential business interruption events (caused by natural or technical events in a range of areas);
- the control system for the supply chain was studied in further detail, as were possible initiatives in subcontracting, set out in the area of certified management systems, identifying the factors and scenarios presenting significant risk

found in the process, recognising impacts on significant stakeholders and evaluating currently overseen situations and the related risks;
- the risk scenarios involved in climate change (both physical and transitional) having significance for Group activities were mapped.

The 2019 Erm analysis did not show any critical risks as regards their reputational or operating-financial impact.
As regards significant risks, they were confirmed in the reputational impact coming from potential procedures carried out by supervisory/regulation/investigation bodies (even though the Hera Group's behaviour respects all legal provisions) involving different degrees of discretion in the beginning of supervisory/investigation procedures and where unclear interpretational orientations are present. Significant risks were also confirmed regarding the operating-financial risk posed by high-intensity earthquakes on networks. Two new risks were furthermore identified. The first derives from legislative orientations as to substituting critical materials in gas networks; it was thus deemed appropriate to quantify (as part of Erm analysis) the possible impact. The second derives from the possibility of fires in production lines linked to waste treatment and recovery. The impacts of the latter risk are irrelevant in terms of consequences for Group results and have practically no impact on the environment nor on operational continuity; these events can have significant reputational consequences, owing to the perceived risk coming from the increasing social sensitivity towards this issue.

1.02.03
Areas of risk: identification and management of risk factors

The currently existing and emerging risks Hera must deal with fall into various categories: risks deriving from the evolution of market contexts, macroeconomic and financial risks, business (regulatory and competitive) risks, technological risks, risks involved in social, environmental and climate-related sustainability and risks involving human capital.
To mitigate its exposure to these risks, Hera carries out specific activities in analysis, measurement, monitoring and management that are described below. See, however, the paragraph "Trends and contexts, strategic approach and Group management policies" for a detailed analysis of the factors that represent some of the basic premises for these risks.

Operations and finance

Identification of country risk and business risk

Energy business: stagnation in consumption and price volatility

Hera mainly operates in Italy, where an economic context of limited growth continues to be seen, as does stagnation in energy consumption and volumes of waste disposed of. Energy market risks are concentrated in the Group Direction for the Market, responsible for electricity and gas purchasing and sales, which involve risk positions that deriving from price volatility in energy commodities. Decreases in energy demand put pressure on sales margins which, combined with higher competition on the free market, may have an impact on Group profits. Furthermore, changes in the amount of retail energy consumption could require Hera to purchase or sell additional energy in unfavourable conditions.

Waste business: changes in waste production and infrastructure unavailability

A potential reduction in waste production (which might derive from the economic context and European and national legislative orientations, or from new tendencies in customer behaviour), or again the unavailability of treatment and recovery infrastructures, could have a negative impact on the Group's ability to meet its preset goals. The risks of the waste management business concerning plant management are concentrated in the Herambiente Group.

Management of country risk and business risk

Energy business: combined management of procurement and hedging

As regards the energy market, Hera has structured its processes so as to obtain an efficient management of procurement and hedging activities, with a high focalisation in responsibilities. The approach adopted by the Group involves a single interface for managing market risk, provided by Hera Trading Srl. A combined risk management, while respecting the policies assigned, brings advantages in terms of reaching a higher level of coverage, optimising costs by resorting less to the market (through position netting) and gaining more flexibility in structuring procurement and supplying customers.
The Group has maintained a high degree of flexibility in its energy commodity procurement sources, while at the same time developing is activities in coverage, minimising its operating risk exposure for electricity generation and, also considering the absence of long-term contracts in gas procurement (take or pay clauses), allowing it to remain constantly in line with the market and maximise its natural hedging.

Waste business: set of plants, recycling opportunities

In waste management and treatment, the Group's diversified set of plants, marked by avant-garde technologies, highly performing in terms of environmental impact, have allowed it to meet its strategic goals. Implementing its strategy in the area of circularity, through Aliplast Spa's entry within the process of recycling polymeric materials, and planning an increase in recycling lines to include further forms of plastic, indeed allow it to grasp the opportunities coming from recent directions in European regulations, expected to come into force over the decade that has just begun.
Analyses of the risk coming from changes in the operating context (Gdp and inflation), and market conditions in energy (price of gas and electricity), allow for a quantification of the elasticity shown by Group Ebitda with respect to changes in these primary operating-financial figures.

Sensitivity analysis

In particular, a 1% reduction in Gdp, compared to the scenario included in the business plan, would lead to a drop in average annual Ebitda coming to roughly 3 million euro, due to both the effects of lower consumption in energy sales and reduced margins for electricity generation.
A 1% decrease in the inflation rate, compared to the scenario included in the business plan, would lead to a drop in average annual Ebitda coming to roughly 13 million euro, due to the impact of inflation on the tariff components of regulated network businesses.
A decrease in the price of electricity on the wholesale market coming to 1 euro per MWh, compared to the scenario included in the business plan, would lead to a drop in average annual Ebitda coming to roughly 0.7 million euro.

Lastly, a decrease in the price of gas coming to 1 €c/scm, compared to the scenario included in the business plan, would lead to a drop in average annual Ebitda coming to roughly 0.5 million euro.

Identification of financial risks involved in the debt market

Fluctuations in interest rates, exchange rates and credit spread

The operating-financial context, in addition to fluctuation in energy and commodity prices, shows changes in interest rates, exchange rates, the credit spread and liquidity crises. These fluctuations can have an impact on Group results, its future growth and its strategic investments (for example, ensuing from high refinancing costs).

Liquidity and opinion risk

The Group might not succeed in meeting its payment obligations, due to an inability to find new funds, to do so only under unfavourable economic conditions, or again an inability to liquidate assets on the market, or else changes in the perception of its riskiness by the market. Among the factors that define this perceived riskiness, the creditworthiness assigned to Hera by rating agencies plays a fundamental role, because it has an influence on the Group's chances of gaining access to financing and on the related economic conditions. The Group's debt structure is not subject to financial covenants on debt, with the exception of a limit on corporate rating defined for an amount of debt coming to roughly 150 million euro (which consists in one of the rating agencies assigning an opinion lower than BBB-). On the remaining portion of current debt, instead, an obligatory anticipated reimbursement is foreseen only in the event of a significant change of control in the Group, a concession event, or a significant sale of assets event that leads to a downgrade of the Group to non-investment grade or lower, or a suspension of the rating publication.

Management of financial risks involved in the debt market

Reduced exposure to fluctuations and management actions to satisfy liquidity requirements

Hera's financial management is concentrated in its Group Direction for Administration, Finance and Control, which 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. In order to meet its medium- and long-term commitments, Hera pursues a strategy calling for a diversified structure of sources of financing and a balanced maturity profile, constantly monitoring rating indicators and the availability of long-term credit lines. 95% of Group debt is long-term; 78% consists in bonds with payment at maturity, and the average term to maturity of the remainder is approximately seven years (of which roughly 64% maturing after over five years).

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

The Group's actions and strategies, furthermore, are aimed at guaranteeing that the maximum rating (one notch above the sovereign rating) is maintained.

Financial risk control and management processes are based on a close monitoring of the Group's main financial indicators. Constant coverage of the relevant markets is aimed at minimising the impact of rate volatility and to deliver efficient debt service. The Group makes use of derivative financial instruments to reduce its exposition to fluctuations in interest rates and exchange rates. At 31 December 2019, the Group showed a 13% exposure to rate risk, including the effect of derivatives; 87% of debt is thus at fixed rates.

Procedures complying with Law 262/2005, which includes specific requirements for listed companies in the area of financial reporting, have been suitably arranged and implemented in order to ensure complete and reliable financial reporting.

Sensitivity analysis

A 1% increase in the reference interest rate, compared to the scenario included in the business plan, based on the hypothesis of a shift in the coupon rate, and on the Group's debt structure as described in the business plan, would lead to a 10 million euro increase in financial charges.

Identification of risks associated with counterparties

Hera operates with counterparties who might be unable to fulfil their obligations, failing to comply with either the economic terms or contract provisions (delivery of the good /service). Credit risk, furthermore, affects the Group across all of the areas commercial activity is found: energy commodity and service sales, waste treatment and telecommunications services.

Management of risks associated with counterparties

The origination process

Hera employs a structured origination process, defined by specific credit risk management procedures, which allows counterparties to be adequately selected through credit checks and, if appropriate, requests for guarantees. In addition, positions towards the counterparties are regularly monitored and proactive measures are planned to manage them, which may also include including external risk relocation through credit transfer. In 2019, the Group's main sales companies' 24-month unpaid ratio came to 0.8%.

Regulations and competition

Identification of competitive-regulatory risks

Changes in the legislative and regulatory context and concessions

Hera carries out part of its activities in a regulated market, and its operations thus depend on regulations defined by sector authorities and lawmakers (concerning tariffs and market structure), government incentives on renewables, concessions from local authorities (concerning regulated activities in waste collection, gas distribution, the integrated water service and public lighting) and national ones (concerning electricity distribution), as well as the impact expected from changes in the structure of the market and its liberalisation, and changes in supply and demand in the energy and waste management sectors.

At this particular moment in time, the Group is subject to the risk that concessions reaching their end will not be renewed or, in the case of renewal, the risk that economic conditions similar to the current ones will not be maintained, leading to a negative impact on margins and return on investments. This risk, however, it mitigated by a reimbursement mechanism benefitting operators in the event that concessions are not renewed.

Changes in the legislative and regulatory context and revisions of tariffs in the regulated waste, water and energy sectors

Periodic updates in the national and European legislative and regulatory framework, can have a significant impact, influencing profitability in the sectors in which in cui Hera operates.

The competitive-regulatory risks impact network (water, gas and electricity distribution) and market (electricity and gas sales) businesses, and appear in new or modified economic, organisational and informational requirements which Hera is bound to respect, as well as possible changes in market assets they bring about.
The tenders for gas distribution, the integrated water service and waste collection and street sweeping that will be held over the period of time covered by the plan introduce the risk that some of the areas currently managed may be lost, in the presence of significant competitive contexts. If this management is lost, the Group will however be compensated with the amount of invested capital not yet amortised.

Management of competitive-regulatory risks

A proactive approach towards the regulatory framework

The Group has provided itself with an organisational structure that manages relations with national and local authorities, consulting extensively with institutional figures, actively participating in workgroups created by authorities and adopting a transparent, collaborative and proactive approach as regards instability in the regulatory framework.
Over the years, free-market businesses have taken on increasing weight in the Group's portfolio and contributed significantly to its operating results, but at the same time expose it to increasing competitive pressure. The Group deals with the challenge of competition through continuous innovation and rapid interventions in its marketing offers, increasing its presence and customer base on the free market and ensuring that expectations are satisfied in terms of the range and quality of the services offered.

A proactive approach towards the free market

The Group furthermore valorises its own technical abilities and management efficiency, and enriches its offers with services oriented towards sustainability and circularity. Hera's attention towards service quality, cost efficiency and innovative solutions indeed represents a competitive resource during tenders for gas distribution, integrated water cycle and waste collection and street sweeping services.

Identification of strategic risks

The strategic risks associated with long-term planning, financial sustainability, involvement in strategic initiatives and investment decisions influence the degree of solidity in the results reached in the various business sectors and units. The Group's ability to reach its strategic goals, furthermore, could be compromised if it is not able to maintain or obtain the licenses, authorisations and permits required to carry out its regular activities.
Achieving the results planned thus depends on various endogenous and exogenous risks, which are appropriately simulated, measured and controlled.

Management of strategic risks

Hera has developed a well-organised strategic risk analysis model designed to gauge the solidity of the assumptions underlying its business plan with respect to a variety of adverse risk scenarios, contributing to an integrated representation of risks from an enterprise-wide point of view. This system provides for scenario analyses, stress testing and what-if in the business plan's hypotheses, through an adequate analysis of risk factors and the variables linked to them, allowing the level of risk in the various business areas to be adequately evaluated.
Hera is constantly present in authorisation processes and proactively participates in round tables to obtain permits, licenses and authorisations, in order to overcome the possibility that its regular activities are compromised.

Technology, the environment and human capital

Interruption of essential and digital services and personal data breach

Identification of risks

Earthquakes and meteorological events, witnessed more frequently in recent years, can nullify the resources deployed and thus the Group's performance. Hera wishes to valorise these resources and guarantee that they are conserved and developed, in order to continue enjoying their benefits in the future. In this area, particular significance goes to the environmental risks caused by climate change, as well as accidents within Group plants, which in turn can cause potential damage to the environment. Increasing importance also goes to the cybercrime risks caused by malicious actions intended to cause damage to management infrastructure or breach personal data. Hera also evaluates the impact of these risks in terms of service continuity. It is furthermore crucial to verify whether these accidents involve a risk for the rights and freedom of individuals, or if they cause physical, material or immaterial damage, based on the parameters and acceptability thresholds set out in Group policies (published on the company's website).

Environmental risks

- Hera uses natural resources to guarantee essential services to its customers. Since its activities leave an environmental footprint, involving water and carbon, it is aware of the need to conserve natural resources and thus the necessity of adopting mitigation and adaptation initiatives intended to reduce these risks. In line with the challenging path of greenhouse gas reduction compared to the current amount, set out by international institutions, over 2019 Hera mapped a series of climate change risk scenarios, both physical and transitional, having significance for its activities. These scenarios were then analysed as to their potential consequences on Group businesses, and subjected to further evaluations concerning impact and mitigation as regards their material nature (for example, extreme weather conditions such as floods and drought, or risks concerning health or the economy).
- As regards the environmental standards that Hera must guarantee in its activities, the latter are subject to various norms and regulations, including those concerning CO_2 emissions, along with emissions of other substances caused combustion, sewerage and dangerous and solid waste management. Not respecting the limits set for CO_2 favours climate change, while disregarding the legal limits for other environmental aspects worsens these same environmental conditions, in addition to exposing the Group to sanctions.
- Scarcity in water resources or the possible contamination of water reserves can influence regular water supply and lead to service interruptions or significant damage, both environmental and socio-economic, also increasing the water stress felt by natural resources in order to satisfy water demand.
- Note furthermore the risks related to the impact on the Group caused by variations in meteorological conditions, concerning electricity and gas demand. The foremost area of impact is the Group Direction for Markets, which in its electricity, gas and heat sales is exposed to variations in demand ensuing from various meteorological scenarios.

Technological and human capital risks

Exceptional events and regular service supply

The negative externalities generated by exceptional events, in spite of careful planning and insurance coverage, may compromise business continuity and increase the financial resources required to restore regular operations. Offering public utility services thus calls for precautionary activities to be carried out, as well as actions in containing interruptions, delays in service or inadequate levels of service. Technological risks include operating security in distribution networks (fluids and electricity), logical security for information, security in communications networks and information systems, and the reliability of remote control systems. The main threats for on-premise systems (found at the company's data centres) or in clouds include identity theft, phishing aimed at taking control of a personal computer in order to attack central systems and attacks on exposed systems, for example public websites.

Security in the information used, produced and transformed by the company depends on the ways in which it is managed and the human and technological resources involved; an appropriate evaluation of the risk involved is therefore fundamental. Any loss of privacy, integrity and availability of company information, whether crucial for business or personal (i.e. and data concerning physical persons, as defined in greater detail by the privacy code, legislative decree 196/03) could lead to serious financial losses and a related damage to image on the market. To identify and evaluate this risk, a methodology based on the international Magerit framework has been adopted, in which the three dimensions of security are evaluated: availability, integrity and privacy. Group Direction for Quality, Safety and the Environment and the Logical Security and Privacy Department support the Group's structures and the Risk Committee in carrying out evaluations and notifications of IT security incidents. The main types of incident that may occur impact cloud service supply, electricity, gas and drinking water supply and distribution as well as service continuity and the personal data being treated.

Worker health and safety and social risks

The strong relations between technology, the environment and human capital require coordinating the risks mentioned to be accompanied by safety on the workplace and social protection for employees. Identifying dangers and evaluating risks is based on an analysis of roles, working activities, processes and places, equipment, vehicles, plants and substances used. The wishes and needs expressed by various categories of workers are continually examined by the Group.

Management of technological, environmental and human capital risks
The approach to risk management is subdivided according to the specific areas in which environmental, technological and human capital risks emerge. Investments in preventing and reducing the frequency of harmful events take on a fundamental role, as do those allowing mitigation measures to be obtained that reduce their severity.

Environmental risks

- As regards long-term trends, the Group's commitment reducing CO_2 began with reporting on its performance and efforts made to combat climate change. It now continues with projects activated to promote energy production from renewable sources, reduce energy consumption and offer customers opportunities aimed at reducing their own greenhouse gas emissions. The Group is dedicated to contributing to mitigating environmental risk, reaching the energy efficiency goals set by the legislator and the United Nations, persisting with continuous improvement in its production system and incentivising virtuous and responsible consumption by clients. The electricity intake of the Group's production sites is entirely covered by energy coming from renewable sources. As regards the consequences of extreme events, which are expected to occur ever more frequently as a possible consequence of climate change, Hera has undertaken important interventions, such as the Rimini Seawater safety protection plan which, in addition to ensuring that the quality of seawater is maintained, increases the resilience towards extreme events shown by the rainwater drainage infrastructure. For further details on specific initiatives, see the section "Greenhouse gas reduction" in the Hera Group's Sustainability Report.
- Hera has set in place an adequate system of environmental control, which covers both governance of environmental certification processes and the related auditing, and operating management involving controls and samples. The Group is able to face environmental risks thanks to continual monitoring of potential pollution factors, guaranteeing transparency in its samples, and significant investments in technological plants to guarantee air and water quality that is constantly higher than legally required. Furthermore, in line with its circular economy strategy, Hera has already made (and will continue to make, in its medium-long term planning) investments in selector, recovery and composting plants, increasing the amount of waste treated and at the same time reducing the use of landfills, thus succeeding in anticipating what is required by European and national regulations. For further details, see the section "Transition to a circular economy" in the Sustainability Report.
- In 2019, more in-depth studies began of the resilience shown by the Group's water procurement and distribution system, from a medium-long term point of view. A reduction in the water footprint is furthermore pursued by the water management system, designed to promote sustainable management of this resources both within the Group's operating activities (by contrasting network leakage, reducing widespread consumption, recovering rainwater for irrigating green areas and washing vehicles) and externally (by checking household consumption, offering advice and solutions to optimise it, supporting technological solutions for customers with considerable water needs, supporting the construction of treatment plants for water reuse/recovery). Implementing the integrated services contained in the water safety plan furthermore makes room for an approach to managing water resource quality based on risk evaluation and management, which involve prevention and control.
- As regards the risk coming from variations in weather conditions, the Group can rely on advanced tools in predicting demand, which allow it to optimise the use of renewable sources. Additionally, is has sufficient flexibility in procurement sources for energy commodities, which ensure its availability at market conditions. A drop of one degree in average winter temperatures with respect to the figures contained in the Business plan would cause an average annual reduction in Ebitda coming to roughly 13 million euro.

Technological and human capital risks

Attention towards physical security and monitoring sites

Centralised systems of network monitoring (remote control for fluids and electricity grid) allow these networks to be continuously supervised in real time and, in some areas, remote control allows potentially critical situations to be promptly communicated to quick response centres which, when possible, can directly intervene and resolve these situations. These systems have been applied in a range of situations, allowing services to be reactivated in a reasonable amount of time and guaranteeing adequate resilience in the services offered.

Attention towards information privacy

The Group constantly monitors the amount of risk in information security, carries out tests to continually evaluate network security and the degree to which its systems can be penetrated and organises training campaigns to raise awareness among all users. During 2019, work progresses on interventions aimed at guaranteeing the integrity and availability of Hera's systems; the main initiatives set in place, whose technology is continually renewed, are oriented towards increasing Ict security and protecting infrastructures, devices and personal identity. They involve introducing the best technology on the market and monitoring and control systems that continue 24 hours a day, 365 days a year. Information security was further reinforced by the introduction, alongside the quality, safety and environment process owner (responsible for regulatory compliance and risk analysis), of an Ict security process owner, responsible for operating strategy, Ict security procedures and requirements and risk mitigation and intervention plans. Management of the company's information and information systems influences the reputation enjoyed by the Hera Group, and therefore its executive management has introduced an information security management process that follows the guidelines defined by Iso/Iec standard 27001:2005, which calls for support and participation coming from all Group employees. During 2019, no complaints were filed against the Group concerning privacy issues or loss of data of its customers.

Health, safety and social protection for workers

In order to guarantee worker health and safety and mitigate the risk of accidents on the workplace, the Group gives constant attention to initiatives aimed at more efficiently monitoring and improving protection and prevention processes in the area of safety, intended to reduce the frequency and severity of accidents. The topics chosen for worker training will no longer be simply be technical or normative but will be oriented towards developing self-awareness in perceiving risks and favouring safe and conscious behaviour. Attention towards these aspects is a fundamental operating element in order to confirm the continuous decrease in the number of accidents, their frequency rate and their seriousness, and the number of days of leave due to accidents. On this matter, important certifications have been obtained including ISO 9001 (quality management

system), ISO 14001 (environmental management system) and OHSAS 18001, on health and safety on the workplace. The procedure used in identifying dangers and evaluating and controlling risks is carried out preventively and proactively (rather than reactively) in order to define adequate measures in risk reduction and control. As an example, during 2019 activities continued in communication, awareness and training on issues in road safety, introducing the initiatives proposed in the safety challenge Herueka+ and maintaining the previously existing learning magazine Guido come vivo; furthermore, training activities have been planned for 2019-2021 intended for virtually all employees as regards field safety.
Each of us is responsible for their own health and safety, alongside that of the people with whom they interact and, as foreseen by the procedure entitled Management of the process of identifying dangers and assessing risks for the health and safety of workers, and the related links available on Hera's company information portal, is bound to report and promptly stop any situation containing risks or unsafe behaviour. The commitment shown by all those involved, and the integration of safety in processes and training, are the fundamental elements in the Group's corporate culture in the area of safety.
With the goal of encouraging a positive working environment, Hera has created a welfare system based on attention towards people. This system includes monetary and non-monetary interventions, such as services concerning the family, education, work-life balance, wellbeing, free time and health.

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

Operating APMs and investments

Operating APMs and investments (mn€)	Dec 19	Dec 18	Abs. change	% change
Revenues	**6,912.8**	**6,134.4**	**+778.4**	**+12.7%**
Ebitda	**1,085.1**	**1,031.1**	**+54.0**	**+5.2%**
Ebitda/revenues	15.7%	16.8%	-1.1 p.p.	
Ebit	**542.5**	**510.1**	**+32.4**	**+6.4%**
Ebit/revenues	7.8%	8.3%	-0.5 p.p.	
Net profit	**402.0**	**296.6**	**+105.4**	**+35.5%**
Net profit/revenues	5.8%	4.8%	+1.0 p.p.	
Net investments *	**509.2**	**431.8**	**+77.4**	**+17.9%**

* for the data used in calculating investments, see notes 14, 16, 17 and 18 of the explanatory notes and paragraph 1.03.02 of the Overview of Group management performance.

Financial APMs

Financial APMs (mn€)	Dec 19	Dec 18	Abs. change	% change
Net non-current assets	6,846.3	5,905.1	+941.2	+15.9%
Net working cpaital	87.0	115.4	-28.4	-24.6%
Provisions	(649.1)	(588.2)	+60.9	+10.4%
Net invested capital	6,284.2	5,432.3	+851.9	+15.7%
Net debt	**(3,274.2)**	**(2,585.6)**	**+688.6**	**+26.6%**

Operating-financial APMs

Operating-financial APMs	Dec 19	Dec 18	Abs. change
Adjusted net debt/Ebitda	**2.48**	**2.51**	**-0.0**
Ffo/Adjusted net debt	**29.0%**	**27.0%**	**+2.0 p.p.**
Adjusted Roi	9.4%	9.4%	+0.0 p.p.
Adjusted Roe	10.4%	10.4%	+0.0 p.p.
Cash flow	28.7	3.2	+25.4

Alternative performance measures (APMs)

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

Operating APMs

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

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

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

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

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

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

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

Net non-current 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.

Financial APMs

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

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

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

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

Adjusted net debt is a measure of the financial structure, calculated as net financial debt, minus the effect of the Ascopiave transaction.

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

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

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

Adjusted Roi, return on net invested capital, is defined as the ratio between Ebit, as described above, and net invested capital, minus the effect of the Ascopiave transaction. 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.

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

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

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

(*) stated net of the effects of the different accounting policy used for financial derivatives on commodities traded on the Eex platform, whose differential is regulated on a daily basis, minus any changes in NWC deriving from an enlarged entire scope of operations, whose overall value amounts to 23 million euro.

(**) minus releases from provisions and increases caused by modifications in estimates expenses for operating landfills (amounting to 2.9 million euro);

(***) minus the effects of updating deriving from the application of accounting standards Ias 37 and Ias 19 and the profits coming from associated companies and joint ventures, plus the dividends received from the latter, and gains/losses from transferred shareholding (excluding special items, if present);

(****) amounting to 2.5 million euro.

This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the company's ability to generate cash flow and therefore its ability to finance itself.

Special item / balance sheet reconciliation

Special financial items	Dec 19	Dec 18
Financial operations from financial statements	(126.0)	(91.7)
Total financial operations from special items	26.0	0.0
Financial operations	(100.0)	(91.7)

Non-operating special items	Dec 19	Dec 18
Other non-operating revenues (costs) from financial statements	111.6	
Total other non-operating revenues (costs) from financial statements	(111.6)	
Other non-operating revenues (costs)	-	

Special tax items	Dec 19	Dec 18
Taxes from financial statements	(126.1)	
Tax effects of special item operations	0.7	
Taxes	(125.4)	

Result from special items	84.9	(0.0)

1.03.01
Hera – Ascopiave Partnership

On 19 December 2019, following up on the framework agreement signed on 30 July and the approval later given by the authorities and responsible parties, the Hera Group and the Ascopiave Group completed a transaction involving an exchange of assets having equal value in the energy and gas distribution businesses. In reporting the transaction, a total consideration of 607.3 million euro was assessed, as illustrated in greater detail in the text and tables below.
As regards the energy sector, the partnership involves the creation of a single operator with over one million customers for their respective businesses in the Veneto, Friuli-Venezia Giulia and Lombardy regions, through EstEnergy Spa, a company already jointly controlled by both Groups. More specifically, the sales assets pertaining to the Ascopiave Group (through the controlled companies Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa, Etra Energia Srl and the associated companies Asm Set Srl and Sinergie Italiane Srl, in liquidation) and those pertaining to the Hera Group through the controlled company Hera Comm Nord-Est Srl, both merged into EstEnergy Spa, over which the Hera Group obtained full control, including amendments to the governance agreements.
As regards the gas distribution business, Ascopiave Spa acquired from the Hera Group, for a price set at 168 million euro, an area of concessions covering roughly 188,000 users in the Veneto and Friuli-Venezia Giulia regions, which as of 31 December 2019 merged into the company AP Reti Gas Nord-Est, entirely controlled by Ascopiave Spa. The value of the net assets transferred, almost entirely consisting in distribution networks and related plants, amounts to 134.3 million euro. The transfer created a capital gain coming to 30.2 million euro, classified in the income statement under "Other non-operating revenues".

The Group acquired these business activities through a complex series of corporate transactions, all defined within the framework agreement and implemented at the closing date. The logical and functional sequence of these transactions (which involved a net income of 1.7 million euro) is as follows:

- the Hera Group acquired 49% of the shares of EstEnergy Spa from Ascopiave Spa, obtaining total control over the company;
- EstEnergy Spa acquired shareholdings in Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa, Etra Energia Srl, ASM SET Srl, Sinergie Italiane Srl, in liquidation, and Hera Comm Nord Est Srl (this latter operation does not qualify as an acquisition because the company was already controlled by the Hera Group);
- transfer of 48% of the shares of EstEnergy Spa from the Hera Group to Ascopiave Spa, following all of the previous transactions.

At the end of this corporate reorganisation, 52% of the share capital of EstEnergy Spa was held by the Hera Group and 48% by Ascopiave Spa. At the same time, Ascopiave Spa was given an irrevocable put option regarding its minority shareholding in EstEnergy Spa. This option may be exercised annually, at discretion involving all or part of the shareholding, within the period of time from 15 July and 31 October and, in any case, within 31 December 2026.
According to Ias/Ifrs international accounting standards, if and when a minority shareholder has this sort of right, it may be necessary to classify the option on Estenergy Spa shares currently held by Ascopiave in the financial statements as financial debt (and not as a derivative instrument). In line with its own accounting policies, the Group has not recorded Ascopiave Spa's minority shareholding in its consolidated financial statements, thus considering the shareholding in EstEnergy Spa, from an accounting point of view, as entirely owned. The fair value of the debt for the put option was thus calculated based on the information that is currently available, that is, by referring to the future scenario regarding the exercise of this option held to be most probable by the Group's management. This fair value was defined, essentially, through multiples applied to indicators of margins according to the conditions agreed upon by the parties and discounting the corresponding future cash flows, using the Group's average cost of long-term debt at the date of the transaction as the base rate.
Since the Group's policy does not call for the interest of minority shareholders to be included within period results, the amount of debt for the option was valued based on any dividends expected to be paid by EstEnergy Spa during the hypothetical life of the option itself (the corresponding cash flows will indeed adjust the amount to be paid on the date at which the option is exercised, according to the contractual mechanisms shared by the parties). The fair value included in the financial statements as a liability therefore does not only represent the current value of the price foreseen for the sale option at the date in which it is exercised (396.6 million euro), but also contains a discounted estimate of the future dividends paid (156.7 million euro) because it is to be considered, pursuant to the contractual agreements, as part of the variable payment due to the counterparty; the overall value thus comes to 553.3 million euro.

Completing the content of the framework agreement, the Hera Group directly acquired control over Amgas Blu Srl, an energy sales company operating in the province of Foggia, which however does not fall within the partnership agreement concerning energy business activities in North-Eastern Italy.

Lastly, the Hera Group transferred 3% of the share capital of Hera Comm Spa to Ascopiave Spa for 54 million euro. This transaction, from an accounting point of view, owing to the conditions contained in the contract and the obligations pertaining to the counterparties (a put option in favour of Ascopiave Spa was included among the clauses), does not give way to a derecognition of the shareholding, but is recorded as the subscription of a fixed-rate loan, valuated based on the criterion of amortised cost.

Valuation of assets acquired, liabilities assumed and goodwill

The partnership transaction was recorded according to the indications contained in international accounting standard Ifrs 3. The Group's management assessed, assisted by independent professionals, the fair value of assets, liabilities and potential liabilities, based on information concerning the facts and circumstances available at the date of acquisition. At 31 December

2019, the valuation period is still ongoing: if, over the next 12 months, new and currently unknown additional information emerges, in line with the content of the accounting standards referred to above, the aforementioned valuation at fair value could be partially modified. Note that, considering the unavailability of a reference interim situation at the date of acquisition, i.e. 19 December 2019, the values at 31 December 2019 were taken into account, thus excluding revenues and costs for the last 12 days of the financial year. The effect of this simplification is considered to be irrelevant, both for the 2019 income statement and for the operating-financial alternative performance measures.

The following table shows the results of the valuation carried out on 19 December 2019 concerning the net assets acquired and the amount transferred:

	Reporting value	Valuation adjustments	Fair value
Assets			
Property, plants and equipment and use rights	3.5		3.5
Customer lists		430.7	430.7
Equity investments	0.2	19.3	19.5
Deferred tax assets	2.5	1.4	3.9
Trade receivables	179.6		179.6
Current and non-current financial assets	16.6		16.6
Other current assets	27.7		27.7
Cash and cash equivalents	16.4		16.4
Liabilities			
Other provisions	(2.6)		(2.6)
Deferred tax liabilities		(93.0)	(93.0)
Current and non-current financial liabilities	(10.6)		(10.6)
Trade payables	(132.9)		(132.9)
Other current liabilities	(25.9)		(25.9)
Exemption liabilities		(40.2)	(40.2)
Potential liabilities		(5.0)	(5.0)
A) Total net assets acquired	**74.5**	**313.2**	**387.7**
Equivalent Fair value			722.5
Previously held fair value interests			92.2
Non-controlling interests acquired			3.6
B) Total value of the business combination			**818.3**
B) – A) Goodwill			**430.6**

The valuations made by management regarding the fair value of tangible and intangible assets, which also took into account the recoverable value of said assets (calculated based on the business plans of the acquired companies), identified the following significant differences between the book value recorded in the financial statements of the companies and the fair value found in the Group's consolidated financial statements:

- 430.7 million euro involved in valuing the customer lists, whose value was defined based on the characteristics of the reference context using the incremental cash flow method (Meem). The useful life expected in customer lists, following an analysis of changes in the customer base and the related churn rates, was estimated at 25 years;
- 19.3 million euro linked to the shareholdings in ASM SET Srl and Sinergie Italiane Srl, in liquidation, valued at the price negotiated before signing the framework agreement, because it was held to be in line with their fair value.

In the valuation of the fair value of the tangible assets acquired, instead, no significant differences emerged compared to the amounts previously recorded in the companies' financial statements, also in light of their non-significance. No adjustments were therefore made to the corresponding entries in the financial statements, nor were further assets recorded. Liabilities amounting to 93 million euro were recorded for the deferred taxes corresponding to these valuations.

The exemption liabilities, coming to 40.2 million euro, represent the amount of substitutive tax pertaining to the Group as regards a process of fiscal optimisation, closely related to the transaction, which will be finalised during 2020. During the course of valuation and negotiation with the counterparty, indeed, it was considered significant, in order for the transaction to reach a positive conclusion, to be able to proceed with the exemption for tax purposes, of the higher values implicit in the transaction's prices. This debt is recorded under "Other current liabilities".
Based on the information available at the date of acquisition, 19 December 2019, the management's valuations also identified a potential liability concerning obligations that arose prior to the date of acquisition and proved to be measurable with a sufficient degree of reliability, thanks to factors including the verifications carried out by consultants. This liability, whose value was set at 5 million euro, refers to the potentially unfavourable outcome of tax litigation following the audit notices received by the company Ascotrade Spa. Note that, during the negotiations, Ascopiave and the Hera Group agreed upon specific indemnity for any tax liabilities related to the aforementioned tax audit, and the amount recorded in the financial statements therefore represents the value in excess of this indemnity, calculated as the difference with respect to the maximum potential risk that Ascotrade Spa may have to pay to tax authorities if it loses the litigation. The current state of this situation does not allow the possible outcome of the litigation, nor the probability of a loss, to be defined.

The fair value of the previously owned interest refers to the valuation of the shareholding already owned in EstEnergy Spa (coming to 51% of the share capital). Obtaining control of this company, over which the Group previously had joint control, falls within the definition of a business combination achieved in stages provided by international accounting standard Ifrs 3. In such cases, the acquirer must recalculate the interest previously held in the acquired company at its respective fair value at the date of the transaction and take note of profits or losses in period results. Since the value at which EstEnergy Spa was recorded in the consolidated financial statements al 19 dicembre 2019 comes to 10.8 million euro, this valuation led profits to be included in the income statement amounting to 81.4 million euro, classified under "Other non-operating revenues". More precisely, the fair value of the amount already owned was defined based on the overall valuations made by the counterparties during negotiations, which led to the price defined for the Hera Group to acquire the remaining 49%.

As previously mentioned, the partnership between Hera and Ascopiave took the shape of an exchange of assets having equal value the energy and gas distribution businesses. To bring the representation in the financial statements into line with the fundamental structure of the transaction at the closing date, the following table contains the considerations made concerning the amounts transferred at the time when the transaction was completed ("Net cash flows"), as well as those decided to be transferred at the moment in which the options described above are exercised ("Fair value put option EstEnergy Spa" and "Payables for share repurchasing Hera Comm"):

	Energy business		Gas distribution	Hera Comm Spa shares	Total partnership
	Acquisition of control	**Transfer Hera Comm Nord Est Srl**			
Cash outlay for acquisition	616.2				**616.2**
Proceeds from divestiture	(319.6)	(76.3)	(168.0)	(54.0)	**(617.9)**
Net cash flows	**296.6**	**(76.3)**	**(168.0)**	**(54.0)**	**(1.7)**
Fair value put option EstEnergy Spa	425.9	127.4			**553.3**
Payables for share repurchasing Hera Comm Spa				54.0	**54**
Equivalent fair value	**722.5**	**51.1**	**(168.0)**	**-**	**607.3**

At the date of this year-end financial report, the Ascopiave transaction generated a positive net cash flow for the Group coming to 1.7 million euro. For the upcoming years, it is expected that this partnership will translate into positive net cash flows for the Group, ensuing from the profits produced by the sales companies acquired, net of the loss of flows related to the gas distribution assets transferred. Based on the scenarios foreseen, furthermore, in future years this agreement will bring about financial flows leaving the Group as a result of Ascopiave Spa exercising its put option for 48% of EstEnergy Spa and 3% di Hera Comm Spa. On this matter, note that the debt for the put option linked to the minority shareholding in EstEnergy Spa (energy commercial activities), amounting to 553.3 million euro overall, since it is a discounted amount, will lead notional financial charges to be recorded in future years. Any possible changes in the underlying hypotheses, which may give way to a different valuation of the amount and/or timing of the financial flows, will also be recorded in the income statement as financial charges or income for the period. Furthermore note that the sale option linked to Ascopiave Spa's minority shareholding in Hera Comm Spa, owing to the content of the contracts, has been recorded as a financing debt and will be valued using the amortised cost method. The initial nominal value of this debt, as well as the repayment value, has been set at 54 million euro.
The values classified as "Transfer Hera Comm Nord Est Srl" involve the transfer of Hera Comm Spa's entire shareholding in Hera Comm Nord Est Srl to EstEnergy Spa. It must be specified that these figures do not represent the amounts seen in specific transactions, but the allocation of a portion of the transfer value of 48% of the shares of EstEnergy Spa to Ascopiave Spa (which, due to the corporate transaction mentioned above also includes, among its controlled companies, Hera Comm Nord Est Srl) and the related amount of the fair value of the debt for the put option. Since these amounts refer to a company over which control has not been lost, the capital gain created by the transaction, coming to 51.1 million euro, has been recorded directly under consolidated equity.

Impact on alternative performance measures

The acquisition of these energy commercial activities is an important step for the Group as regards the evolution of its business portfolio, fully respecting the lines of development contained in the business plan. With this transaction, indeed, the Group reached the goal included in its business plan to 2022 in advance, now managing roughly 3.3 million customers in energy commercial activities.

To guarantee a better evaluation of Group performance and make the data more easily comparable, it was considered suitable to introduce a new statement entitled "Adjusted net financial debt", containing a higher degree of segregation between items and two new alternative performance measures:
Net financial debt excluding the amounts involved in the Ascopiave transaction (Adjusted net debt), referring to the financial statements for the year closed on 31 December 2019;
Net financial debt with adjusted sale option (Adjusted put option net debt), referring to financial statements for future years.

As regards Adjusted net debt, it was considered suitable to eliminate the effects of the Ascopiave transaction from the amount of net financial debt included in the financial statements, in order to compare net financial debt at 31 December 2019 with the same indicator at 31 December 2018 with respect to an equal scope of operations. This also reflects the fact that, owing to the date on which it was completed, the transaction is only included in the Group's consolidated financial statements as regards its financial effects, and it is therefore not possible to draw a relation between the debt deriving from the acquisition of the sales companies previously owned by Ascopiave Spa with the profits generated by the same companies over 2019. This indicator was thus used to calculate the APMs Net debt/Ebitda and Ffo/Net debt for the current year.

As regards the indicator Adjusted put option net debt, which will be used in the years to come, the reason it was adopted lies in the contractual procedures defined for the payment of the value of the option which, essentially and as illustrated above, call for part of the price of the transaction to be paid through an amount of dividends equal to the profits generated by the purchased companies over the period in which the option is exercisable. Given the structure of the transaction, it follows that, over this period of time and taking into account the chain of control, 48% the profits generated by the purchased companies will be paid to Ascopiave Spa and 52% will be paid to the Hera Group. This mechanism ensures that the fair value part of the put option that will be extinguished through payment of future dividends is actually self-liquidating, since the financial resources required (i.e. 48% of the dividends) will be directly generated by the purchased companies, and will thus not create any real additional financial needs during this period for the Group. Therefore, in order to express the actual additional financial needs created by the transaction and correlate the latter to the Group's increased profitability, it was considered suitable to also state, among the alternative performance measures, the amount of net financial debt that will include the adjusted fair value of the put option so as not to consider the dividends expected to be paid in the future (based on the projections contained in the multi-year business plans) for the period covered by the option. As a consequence, in calculating Net debt/Ebitda and Ffo/Net debt, in upcoming years the indicator "Adjusted put option net debt" will be used in addition to the indicator "Net debt".

See paragraph 1.03.04 "Analysis of net cash (net borrowings)" for an accurate comparison of the amounts used in the adjusted statement.

1.03.02
Operating and financial results

Constant growth in all indicators

With its 2019 financial report, the Hera Group shows continued growth in all operational, financial and sustainability indicators. Ebitda settled at 1,085.1 million euro, up 5.2%, Ebit reached 542.5 million euro, increasing by 6.4%, and net profits came to 402.0 million euro, growing by 35.5%. From a financial point of view as well, improvement was seen over 2018, due to the Group's solid financial structure: the adjusted net debt/Ebitda ratio came to 2.48; adjusted Roi settled at 9.4% and adjusted Roe at 10.4%.

These 2019 results confirm the Group's path of uninterrupted growth and its solid foundations, having by now consolidated its multi-business strategy, balanced between regulated and free market activities. Reaching these results, which were matched by similar ones in terms of sustainability and opportunities for creating shared value through the principles of a circular economy, was made possible by respecting the pillars of the Hera Group's strategy, aimed at synergic growth: innovation, efficiency, agility, excellence and growth. The partnership with Ascopiave Spa, as described above, will also be highly important in the years to come.

The main corporate and business operations which had an effect on 2019 are as follows:

- Hera Comm Spa was awarded seven portions out of ten in safeguarded electricity auctions for the 2019-2020 two-year period held by the Single Purchaser, with 15 regions assigned (Liguria, Piedmont, Valle d'Aosta, Trentino-Alto Adige, Lombardy, Veneto, Emilia-Romagna, Friuli-Venezia Giulia, Sardinia, Lazio, Campania, Abruzzo, Puglia, Molise and Basilicata).
- On 1 February 2019, after winning the public auction, Hera Spa acquired 0.5% of Marche Multiservizi Spa from shareholder Unione Montana Alta Valle del Metauro, thus increasing its shareholding from 46.2% to 46.7%.
- As of 1 March 2019, the Hera Group merged the natural gas distribution activities of CMV Servizi, through the company A Tutta Rete Srl, and the energy sales activities of CMV Energia e Impianti Srl. The two companies were owned by the Municipalities of Cento, Vigarano Mainarda, Bondeno, Poggio Renatico, Terre del Reno and Goro. The transaction involved roughly 25 thousand customers (21,300 in gas and 3,500 in electricity) and roughly 30

thousand delivery points (26,500 in the Ferrara area and over 3,100 in the Bologna area) in natural gas distribution.

- On 23 April, Hera Spa acquired 3.28% of the share capital of Acantho Spa from Aimag Spa, thus increasing its shareholding from 77.36% to 80.64%.
- On 9 May 2019, Hera Spa was definitively awarded the tender for acquiring 100% of shares of Cosea Ambiente Spa, a company managing municipal and similar waste services mainly in the province of Bologna. Cosea Ambiente Spa was consolidated as of June 2019, with operating and financial effects backdated to 1 January 2019. Furthermore, a Concession Act was stipulated between Cosea Consorzio Servizi Ambientali and Herambiente Spa which conceded the municipal, assimilated and special non-dangerous waste disposal plant located in Gaggio Montano to Herambiente Spa.
- Effective as of 1 July 2019 and with accounting effects backdated to 1 January 2019, the company Waste Recycling Spa was merged by incorporation into Herambiente Servizi Industriali Srl. This transaction was aimed at simplifying and generally improving operating efficiency, and led to the establishment of Italy's largest operator in industrial waste management.
- On 17 July 2019, Herambiente Spa acquired the entire shareholding of Pistoia Ambiente Srl, involved in managing the special waste landfill located in the Municipality of Serravalle Pistoiese. The company was consolidated with operating and financial effects as of 1 July 2019.
- Hera Comm Spa was awarded the tender, for the period from 1 October 2019 to 30 September 2020, four portions of the gas service (for customers in public services or without a supplier) and two portions of the default gas distribution service (for customers in arrears).
- On 19 December, with the finalised closing of the corporate transaction between the Hera Group and the Ascopiave Group, the following operations were completed: shareholdings in the companies Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa, Etra Energia Srl, Asm Set Srl and Hera Comm NordEst Srl were transferred to Estenergy Spa, a company controlled by Hera Comm Spa; shareholding in the company Amgas Blu Srl was transferred to Hera Comm Spa; shareholding in the company AP Reti Gas Nord Est Srl was transferred to Ascopiave Spa. Furthermore, AcegasApsAmga Spa's Gas Distribution branch concerning the Padua 1, Padua 2, Udine 3 and Pordenone Atems, effective as of 31 December 2019, was transferred to AP Reti Gas Nord Est Srl For further information, see paragraph 1.03.01.

The acquisitions of Sangroservizi Srl, Cmv and Atr Srl in the energy area and Cosea Ambiente Spa, Pistoia Ambiente Srl and the Gaggio Montano plant in the waste management area are considered as a change in the scope of operations in the remainder of this report. The Ascopiave transaction has no operating effects on the Group's income statement at 31 December 2019.

As of 2019, accounting standard Ifrs 16 leases came into effect, which provides a new definition of leases and introduces a criterion based on the right of use of an asset to distinguish leasing contracts from service contracts. Put briefly, what this standard entails for the Hera Group, in the first adoption phase, are lower costs for services but higher amortisation and financial charges in the income statement, and from a financial point of view, higher non-current assets and higher financial debt.

As indicated by accounting standard Ifrs 15, the costs involved in commissions paid to agents, amounting to roughly 13 million euro, have been recorded as assets and are amortised according to the average useful life of the customers acquired (churn rate).

The following table shows operating results at 31 December 2019 and 2018:

Income statement (mn€)	Dec 19	% inc.	Dec 18	% inc.	Abs. change	% change
Revenues	6.912,8		6.134,4		+778,4	+12,7%
Other operating revenues	530,8	7,7%	492,0	8,0%	+38,8	+7,9%
Raw and other materials	(3.458,2)	-50,0%	(2.984,1)	-48,6%	+474,1	+15,9%
Service costs	(2.318,2)	-33,5%	(2.040,5)	-33,3%	+277,7	+13,6%
Other operating costs	(59,3)	-0,9%	(62,5)	-1,0%	-3,2	-5,1%
Personnel costs	(560,4)	-8,1%	(551,4)	-9,0%	+9,0	+1,6%
Capitalised costs	37,6	0,5%	43,3	0,7%	-5,7	-13,2%
Ebitda	**1.085,1**	**15,7%**	**1.031,1**	**16,8%**	**+54,0**	**+5,2%**
Amortisation, depreciation and provisions	(542,6)	-7,8%	(521,0)	-8,5%	+21,6	+4,1%
Ebit	**542,5**	**7,8%**	**510,1**	**8,3%**	**+32,4**	**+6,4%**
Financial operations	(100,0)	-1,4%	(91,7)	-1,5%	+8,3	+9,1%
Pre-tax profit	**442,5**	**6,4%**	**418,4**	**6,8%**	**+24,1**	**+5,8%**
Taxes	(125,4)	-1,8%	(121,8)	-2,0%	+3,6	+3,0%
Net result	**317,1**	**4,6%**	**296,6**	**4,8%**	**+20,5**	**+6,9%**
Result from special items	84,9	1,2%	0,0	0,0%	+84,9	+100,0%
Net profit for the period	**402,0**	**5,8%**	**296,6**	**4,8%**	**+105,4**	**+35,5%**
Attributable to:						
Parent company shareholders	**385,7**	**5,6%**	**281,9**	**4,6%**	**+103,8**	**+36,8%**
Non-controlling interests	16,3	0,2%	14,7	0,2%	+1,6	+10,9%

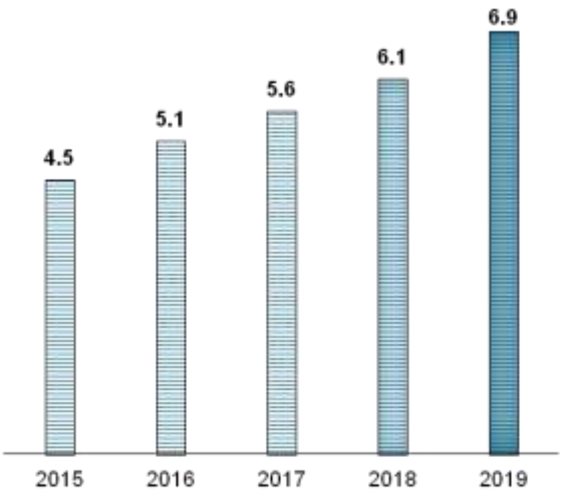
Constant and increasing growth

Revenues grow thanks to higher volumes of energy sold and trading

Revenues came to 6,912.8 million euro, up 778.4 million euro or 12.7% over the 6,134.4 million euro seen in 2018. In the area of energy, this growth in revenues was sustained by roughly 435 million euro in trading, roughly 59 million euro in higher volumes of gas and electricity sold, roughly 14 million euro in higher revenues from electricity generation, and pass-through revenues for volumes transmitted and system charges coming to 205 million euro; a decrease was seen in gas and electricity sales revenues, owing to the lower price of commodities, coming to roughly 21 million euro. Furthermore, higher regulated revenues were seen in the gas, electricity and water cycle areas, amounting to 16 million euro overall and, lastly, in the waste management area higher revenues were seen for waste treatment. Changes in the scope of operations led to an overall rise in revenues amounting 25 million euro. Growth in foreign activities, in Bulgaria, contributed with 5 million euro.

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

Revenues (bn€)



6.9
billion euro revenues

Other operating revenues increased over the previous year by 38.8 million euro or 7.9%. This growth is mainly due to higher revenues from Ifric 12 commissions coming to 46 million euro and higher contributions from sorted waste totalling roughly 5.0 million euro. The increase was offset by a lower contribution from energy efficiency certificates coming to roughly 4 million euro, the loss of CEC contributions in two Group plants amounting to roughly 5 million euro and lower reimbursements and non-recurring contributions from the previous year totalling roughly 3 million euro.

Rise in costs of raw materials linked to higher revenues

Costs for raw and other materials rose by 474.1 million euro compared to 31 December 2018, up 15.9%. This increase, not including changes in the scope of operations, which accounted for roughly 1.5 million euro, was due to a larger amount of trading, a rise in the price of raw materials and higher volumes of gas and electricity sold.

Other operating costs rose by 274.5 million euro overall (with higher costs for services coming to 277.7 million euro and lower operating expenses amounting to 3.2 million euro). Not including changes in the scope of operations, which accounted for roughly 13 million euro, note the higher pass-through costs for service charges and volumes transmitted coming to roughly 205 million euro, higher costs in gas trading services totalling 18 million euro, roughly 34.5 million euro in higher costs for Ifric 12 commissions, higher costs in the waste management area coming to roughly 29.0 million euro and expenses in the Ict area amounting to roughly 7 million euro for the Group's ongoing digitalisation and innovation processes. The higher costs noted above were only partially offset by lower costs for leasing, following the application of accounting standard Ifrs 16, amounting to roughly 16.6 million euro, and lower costs in the income statement owing to the acquisition of energy customers which are capitalised, as indicated above, amounting to 13 million euro.

+1.6% increase in the cost of personnel

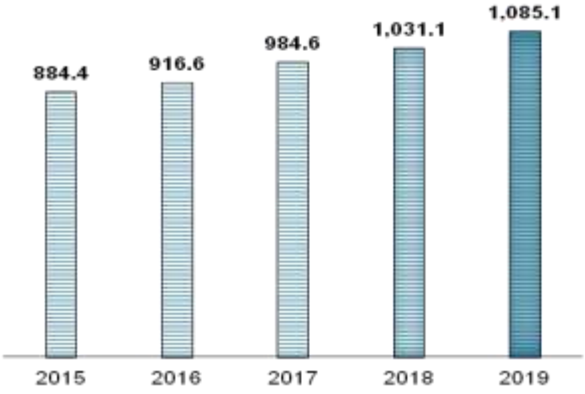
The cost of personnel rose by 9.0 million euro or 1.6%. This increase is due to changes in the scope of operations, amounting to 7.0 million euro, while the remainder results from the increases in remuneration foreseen by the National labour contract, offset by reductions in contribution benefits and a lower average presence.

Capitalised costs at 31 December 2019 fell compared to the previous year by 5.7 million euro or 13.2%, owing to a lower amount of interventions on plants and work on Group assets.

Ebitda settled at 1,085.1 million euro, up 54.0 million euro or 5.2% over 2018. This growth in Ebitda can be traced to the excellent performance seen in almost all business areas. The energy areas grew by 20.1 million euro overall, thanks to the good of the gas area, whose result increased by 25.1 million euro, offsetting the trend seen in the electricity area, which dropped by 5.0 million euro. The water cycle area contributed to growth with 15.6 million euro, the waste management area with 12.2 million euro and, lastly, the other services area with 6.1 million euro.

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

Ebitda (mn€)



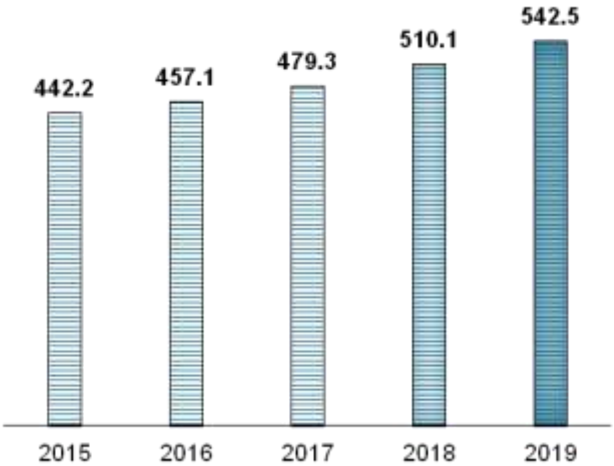
1,085.1
million euro
Ebitda (+5.2%)

Higher amortisation owing to Ifrs 16 and adjustment in rates for useful life in the water sector

Amortisation, depreciation and provisions at 31 December 2019 increased by 21.6 million euro over the previous year, going from 521.0 million euro to 542.6 million euro. Amortisation rose on account of new operating investments and by way of the application of accounting standard Ifrs16 concerning the statement of leasing contracts, and due to an adjustment in the technical-economic useful lives of assets in the integrated water cycle. This analysis, carried out in collaboration with a company working in asset valuation, led to an increase in amortisation rates whose net effect came to roughly 8.2 million; following this revision, amortisation rates for the integrated water cycle were essentially in line with the ones set by Arera for the 2020 – 2023 tariff period.
Allocations to the doubtful debt provision dropped, in particular in the sales company.

Ebit for 2019 came to 542.5 million euro, up 32.4 million euro or 6.4% over the 510.1 million euro seen one year earlier.

Ebit (mn€)



542.5
million euro
Ebit (+6.4%)

Financial operations increase due to non-recurring elements

The result of financial operations came to 100.0 million euro at the end of 2019, up 8.3 million euro or 9.1% compared to 31 December 2018. This increase is due to lower non-recurring income received in the previous period: higher dividends paid by subsidiary Veneta Sanitaria Finanza di Progetto coming to roughly 2.0 million euro, the application of international accounting standard Ifrs 16 on operating leases, which had a roughly 3.5 million euro impact on charges. Lastly, lower profits amounting to roughly 1.5 million euro came from affiliated companies and joint ventures.

Pre-tax results rose by 24.1 million euro or 5.8%, going from 418.4 million euro at 31 December 2018 to 442.5 million euro in 2019.

Tax rate drops

Taxes went from 121.8 million in 2018 to 125.4 in 2019. The adjusted tax rate, calculated on the pre-tax result net of the special items described above, came to 28.3% and thus improved sharply compared to the 29.1% seen one year earlier. This result is mainly due to the benefits grasped in terms of large and extremely large amortisations and the patent box, in particular concerning investments added to the ones made in previous years to move towards the technological, digital and environmental transformation pursued by the Group.

The net result increased by 6.9%, amounting to 20.5 million euro, going from 296.6 million euro at the end of 2018 to 317.1 million euro in 2019.

In 2019, the result was increased by special items coming to 84.9 million euro. As regards the Hera – Ascopiave partnership and the effects on the income statement of the entire transaction, note:

- as regards gas distribution, Ascopiave Spa acquired from the Hera Group an area of concessions covering roughly 188,000 users in the Veneto and Friuli-Venezia Giulia regions. This transfer caused a capital gain of 30.2 million euro for the Hera Group, classified in the income statement under "Other non-operating revenues" (see note 11 in the explanatory notes).
- the reassessment of the previous shareholding in EstEnergy Spa (coming to 51% of the share capital), following the control obtained over that company, led 81.4 million euro in profits to be included in the income statement, classified among "Other non-operating revenues" (see note 11 in the explanatory notes).

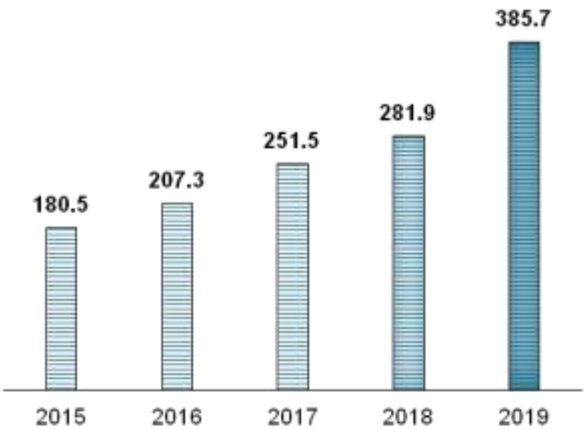
Furthermore, the impairment process carried out on a yearly basis for electricity generation assets led to a depreciation amounting to 26 million euro, classified in the income statement under "financial charges". For a more detailed description of the entire process, see note 32 in the explanatory notes. The effect on taxes coming from the Ascopiave transaction, which amounted to 0.7 million euro, involved taxes applied to capital gains/losses on transfers of branches and shareholdings between the parties, once again concerning the same transaction, classified in the income statement under "taxes", (see note 12 in the explanatory notes).

Net profit thus rose by 35.5% or 105.4 million euro, going from 296.6 million euro in 2018 to 402.0 million euro at the end of 2019.

+35.5%
Net profit

Profits pertaining to the Group amounted to 385.7 million euro, up 103.8 million euro over the amount seen in 2018.

Net profit post minorities (mn€)



385.7
million euro net profit post minorities (+36.8%)

1.03.03

Analysis of the Group's financial structure and investments

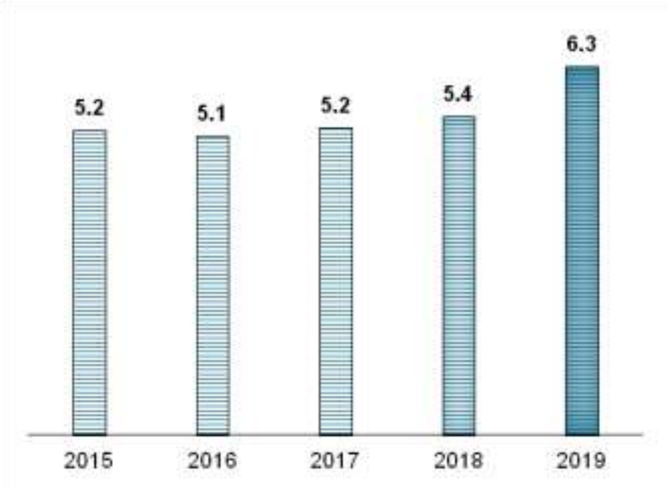
What follows in an analysis of trends in the Group's net invested capital and sources of financing at 31 December 2019.

Invested capital and sources of financing (mn€)	Dec 19	% inc.	Dec 18	% inc.	Abs. change	% change
Net non-current assets	6,846.3	108.9%	5,905.1	108.7%	+941.2	+15.9%
Net working capital	87.0	1.4%	115.4	2.1%	-28.4	-24.6%
(Provisions)	(649.1)	-10.3%	(588.2)	-10.8%	-60.9	-10.4%
Net invested capital	**6,284.2**	**100.0%**	**5,432.3**	**100.0%**	**+851.9**	**+15.7%**
Equity	(3,010.0)	47.9%	(2,846.7)	52.4%	-163.3	-5.7%
Long-term borrowings	(3,383.4)	53.8%	(2,558.8)	47.1%	-824.6	-32.2%
Net current financial debt	109.2	-1.7%	(26.8)	0.5%	+136.0	-507.5%
Net debt	(3,274.2)	52.1%	(2,585.6)	47.6%	-688.6	-26.6%
Total sources of financing	**(6,284.2)**	**-100.0%**	**(5,432.3)**	**100.0%**	**-851.9**	**-15.7%**

Group solidity increases

Net invested capital (Nic) amounted to 6,284.2 million euro, with a 15.7% increase over the 5,432.3 million euro seen at the end of 2018.
This higher amount is due to a rise in net non-current assets, mainly resulting from the Hera - Ascopiave partnership transaction, which involved an exchange of assets having the same value in the energy sales and gas distribution areas.
The transaction was accounted for according to international accounting standard Ifrs 3, and led a client list to be registered coming to 430.7 million euro, in addition to 430.6 million euro in higher goodwill and 93.0 million euro in deferred tax liabilities.
The increase in net non-current assets was also due to the application of accounting standard Ifrs 16 on operating leases, which led the right of use to be recorded, as well as the significant investment policy introduced over 2019 and, lastly, M&A transactions including Herambiente Spa's acquisition of the entire shareholding of Pistoia Ambiente Srl, a company involved in managing the special waste landfill located in the Municipality of Serravalle Pistoiese.

Net invested capital (bn€)

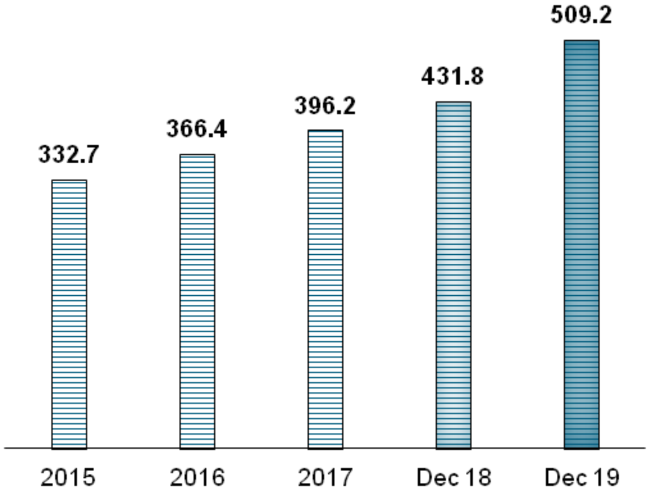


6.3
billion euro net invested capital

Net investments rise to 509.2 million euro, up 77.4 million euro

In 2019, Group investments amounted to 509.2 million euro, including 24.5 million in capital grants, of which 13.4 million in FoNI investments, as per the tariff method for the integrated water service.
Excluding capital grants, overall Groups investments came to 533.8 million euro. Net investments rose by 77.4 million euro, going from 431.8 million euro in 2018 to 509.2 million euro in 2019.

Total net investments (mn€)



509.2
million euro net investments (+77.4 million euro)

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

Total investments (mn€)	Dec 19	Dec 18	Abs. change	% change
Gas area	138.3	115.4	+22.9	+19.8%
Electricity area	43.4	23.0	+20.4	+88.7%
Integrated water cycle area	175.8	157.9	+17.9	+11.3%
Waste management area	81.8	78.1	+3.7	+4.7%
Other services area	16.0	18.8	-2.8	-14.9%
Headquarters	78.2	69.1	+9.1	+13.2%
Total operating investments	**533.5**	**462.3**	**+71.2**	**+15.4%**
Total financial investments	0.2	0.3	-0.1	-33.3%
Total gross investments	**533.8**	**462.6**	**+71.2**	**+15.4%**
Capital grants	24.5	30.8	-6.3	-20.5%
of which FoNI (New Investments Fund)	13.4	12.5	*+0.9*	+7.2%
Total net investments	**509.2**	**431.8**	**+77.4**	**+17.9%**

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

The Group's operating investments came to 533.5 million euro, up 15.4% over the previous year, and mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale metre substitution, and the purification and sewerage areas.
Remarks on investments in each single area are included in the analysis by business area.
At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall, investments in structures increased by 9.1 million euro compared to the previous year, mainly due to improvements in the IT system and substitutions in the vehicle fleet.

87.0 million euro net working capital

2019 closed with net working capital amounting to 87.0 million euro, down compared to the 115.4 million euro seen at the end of 2018. This result is due to various factors that influenced trends in 2019. While on the one hand the amount of Nwc increased due to the integration of sales activities acquired from Ascopiave, on the other a like-for-like analysis of Nwc shows a decrease coming to roughly 28.4 million euro. This drop is mainly due to a positive trend in trade receivables, thanks to ongoing and careful monitoring of processes in receivables, which offset the impact on reduced trade payables introduced by changes in payment deadlines, from 60 to 30 days, which began in 2018.

649.1 million euro provisions

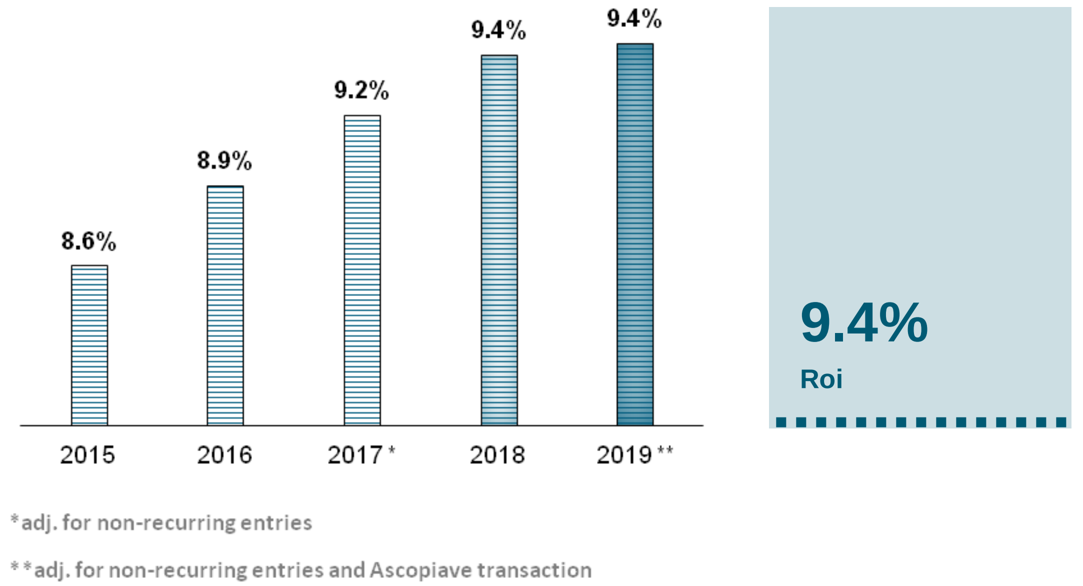
In 2019, provisions rose to 649.1 million euro, increasing over the figure seen at the end of the previous year. This result is mainly a consequence of period-specific provisions and an increase in post-mortem landfill provision adjustments and reinstatements of third party goods, due to the application of accounting standard Ias 37, which offset expenses for usage. For further details, see the explanatory note.

3.0 billion euro equity

Equity increased from 2,846.7 million euro in 2018 to 3,010.0 million euro in 2019. Equity reinforced the Group's solidity thanks to the positive net result achieved by management in 2019, coming to 402.0 million euro (317.1 adjusted for special items) which, net of the 160.5 million euro in dividends paid during the year, guaranteed the Group's self-financing.

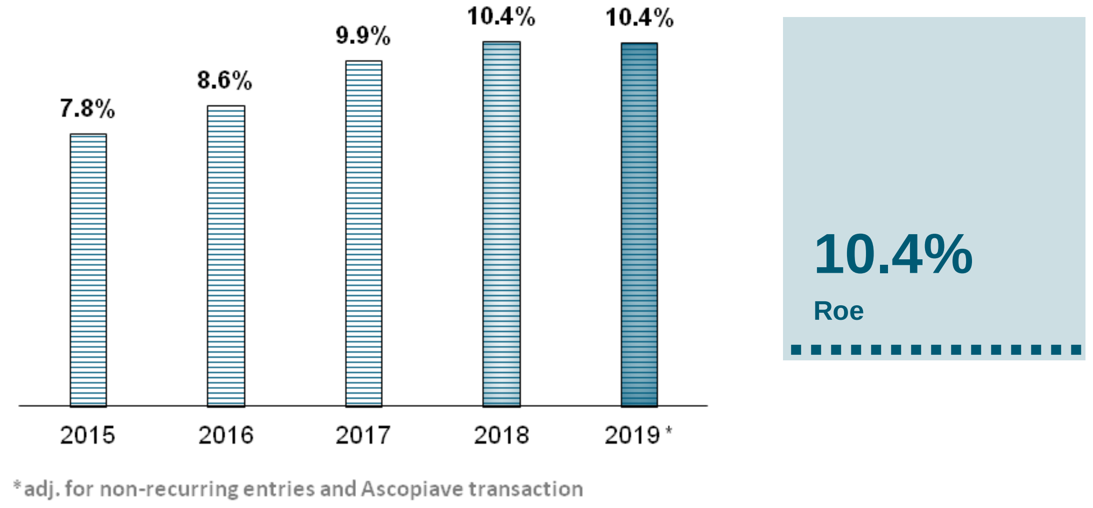
Return on net invested capital (Roi), excluding the effects of the Ascopiave transaction, settled at 9.4% in 2019, in line with the result for 2018.

Adjusted Roi (%)



Return on equity (Roe) was also stable at 10.4%, confirming the good operating results achieved.

Adjusted Roe (%)



Reconciliation between separate and consolidated financial statements

	Net result	Equity
Balances as per Parent Company's seperate balance sheets	**166.3**	**2,390.4**
Excess of equity over the carrying amount in consolidated companies	**256.1**	**118.3**
Consolidation adjustments:		
measurement with the equity method of investments reported at cost in the seperate financial statement	0.7	31.0
difference between purchase price and book value of corresponding portion of equity	74.0	286.4
elimination of intercompany transations	(111.4)	(17.6)
Total	**385.7**	**2,808.5**
Restoration of third-party assets	16.3	201.5
Balances as per consolidated financial statements	**402.0**	**3,010.0**

1.03.04

Analysis of net cash (net borrowings)

A solid financial position

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

mn€		Dec 19	Ascopiave transaction	Dec 19 adjusted	Dec 18
a	**Cash and cash equivalents**	**364.0**	**18.1**	**345.9**	**535.5**
b	**Other current financial receivables**	**70.1**	**16.4**	**53.7**	**37.3**
	Current bank debt	(111.5)	-	(111.5)	(70.3)
	Current part of bank borrowings	(63.1)	-	(63.1)	(451.5)
	Other current financial liabilities (excluding put option)	(130.9)	-	(130.9)	(76.1)
	Current lease payments	(19.4)	(1.1)	(18.3)	(1.7)
c	**Current financial debt**	**(324.9)**	**-**	**(323.8)**	**(599.6)**
d=a+b+c	**Net current financial debt**	**109.2**	**-**	**75.8**	**(26.8)**
	Non-current bank debt and bonds issued	(2,869.1)	(54.0)	(2,815.1)	(2,644.3)
	Other non-current financial liabilities (excluding put option)	(20.2)	(7.0)	(13.2)	(20.7)
	Non-current lease payments	(76.1)	(2.5)	(73.6)	(12.2)
e	**Non-current financial debt**	**(2,965.4)**	**-**	**(2,901.9)**	**(2,677.2)**
f	**Non-current financial receivables**	**135.3**	**-**	**135.3**	**118.4**
g=d+e+f	**Net financial debt excluding sales option**	**(2,720.9)**	**-**	**(2,690.8)**	**(2,585.6)**
	Nominal amount - fair value put option	(396.6)	(396.6)	-	-
	Net financial debt with adjusted sale option (adj put option net debt)	**(3,117.5)**	**-**	**(2,690.8)**	**(2,585.6)**
	Amount of future dividends - fair value put option	(156.7)	(156.7)	-	-
	Adjusted net debt	**(3,274.2)**	**-**	**(2,690.8)**	**(2,585.6)**

The overall amount of adjusted net financial debt, excluding the Ascopiave transaction, came to 2,690.8 million euro, with an increase coming to roughly 105.2 million euro over the previous year.

The Group's financial structure shows current debt coming to 323.8 million euro, of which 63.1 million euro in medium-term bank loans reaching maturity within the year, 130.9 million euro in debts towards other lenders, 111.5 million euro in debts towards banks referring to passive interest on financing coming to 49.6 million euro, and usage of current credit lines coming to roughly 61.9 million euro.
The amount of "Non-current bank debt and bonds issued" increased over the previous year, above all due to the liability management operation carried out in July, which led a 500 million euro green bond to be issued, at the same time repurchasing part of the bonds maturing in 2021, for a total of 40 million euro, and in 2024, for a total of 171 million euro.
Also note increases with respect to 2018 in current and non-current liabilities for leasing, which were mainly affected by the application of international accounting standard Ifrs 16 on operating leases, amounting to 81.6 million euro.

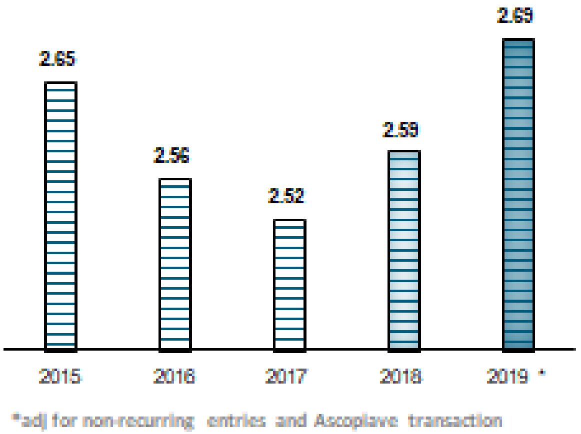
At 30 June 2019, medium- and long-term debt was largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (77.9% of the total), with repayment at maturity.

The total debt shows an average time to maturity of 7 years, with 61% maturing after more than five years.
The impact on the 2019 financial statements of the Ascopiave transaction, and its structure, are fully illustrated in paragraph 1.03.01, Hera – Ascopiave Partnership.
Since this transaction involved an exchange of assets having the same value, the effect on financial debt, coming to 583.4 million euro, mainly refers to debt for the sales option linked to the minority shareholding in EstEnergy Spa, amounting to

553.3 million euro, and the minority shareholding in Hera Comm Spa, which is included under "Non-current bank debt and bonds issued" and amounts to 54 million euro.

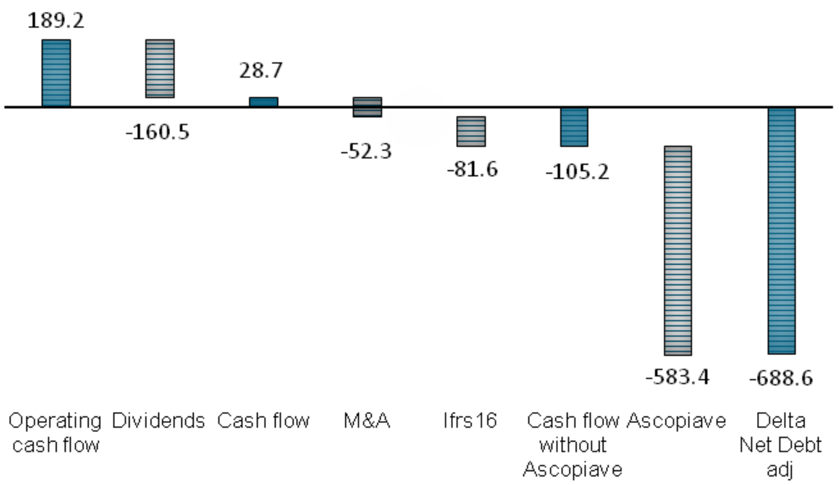
Adjusted net financial debt went from 2,585.6 million euro in 2018 to 2,690.8 million euro at the end of 2019.

Adjusted net financial debt (bn€)



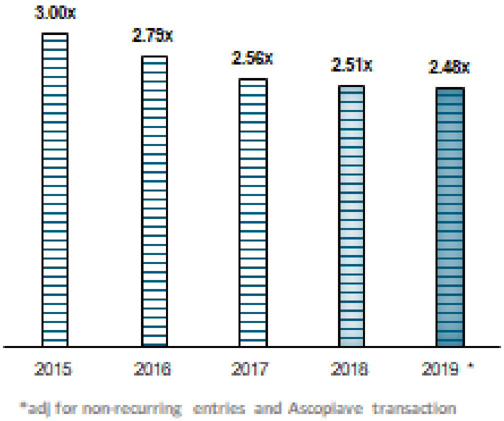
The Group's characteristic management generated positive operating cash flows coming to 189.2 million euro, which entirely financed dividend payments and part of the M&A transactions, in particular the acquisition of the shareholding of Pistoia Ambiente Srl.
Net financial debt increased mainly due to the recording at fair value of the sales option linked to Ascopiave Spa, coming to roughly 553.3 million euro, and the application of international accounting standard Ifrs 16 on operating leases, coming to 81.6 million euro.

Cash flow (mn€)



The Adjusted net debt/Ebitda ratio fell to 2.48, thanks to the positive operating and financial performance seen.

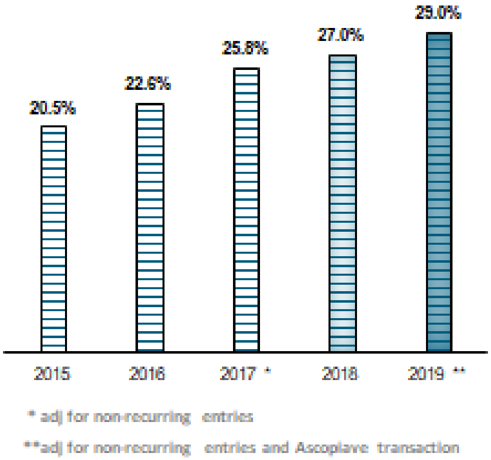
Adjusted net debt/Ebitda



2.48x
Net debt/Ebitda

The same effect was seen in Funds from operations (Ffo)/ Adjusted net debt, which increased over the figure seen in 2018. This indicator as well, just as the previous one, benefitted from positive trends in operating flows, which rose more than proportionally compared to the growth in net debt, confirming the Group's financial solidity and its ability to meet its financial obligations.

Ffo/Adjusted Net debt (%)



29.0%
Ffo/Net debt

1.04
Share performance and investor relations

Positive trends were seen in all of the world's main stock indexes in 2019, driven by the optimism shown once again by financial operators after the negative performances witnessed in 2018. Despite signs of an economic slowdown and the ongoing trade war between the United States and China, investors regained confidence thanks to the decision made by central banks (the Fed and the European Central Bank) to prolong, and if necessary reinforce, expansive monetary policies, thus changing direction compared to previous expectations for a gradual withdrawal from this sort of stimulus. More accommodating and patient central banks, and the prospect of a final deal between the United States and China, thus created a return to the tendency to invest in the period in question. The Italian market benefitted from this context, with the spread between Italian and German bonds dropping, thanks among other things to the new Italian government which put an end to the previous period of political instability. The combined effect of sluggish economic growth and a reduction in the return on bonds led investors to move towards sectors considered safe such as utilities, which showed a positive and resilient trend.

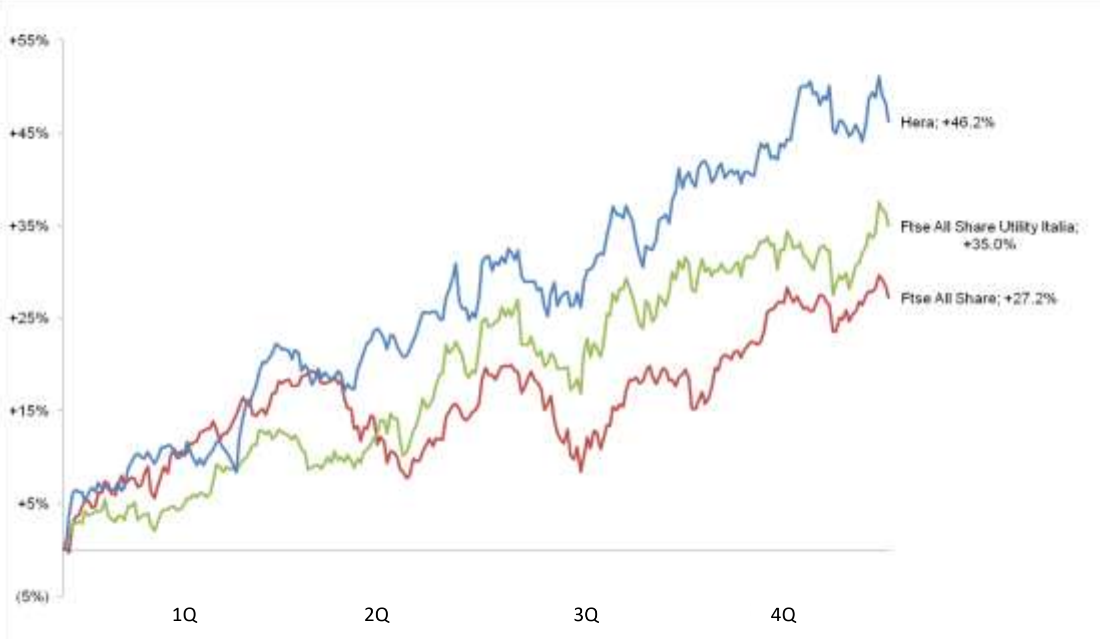
Global stock markets rise in the first quarter of 2019: the Italian market also benefits from the confident atmosphere

Hera stock closed the period with an official price of 3.909 euro, up 46.2%, outperforming both the Italian market (+27.2%) and its own sector (+35.0%). The trend seen in the price of Hera shares reflects the strategy, clearly geared towards growth, contained in the Business plan to 2022, along with the Group's valid fundamentals as confirmed by its year-end and quarterly results, and its announcement of a transaction aimed at external growth by reinforcing its partnership with Ascopiave Spa in the energy sales sector.

Hera outperforms the market and its sector

2019 closed with capitalisation reaching over 5.8 billion euro (compared to 4.0 billion euro at the beginning of the year).

2019 Hera stock, utility sector and Italian market performance comparison



The value of trading rose by almost +60% over the first two months of 2019 compared to the 2018 average. The higher liquidity in daily trading led Hera stock to be included within the Ftse Mib, the basket containing the 40 main stocks by capitalisation and liquidity, as of 18 March 2019.
Once included in Borsa Italiana's main index, the value of average daily trading almost doubled in 2019 compared to the previous year, lowering as a consequence the volatility of quotations and the stock's risk. At the end of the year, Hera stock showed excellent parameters, with the Beta (that measures volatility in quotations compared to the market average) raking third lowest on the Ftse Mib and the Alfa (that measures the stock's ability to generate rises in quotations regardless of market trends) among the top ten.

Hera stock included in the Ftse Mib as of 18 March 2019

On 24 June 2019, respecting the indications contained in the business plan, Hera Spa Hera Spa paid a dividend amounting to 10.0 cents per share, the seventeenth in a series of uninterrupted growth since being listed.

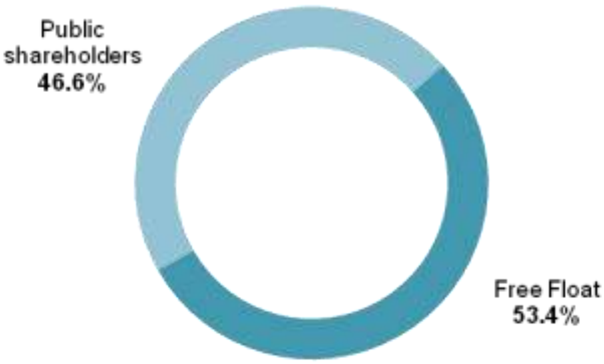
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Dps	0.04	0.05	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095	0.10

+319% total shareholders' return since the Ipo

The joint effect of continuously remunerating shareholders through dividends and a rise in the price of the stock led the total shareholders' return accumulated since the Ipo to remain consistently positive and to settle, at the end of the period in question, above +319%.

The financial analysts covering the company (Banca Akros, Banca Imi, Equita Sim, Fidentiis, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) expressed positive or neutral opinions, with no negative opinion. At the end of the year, the consensus target price came to 3.87 euro, higher than the 3.28 euro recommended at the end of 2018.
The market quotations of the stock at the end of the year (3.909 euro) thus fully reflect the fundamentals of the average evaluation provided by analysts, and draw attention to the transfer of the entire value created over the Group's history, with the price of the stock increasing 9.5% on average annually since the initial public offer (from 1.25 euro to 3.909 euro), in line with the increase seen in profit per share, which grew annually over the same period by +10%.

Shareholder breakdown at 31 December 2019



At 31 December 2019, the shareholder breakdown showed its usual stability and balance, with 46.6% of shares belonging to 111 public shareholders located across the areas served and brought together by a stockholders' agreement effective from 1 July 2018 to 30 June 2021, and a 53.4% free float. The shareholding structure is highly fragmentary, with a high number of public shareholders (111 municipalities, the largest of which holds shares amounting to less than 10% of the total) and a high number of private institutional and retail shareholders.
Since 2006, Hera Spa has adopted a share buyback program, renewed by the Shareholders Meeting held on 30 April 2019 for 18 further months, for an overall maximum amount of 200 million euro. This plan is aimed at financing M&A opportunities involving smaller companies, and smoothing out any anomalous market price fluctuations vis-à-vis those of the main comparable Italian companies. At the end of 2019, Hera Spa held 14.1 million treasury shares.

46.6%
the share capital pertaining to the public stockholders agreement

During the reporting period, Hera's senior management engaged in intense communication with investors, involving the road show promoting the business plan in the first quarter, which visited the main financial centres in Europe and the USA, and participation in sector conferences in the remaining three quarters. In 2019, particular efforts went to making aspects of management concerning sustainability known, participating in numerous conferences and meetings with Esg investors. In December, furthermore, the company's management took part in a conference in Australia, where it met with important infrastructure investors interested in companies similar to Hera, i.e. showing a low risk profile and an assured and visible return.

The dedication shown by the Group towards dialoguing with investors contributed to reinforcing its market reputation and represents an intangible asset benefiting Hera stock and stakeholders.

Communication with the market
as an intangible asset

Regarding the information required by article 2428, paragraphs 3 and 4, of the Italian civil code, the number and nominal value of the shares making up the share capital of Hera Spa, the number and nominal value of the treasury shares held at 31 December 2019, in addition to any changes in the latter that may have occurred during 2019, see note 24 of paragraph 3.02.05 and the table showing changes in net equity, paragraph 3.01.05, found in the parent company's separate financial statements.

1.05
Sustainability results

The Group's efforts in reporting the results obtained in the areas of creating shared value (Csv) and sustainability to its stakeholders have been fully confirmed, this year as well, by its Sustainability Report, available at bs.gruppohera.it within the section entitled Social responsibility.
The Sustainability Report contains consolidated non-financial statements prepared by the Hera Group, pursuant to legislative decree 254/16, and is a distinct report with respect to the present Directors' Report, as foreseen by article 5, paragraph 3, letter b) of legislative decree 254/16. The Sustainability Report also includes indicators and information concerning the environment and personnel, as well as research and development.
An overview of the main results included in the 2019 Sustainability Report is provided below.

Further progress was made in areas pertaining to Csv and in prospects for sustainability in 2019, in terms of both results obtained and new projects in measurement and external reporting implemented. As regards the latter aspects, many elements have enriched the Group's corporate social responsibility and accountability profile:

- the approval, by Hera Spa's Board of Directors, of the Group's new Code of ethics, updated with many new elements that distinguish it, following a process that involved the collaboration of many employees and the supervision of the Ethics and sustainability committee;
- an improvement of three of the five reports dedicated to specific issues in sustainability, which integrate the financial statements and refer in particular to the Group's commitment towards innovation (report: I mille volti del servizio), reducing water consumption and reusing water (report: In buone acque) and recovering materials including minor portions of sorted waste such as vegetable oils, electric waste and fabrics (report: Sulle tracce dei rifiuti);
- the introduction, within the 2019 Sustainability report (released as of 2016, two years earlier than required by Gri standards) of the following changes:
    - a first step towards bringing the Group's reporting in line with the recommendations made by the Task force on climate-related financial disclosure (Tcfd), based on the results of a work group created in 2019, which will be operational for all of 2020;
    - adopting, one year early, two new Gri standards: 303 Water and effluents and 403 Occupational health and safety;
    - including, in the content index of the financial statements, indicators on the environmental benefits ensuing from the investments financed with the green bond issued in 2019;
    - broadening disclosure to include new areas defined on the basis of analyses of topics such as information and corruption risk prevention and management, and the adoption of circular economy principles in purchasing processes.

Creating shared value: Csv Ebitda rises to 422.5 million euro (38.9% of total Ebitda); Csv investments amount to 202.4 million euro (+10% over 2018)

The 2019 Sustainability Report confirms the innovative representation of its content introduced in 2017 and focused on shared value creation as seen in the Group's strategic approach, inspired by the indications offered by Porter and Kramer. The results achieved and the goals set for the future thus continue to be accompanied by an overview of the scenario as regards the three drivers identified for creating shared value: (i) smart use of energy, (ii) efficient use of resources and (iii) innovation and contribution to local development. Hera's position with respect to the significant environmental and socio-economic challenges found in future development, and its response to these issues, are thus clearly represented. These three Csv drivers each receive, in the 2019 report as well, one of the three most important chapters of the report.
One of the strong points of the Group's Csv reporting is the quantification of Csv Ebitda, i.e. the portion of total Ebitda deriving from business activities that are able to respond to the goals on the Global agenda. This agenda brings together calls to action for an evolution towards sustainable growth, indicated by da 75 policies on a global (including the UN Agenda), European, national and local level, duly analysed over the 2016-2018 three-year period and summarised in the three drivers mentioned above. This set of policies was enhanced with 14 new policies analysed in 2019. In 2019, Csv Ebitda reached 422.5 million euro, up 12.6% compared to the previous year, corresponding to 38.9% of total Ebitda. This result matches the path set out by the 2019-2023 business plan, designed so that roughly 42% of 2023 Ebitda derives from business activities that meet the priorities of the Global agenda for sustainability which are compatible the Group activities. The Group's contribution towards creating shared value also involves making investments in the three Csv drivers, which in 2019 amounted to 202.4 million euro (+10% over 2018), roughly 40% of total investments. This quantification of 2019 shared value Ebitda and investments was submitted for the first time to an auditing firm, with the intention of making the full value of these distinctive aspects of the Group's reporting clear to all stakeholders.
The Hera Group's commitment towards Csv is also confirmed by its active participation in the Ellen MacArthur Foundation's CE100 program, a network that brings together the world's 100 companies most engaged in the transition towards a circular economy. Particular mention must go to our participation in the New Plastics Economy Global Commitment, with a formulation of specific goals concerning increased plastic collection and recycling by 2025, and the first reporting carried out in 2019 as regards the objectives defined, which show positive results, higher than the trend expected for collected and selected plastic.
Once again in 2019, Hera participated in:

- developing the beta testing phase, along with 30 other organisations, of Circulytics, a digital tool launched in January 2020 by the Foundation which will allow companies to measure and monitor the progress made in the transition towards a circular economy;
- developing, along with 66 other organisations, including 30 companies, the Sdg Action Manager, a new tool conceived by Global Compact and B Lab to support companies in measuring and reporting their way of contributing to reaching SDGs, and in defining new business opportunities in line with the UN's 2030 Agenda.

Smart use of energy: -5.1% in energy consumption; 20% of contracts include energy efficiency services; -22% in the carbon footprint

The initiatives identified by Hera Spa, Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa concerning Iso 50001 (included in the energy improvement plan) and already implemented have led energy consumption to be reduced by 11,748 Toe, 5.1% of 2013 consumption. The improvement plan calls for further energy efficiency initiatives (per circa 2,000 Toe) which will give way, once again with respect to 2013, to an overall savings of 5.9%, amply exceeding the 5% target set for 2020.
Numerous energy efficiency initiatives have also been introduced in customer/partner companies, to whom the Group makes its know-how available: 25 agreements have been made with trade associations and local businesses, in effect until the end of 2019. The initiatives aimed at promoting energy efficiency with residential customers include marketing offers such as Hera Led, Hera Thermo and Hera ContaWatt, to which one must now add the Consumption log, re-planned in 2019 with the collaboration of the Milan Polytechnic to raise awareness among customers about energy savings, based on the principles of behavioural economics. This report is freely available to Hera's gas, electricity and district heating customers, which allows them to compare their consumption to that of similar families. At the end of 2019, 20% of gas and electricity contracts contained energy efficiency solutions.
This area also includes Hera Spa's activity towards the Energy services manager (Gse) in order to obtain white certificates: ten new energy efficiency initiatives were presented in 2019.
The Group's commitment towards a smart use of energy, in particular to counter climate change, is rounded off by: the introduction of the new offer Hera Impronta Zero (Hera Zero Footprint); a purchasing program involving renewable sources which covers 74% of the Group's overall consumption; the production of 6.5 million m^3 of biomethane from the organic portion of waste in the Sant'Agata biorefinery in the province of Bologna; the production of 584 GWh of renewable energy; a 22% reduction in the carbon footprint for energy production compared to 2013. The total amount of greenhouse gasses avoided thanks to Group initiatives is estimated at 2.3 million tons.

Efficient use of resources: sorted waste at 64.6%; packaging recycling at 72%; water management activity introduced

2019 saw a further increase in sorted waste, now at 64.6% (2018 Italian average: 58.1%), and at the same time a reduction in the use of landfills for municipal waste disposal, which fell to 3.4% (2018 Italian average: 24%). In this area, Hera is almost 20 years in advance with respect to the EU circular economy goal and is in line with the most advanced European countries.
In November 2019, Hera published the tenth edition of its report entitled Sulle tracce dei rifiuti (Retracing waste), verified by Dnv-Gl, thus providing a guarantee to citizens as to the actual recovery of sorted waste, coming to 92%. This report contains a ranking of the area served by Hera with respect to the recycling objectives defined by the EU within the circular economy package: the overall amount of recycling came to 53%, meaning that Hera is already close to the goal of 55% set for 2025; and the amount of packaging recycling came to 72%, meaning that the Group has already reached the goal set for 2030. As regards waste prevention, the Group has launched numerous projects in partnerships with approximately 50 local non-profit organisations in order to recover non-expired medicine, voluminous objects that are still in good condition and food that is still edible. In 2019 alone, thanks to these projects non-expired medicine worth over 668 thousand euro was reused, as were over 630 tons of voluminous objects, while 9,700 meals were recovered.
Once again concerning circular economy, increases were seen in recovery of materials and energy in Herambiente Spa's selection plants, coming to 83% in 2019 (as compared to 77% in 2018) and in the recycled plastic sold by the Aliplast Group, which in 2019 amounted to 72.8 thousand tons (+22% compared to 2017, the baseline for the commitment made towards the New Plastics Economy Global Commitment, mentioned above).
The Group's efforts towards sustainability in the sewerage-purification area continued in 2019 as well, with the multi-year plan for compliance with regulations for urban agglomerates >2.000 P.E.: at the end of 2019, 97.3% of agglomerates proved to be adequate in terms of population equivalent (as against 92.2% in 2018). Important initiatives also regarded water resource conservation, such as the launch of the internal water management project, which led to a 5.5% reduction in consumption in 2019 (compared to the 2017 baseline) and the aforementioned Consumption log, which as of October 2019, in a testing phase, was distributed to a sample of roughly 80 thousand household customers in the water service.

Innovation and contribution to sustainable local development; investments in innovation and digitalisation: 78 mn€, economic value distributed to the local area: 2.1 bn€, amount of local supplies: 69%

In 2019, the Group achieved significant results in areas of Csv linked to the economic and occupational development of the local area, innovation and digitalisation, and air and soil protection.
The overall economic value distributed to the local area came to 2,131 million euro, or 78% of total economic value, showing an 11% growth over 2018. The amount distributed to local suppliers was 69% of the total, reaching 695 million (+10% compared to the previous year), while induced employment is estimated at approximately 8,400 workers; this data confirms

the Group's leading role in local development. As regards induced employment, note in particular the inclusion of disadvantaged workers (875 in total), which showed further growth and was linked to supply from social cooperatives, coming to 66.4 million euro in 2019.
Investments in innovation came to roughly 78 million euro, dedicated to projects in four areas: smart city, circular economy, utility 4.0 and customer experience. Among smart city projects, note the smart recycling depots and the dashboard offered to municipalities, universities and businesses to monitor their environmental sustainability. Further projects, in the circular economy area, aim at recovering energy from the sludge produced during waste water purification and reducing its quantity, reusing the water leaving purifiers and producing biomethane from wooden-cellulose waste and bioplastic from cellulose.
As regards digitalisation, in addition to numerous projects intended to further optimise operating processes, including the use of highly evolved data analysis tools, improving safety and continuity in services, as well as the quality of work and internal efficiency, in 2019 efforts continued to be made in developing digital channels for customer relations. In 2019, the Acquologo and Rifiutologo apps were actively used by over 200 thousand customers and over 59 thousand photos were sent by citizens (+51% compared to 2018), while the My Hera app, dedicated to residential customers, was downloaded over 230 thousand times. Digitalisation in customer relations also led to a constant increase in the procedures managed over the web channel: in 2019, the amount of customers using online services rose to 23.8%, while those who requested e-billing reached 30.1%. The attention given to this area in 2019, along with the work done together with local communities, led to the third edition of the promotional campaign for e-billing, called Digi e Lode, sending an additional 125 thousand euro in economic premiums for digitalisation to schools in the area served.
As regards air protection, positive results were confirmed in the environmental performance of the Group's waste-to-energy plants, which in 2019 as well produced a very limited amount of atmospheric emissions, 86% lower than the legal limits on average, while the average concentration of PM_{10} in the Imola cogeneration plant was 99% lower than these limits. Lastly, as regards soil protection, note that a 77% reuse of soil was achieved in the projects carried out by HeraTech in 2019.

The results achieved in terms of shared value are complementary to the ones reached in the following areas, which round off the Group's social responsibility and sustainability profile.

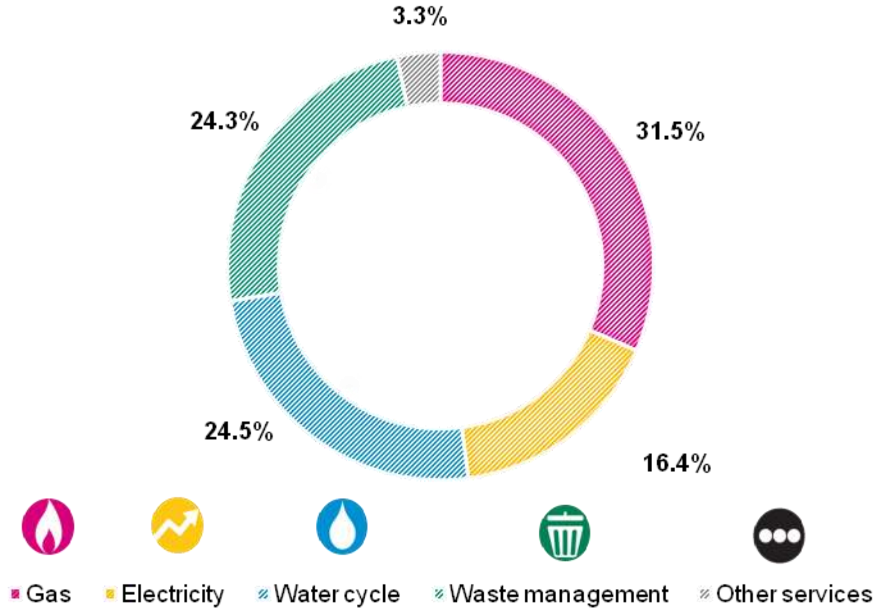
- Thanks to awareness-raising programs and the adoption of 18001/ISO 45001 certification, which covers 83% of Group employees, in 2018 the accident frequency rate saw a further drop, down to 14.1 (as against 15.7 in 2018). A reduction was also seen in the area of blue-collar workers alone. The corporate welfare system, Hextra, provided over 4.5 million euro to employees in 2019; 98.8% of all workers are covered by this program. Training is still given high priority: in 2019, almost 29 hours of training per capita were seen on average. Employee satisfaction increased (Esi at 68/100 in the eighth enquiry on the internal business environment), as did the weight given to sustainability goals in the balanced scorecard system, linked to the system of incentives that is applied to all management personnel: in 2019, 34% of variable retribution for the Group's senior and middle managers was linked to sustainability project-goals, and the weight given to sustainability project-goals aimed at creating shared value came to 20% (as opposed to 17% in 2018).
- In 2019 as well, quality standards for customer relations channels remained high: the average waiting time at the call centre came to 27 seconds for household customers and 24 seconds for business customers. The average waiting time at help desks was 9.4 minutes in 2019. The 2019 inquiry on the quality of the services provided by the Group (with over 7,000 interviews carried out with residential customers) showed a high customer satisfaction rate (73/100), two points above the one seen one year earlier.
- In 2019, to select its suppliers Group used a method based on the most economically advantageous offer in 84% of public tenders and 68% of overall contracts (in economic terms). In both cases, the average weight given to social and environmental aspects came to approximately 34/100. Supplier monitoring focused on the social responsibility towards workers continued to take place in 2019, as did accident monitoring among the main suppliers (involving 77% of the value of service supply and the most significant works as regards work safety). 2019 also saw the activation of a project aimed at including criteria coherent with the principles of a circular economy within the guidelines for Group procurement, defining the priority types of commodity purchasing in which to apply, as of 2020, the first set of 20 circularity criteria that can be used in selecting suppliers.
- Interactions with locals communities led the new model of HeraLAB to be introduced in Bologna and Rimini in 2019. This is the tool that Hera provides to the areas it serves in order to set up a well-defined channel for reciprocal communication with local communities. Each LAB is made up of 12 representatives of local interests, appointed by Hera's BoD. The LABs met four times during 2019, and co-planned, along with Hera, ten local initiatives that will be introduced in 2020-2021.
- Lastly, in 2019 Hera was once again at the forefront in adopting sustainable financial tools. After having issued the first Italian green bond in 2014 and an Esg credit line in 2018, in July 2019 Hera issued another green bond amounting to 500 million euro overall, maturing in eight years, to finance investments in three areas (energy efficiency, circular economy and sustainable water resource management) all reflecting green bond principles. The 2019 Sustainability report contains a section dedicated to reporting on the funds allocated to each intervention and the environmental performance reached. This section as well is subjected to the auditing firm that verifies the Sustainability report.

1.06
Analysis by business area

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

A multi-business strategy

2019 Ebitda



The contribution coming from the Group's various areas to overall Ebitda shows a balanced mix, in line with its multi-business strategy

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

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

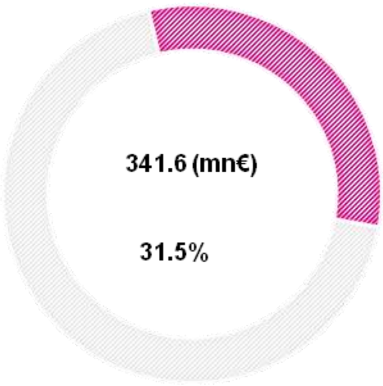
In all business areas, as in the income statements, accounting standard Ifrs 16 on operating leases has been applied.

1.06.01
Gas

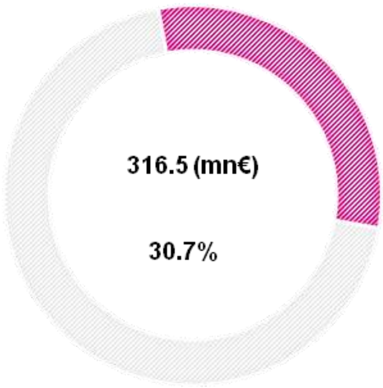
Ebitda rises

At 31 December 2019, the gas area showed substantial growth over the previous year, in terms of both Ebitda and volumes sold. The result was achieved mainly due to a higher amount of sales and trading.

Ebitda gas area 2019



Ebitda gas area 2018



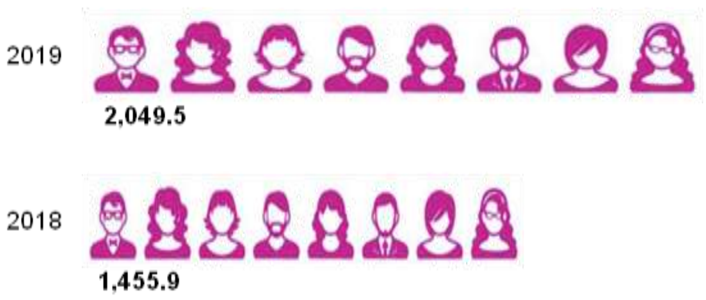
Growth in Ebitda: +7.9%

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

(mn€)	Dec 19	Dec 18	Abs. change	% change
Area Ebitda	**341.6**	**316.5**	**+25.1**	**+7.9%**
Group Ebitda	1,085.1	1,031.1	+54.0	+5.2%
Percentage weight	31.5%	30.7%	+0.8 p.p.	

The number of gas customers increased by 593.6 thousand, up 40.8% over 31 December 2018. The entry of the companies belonging to the EstEnergy Group and AmgasBlue within the Group's consolidated scope contributed with 611.0 thousand customers, while the expanded scope due to the acquisitions of CMV Energia e Impianti Srl and Sangroservizi Srl contributed with 27.9 thousand customers. Participation in tenders led to a decrease coming to 43.6 thousand customer, but with higher margins. The remainder of customers, excluding the churn rate and acquisitions, dropped slightly, by 1.7 thousand customers.

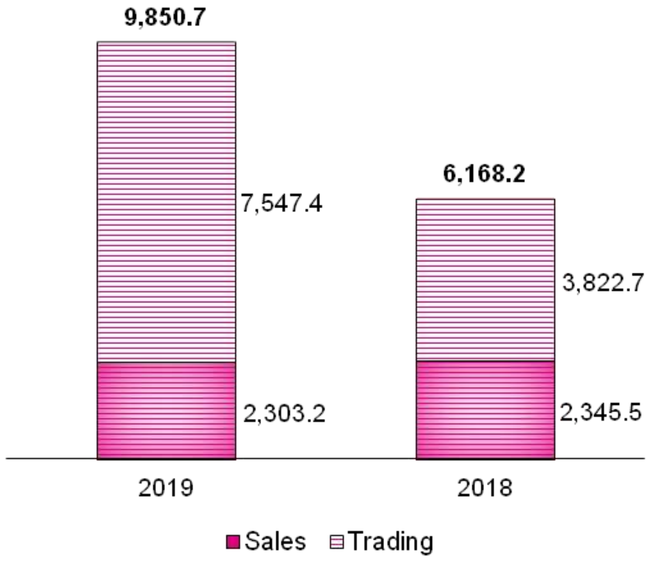
Customers (k)



2.0
million customers

Overall volumes of gas sold increased by 3,682.5 million m^3, or 59.7%, going from 6,168.2 million m^3 at the end of 2018 to 9,850.7 million m^3 at 31 December 2019. Trading volumes showed growth coming to 3,724.8 million m^3, or 60.4% of total volumes, due to a higher amount of foreign trading. Volumes sold to end customers decreased slightly, by 42.3 million m^3 or 1.8% of total volumes sold, which in any case is lower than the effect of a very mild winter, whose average temperatures were 6% higher than in 2018.

Volumes sold (mn m³)

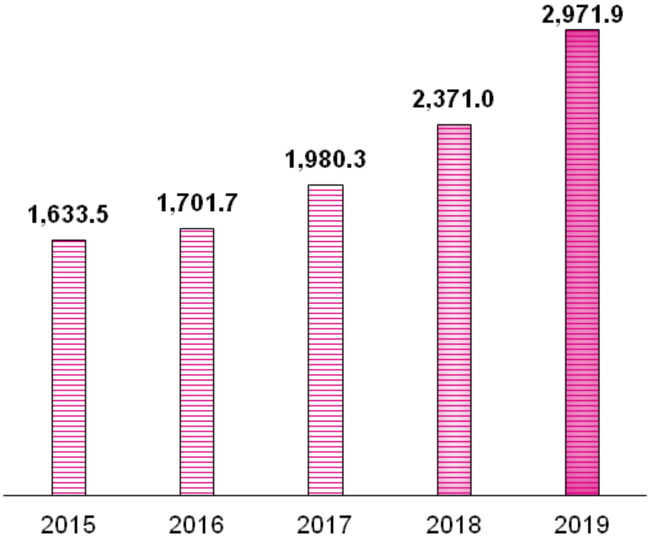


The following table summarises operating results for the gas area:

Income statement (mn€)	Dec 19	% change	Dec 18	% change	Abs. change	% change
Revenues	2,971.9		2,371.0		+600.9	+25.3%
Operating costs	(2,529.2)	-85.1%	(1,958.2)	-82.6%	+571.0	+29.2%
Personnel costs	(114.1)	-3.8%	(111.2)	-4.7%	+2.9	+2.6%
Capitalised costs	13.0	0.4%	14.8	0.6%	-1.8	-12.1%
Ebitda	**341.6**	**11.5%**	**316.5**	**13.3%**	**+25.1**	**+7.9%**

Revenues went from 2,371.0 million euro at the end of 2018 to 2,971.9 million euro at 31 December 2019, with growth coming to 600.9 million euro or 25.3%. The main reasons for this growth lie in the higher volumes involved in intensified trading activities, amounting to roughly 553 million euro, the higher price of gas as a raw material, coming to roughly 30 million euro, and higher revenues from transmission and system charges, amounting to roughly 28 million euro, in spite of the lower revenues for volumes of gas sold, coming to roughly 28 million euro.
Revenues for companies operating abroad, in Bulgaria, rose thanks to developments in marketing by 5.4 million euro, as did regulated revenues from gas distribution, by 5.2 million euro, and revenues from long-term commissions and subcontracts, by 10.3 million euro, with an equivalent effect on operating costs. This growth was contained by revenues for energy efficiency certificates, which dropped by roughly 8 million euro.

Revenues (mn€)



2,971.9
million euro revenues

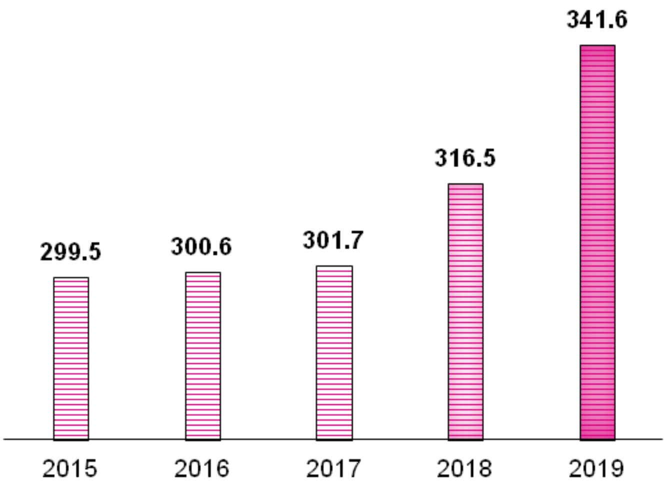
This growth in revenues was reflected by an increase in operating costs, which went from 1,958.2 million euro at the end of 2018 to 2,529.2 million euro at 31 December 2019, thus showing an overall growth coming to 571.0 million euro. This trend is largely due to a higher amount of trading and the higher cost of raw materials. Lastly, the application of accounting standard Ifrs 16 reduced costs by roughly 1.6 million euro.

Ebitda increased by 25.1 million euro or 7.9%, going from 316.5 million euro at the end of 2018 to 341.6 million euro at 31 December 2019, thanks to the higher amount of trading, higher margins in sales both to end customers and in last resort and default services. Note that, for the latter two services, the concessions awarded for 1 October 2019 – 30 September 2020 include a different mix than the services provided until 30 September 2019, with a lower number of customers than in the previous year but more advantageous margins.

Regulated revenues rose by 5.0 million euro, up 2.1% over 2018. This increase is due to a higher Wacc rate of return, +0.2%, as well as periodic updates concerning return on investments, concerning meters in particular.

Further positive effects were due to the introduction of accounting standard Ifrs 16, amounting to 1.6 million euro, and lower costs for acquiring energy customers, which no longer appear in the income statement, as mentioned in paragraph 1.03.01, but under investments.

Ebitda (mn€)

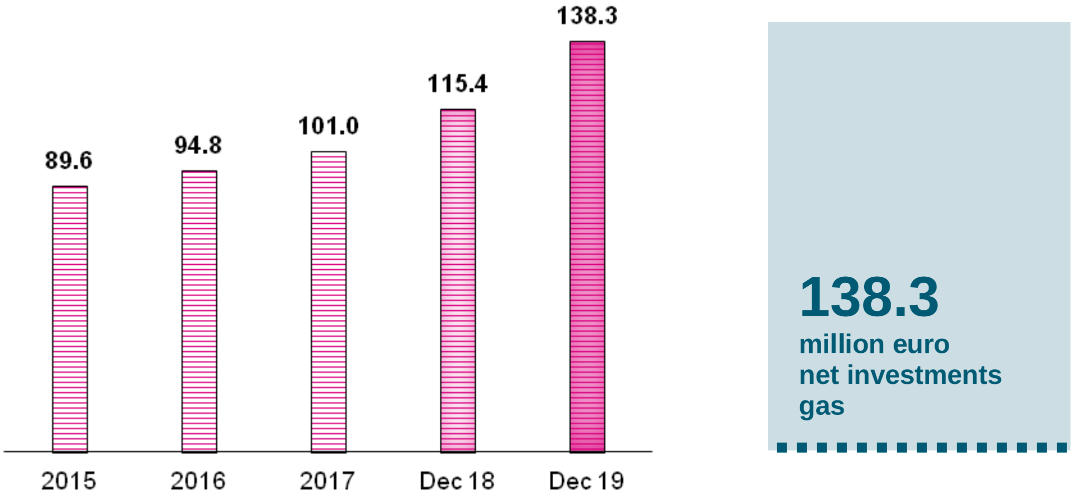


341.6
million euro Ebitda

In 2019, net investments in the gas area amounted to 138.3 million euro, up 22.9 million euro over the previous year. A 10.7 million euro increase was seen in gas distribution, mainly due to higher non-recurring maintenance on networks and plants, a large-scale metre substitution (deliberation 554) and ongoing work in cathodic protection upgrading in the areas served by AcegasApsAmga. Requests for new connections also increased over the previous year. Investments totalling 8.3 million euro were seen in gas sales, for activities involved in acquiring new customers.

Investments also increased in district heating, and remained essentially in line with the previous year in heat management, with the activities of the companies Hera Servizi Energia Srl and AcegasApsAmga Servizi Energetici Spa. New connections in district heating dropped slightly compared to the previous year.

Net investments gas (mn€)



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

Gas (mn€)	Dec 19	Dec 18	Abs. change	% change
Networks and plants	103.1	92.4	+10.7	+11.6%
Acquisition gas customers	8.3	0.3	+8.0	2,666.7%
DH/heat management	26.9	22.8	+4.1	+18.0%
Total gas gross	**138.3**	**115.4**	**+22.9**	**+19.8%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total gas net	**138.3**	**115.4**	**+22.9**	**+19.8%**

The Regulatory asset base (Rab) for assets owned, which defines the value of assets recognised by the Authority for return on invested capital, rose compared to 2018, owing to the entry of Atr Srl within the Group's scope of operations and increased investments for the roll-out of electronic meters.

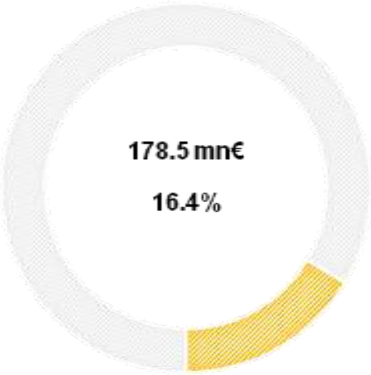
Rab (bn€)

1.06.02
Electricity

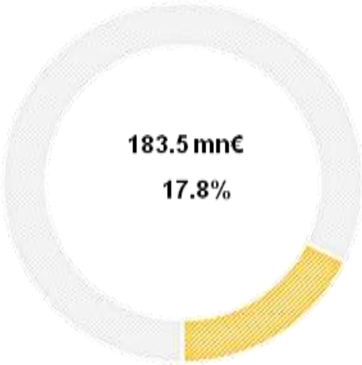
Ebitda rises

At the end of 2019, the electricity area dropped by 2.7% compared to the previous year. The positive contribution coming from generation and a strong drive in marketing almost entirely offset the negative effects of the new tender for safeguarded services, for the 2019-2020 two-year period, in which a high degree of competiveness led to lower prices compared to the previous tender.

Ebitda electricity area 2019



Ebitda electricity area 2018



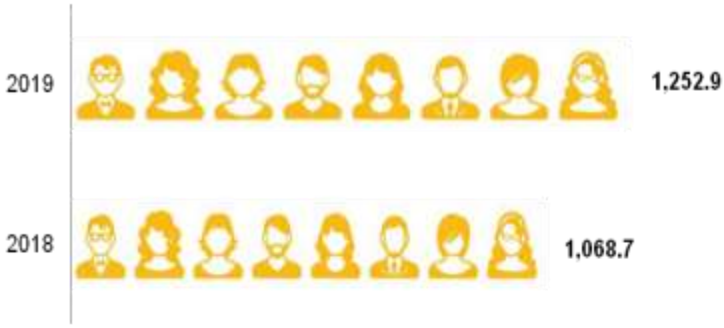
The following table shows the changes occurred in terms of Ebitda:

(mn€)	Dec 19	Dec 18	Abs. change	% change
Area Ebitda	**178.5**	**183.5**	**-5.0**	**-2.7%**
Group Ebitda	1,085.1	1,031.1	+54.0	+5.2%
Percentage weight	16.4%	17.8%	-1.4 p.p.	

-2.7%
fall in Ebitda

The number of electricity customers settled at 1.3 million supply points, up 17.2% or 184.2 thousand customers, compared to 31 December 2018. The entry within the Group's consolidated scope of the companies belonging to the EstEnergy Group and AmgasBlu contributed with 102.6 thousand customers, while the remaining growth of 81.6 thousand customers, equivalent to 7.6%, was created by the reinforced marketing initiatives introduced, above all in the Marche, Tuscany, Veneto and Friuli regions. This growth, along with the 3.5 thousand customers brought by the entry of CMV Energia e Impianti Srl, mitigated the fall in protected customers.

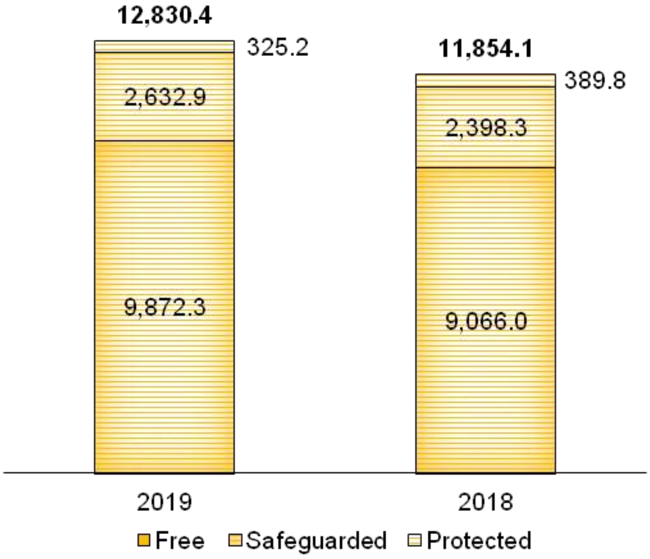
Customers (k)



1.25
million electricity customers

Volumes of electricity sold went from 11,854.1 GWh a the end of 2018 to 12,830.4 GWh at 31 dicembre 2019, with an increase coming to 8.2% or 976,2 GWh overall. Volumes sold on the free market grew by 6.8% of the total, while safeguarded volumes increased by 2.0% of the total, thanks to the new portions obtained.

Volumes sold (GWh)



12.8
TWh sold

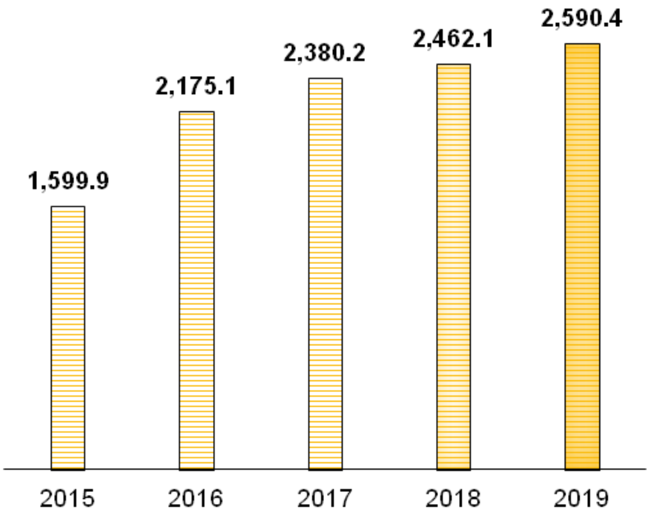
The following table summarises operating results for the area:

Ebitda drops by 5.0 million euro

Income statement (mn€)	Dec 19	% inc.	Dec 18	% change	Abs. change	% change
Revenues	**2,590.4**		2,462.1		+128.3	+5.2%
Operating costs	**(2,376.1)**	-91.7%	(2,244.9)	-91.2%	+131.2	+5.8%
Personnel costs	**(45.0)**	-1.7%	(44.9)	-1.8%	+0.1	+0.2%
Capitalised costs	**9.1**	0.4%	11.1	0.5%	-2.0	-18.0%
Ebitda	**178.5**	**6.9%**	**183.5**	**7.5%**	**-5.0**	**-2.7%**

Revenues rose by 5.2%, going from 2,462.1 million euro at the end of 2018 to 2,590.4 million euro in 2019, with growth amounting to 128.3 million euro. the main reasons for this increase lie in the higher amount of volumes sold, which created roughly 87 million euro in higher revenues, higher revenues from electricity generation amounting to roughly 14.0 million euro, and transmitssion outside the grid coming to roughly 182 million euro, with no change in costs. Countering these trends, note the lower revenues for trading totalling 118.0 million euro and the lower price of raw materials coming to roughly 43 million euro.
Regulated revenues increased by 1.6 million euro, up 1.8% over 2018. This rise is due to a higher Wacc rate of return, up 0.3%, as well as the naturally occurring updates in recognition for investments and accruals.
Revenues for long-term commissions and subcontracted works increased by 3.5 million euro, with an equal effect on operating costs, while revenues from energy efficiency certificates fell by roughly 1.2 million euro.

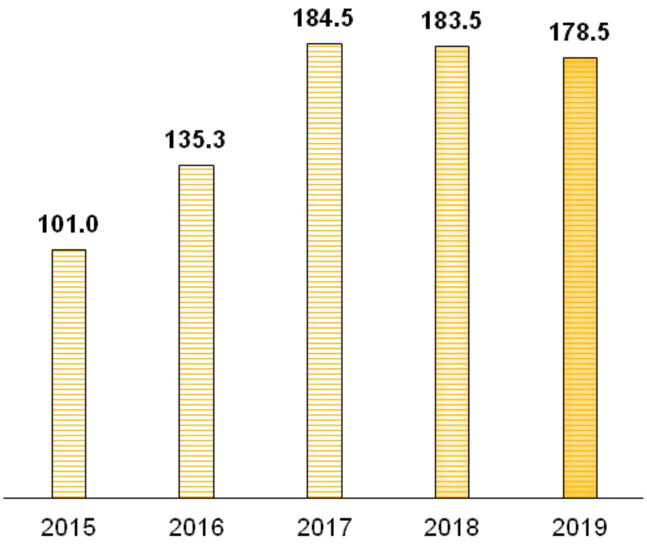
Revenues (mn€)



2,590.4
million euro revenues

The increase in revenues was reflected to an equal degree by a rise in operating costs, which went from 2,244.9 million euro at the end of 2018 to 2,376.1 million euro in 2019, thus showing an overall increase of 131.2 million euro. This trend is mainly due to higher volumes sold and a higher amount of electricity generation. Lastly, the application of accounting standard Ifrs 16 reduced costs by roughly 0.4 million euro.
At 31 December 2019, Ebitda dropped by 5.0 million euro or 2.7%, going from 183.5 million euro in 2018 to 178.5 million euro in 2019, due to lower earnings coming from both higher competition on the safeguarded market and the different mix of portions managed. Offsetting this effect, note the higher margins in electricity generation on the dispatching market, higher volumes sold and lower costs for acquiring energy customers, that no longer appear in the income statement, as mentioned in paragraph 1.03.02, but under investments.

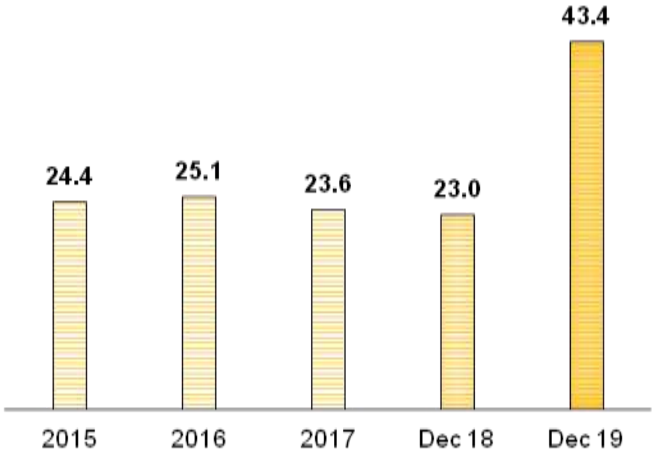
Ebitda (mn€)



178.5
million euro Ebitda

Investments in the electricity area came to 43.4 million euro in 2019, up 20.4 million euro compared to the previous year, of which 15.5 million euro were involved in energy sales, for activities linked to acquiring new customers.
Interventions mainly concerned non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas, which led to growth in investments for electricity distribution coming to 4.9 million euro over the previous year, mainly involving interventions on networks and plants in the Trieste area and the new Modena Est primary substation.
Requests for new connections also rose with respect to the previous year.

Net investments electricity (mn€)



43.4
million euro net investments electricity (+ 20.4 million euro)

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

Electricity (mn€)	Dec 19	Dec 18	Abs. change	% change
Networks and plants	27.9	23.0	+4.9	+21.3%
Acquisition electricity customers	15.5	0.0	+15.5	+100.0%
Total electricity gross	**43.4**	**23.0**	**+20.4**	**+88.7%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total electricity net	**43.4**	**23.0**	**+20.4**	**+88.7%**

Rab, which defines the value of assets recognised by the Authority for return on invested capital, was in line with the figure seen in 2018.

Rab (bn€)

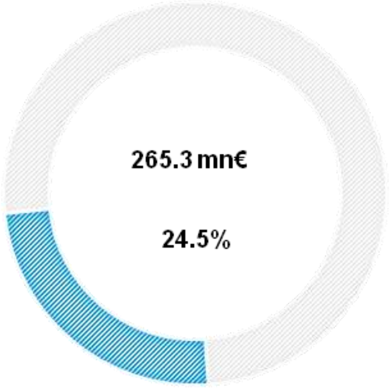
0.37
billion euro 2019 Rab

1.06.03
Integrated water cycle

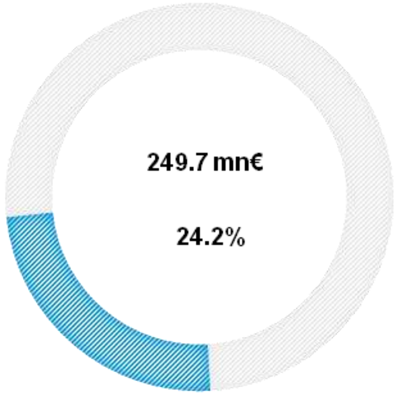
In 2019, the integrated water cycle area showed growth in operating margins amounting to 6.2%. 2019 is the last year in which the tariff method defined by the Authority for the 2016-2019 period (resolution 664/2015) is applied. A revenue (Vrg) is assigned to each operator, defined on the basis of operating costs and capital costs according to the investments made.

Growing results

Ebitda integrated water cycle 2019



Ebitda integrated water cycle 2018



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

(mn€)	Dec 19	Dec 18	Abs. Change	% change
Area Ebitda	**265.3**	**249.7**	**+15.6**	**+6.2%**
Group Ebitda	1,085.1	1,031.1	+54.0	+5.2%
Percentage w eight	24.5%	24.2%	+0.3 p.p.	

+6.2%
Ebitda increases

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

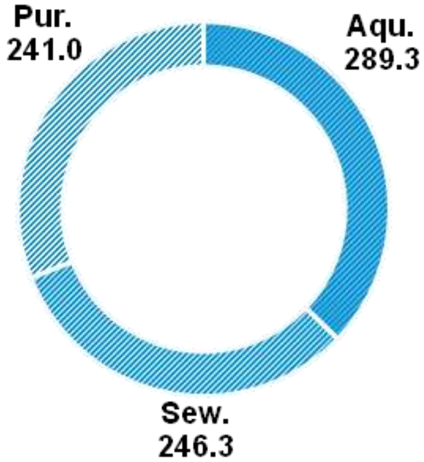
The number of water customers settled at 1.5 million, increasing by 4.3 thousand or 0.3% compared to 2018, confirming the moderate trend towards internal growth seen in the Group's reference areas, mainly in the Emilia-Romagna region managed by Hera Spa.

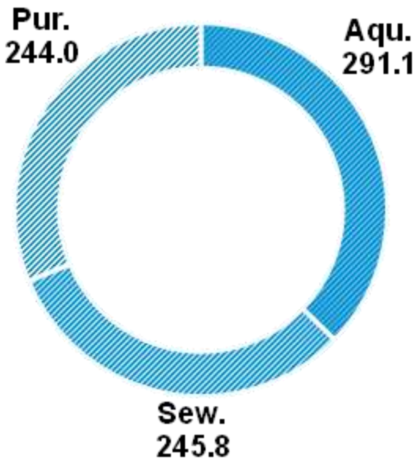
Customers (k)

1.5
million customers integrated water cycle

289.3 million m^3: quantity managed in the aqueduct

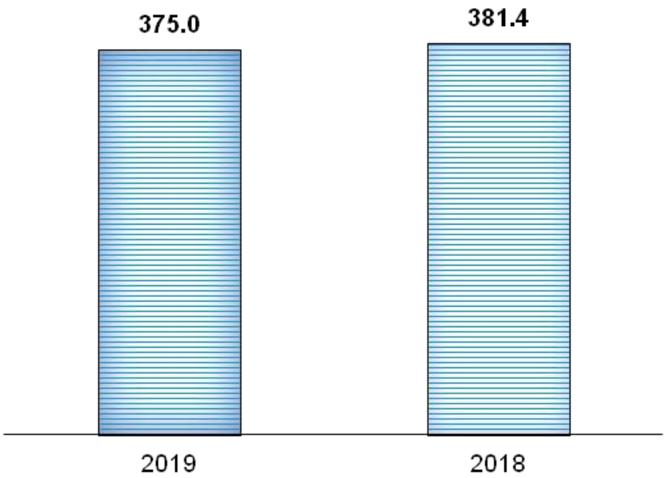
Quantity managed 2019 (mn m^3) **Quantity managed 2018** (mn m^3)





Volumes dispensed through the aqueduct showed a slight drop, down 1.8 million m^3 or 0.6% compared to the previous year. Furthermore, compared to 2018, a slight decrease was seen in the quantity managed in purification (coming to roughly 1.2%), while the quantity managed in sewerage was essentially in line with the previous year. The volumes dispensed, following the Authority's resolution 664/2015, are an indicator of activity in the areas in which the Group operates and are subject to equalisation owing to legislation that calls for a regulated revenue to be recognised independently from volumes distributed.
Network efficiency maintenance showed clear improvement, and the amount of breakage per km of pipeline went from 7.0 breaks per km in 2018 to 6.2 breaks per km in 2019. This figure expresses the relation between the total number of breaks repaired and the length of the pipeline, and the decrease is due to careful management of reparations and investments intended to guarantee an increasingly performing aqueduct.

The electricity consumed in plants fell by 6.4 GWh, going from 381.4 GWh at the end of 2018 to 375.0 GWh in 2019. This decrease is linked to both the lower volumes dispensed in 2019 and the Group's commitment towards increasing efficiency and prudence in energy resource management, which is achieved through innovative interventions on plants.



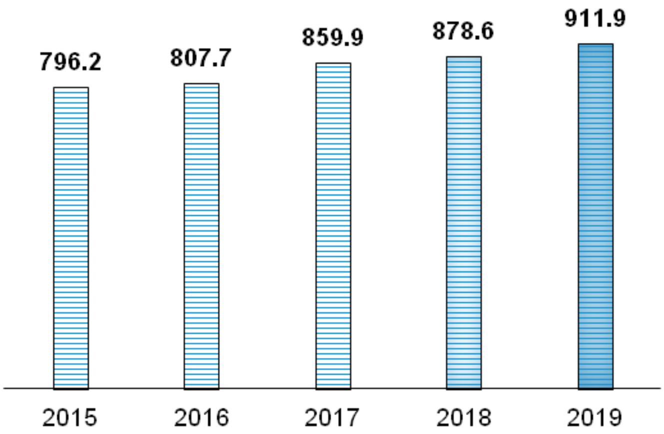
375.0
GWh electricity consumed by plants

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

Income statement (mn€)	Dec 19	% inc.	Dec 18	% inc.	Abs. change	% change
Revenues	911.9		878.6		+33.3	+3.8%
Operating costs	(471.8)	-51.7%	(455.7)	-51.9%	+16.1	+3.5%
Personnel costs	(179.9)	-19.7%	(179.3)	-20.4%	+0.6	+0.3%
Capitalised costs	5.2	0.6%	6.1	0.7%	(0.9)	(14.8%)
Ebitda	**265.3**	**29.1%**	**249.7**	**28.4%**	**+15.6**	**+6.2%**

Revenues at the end of 2019 grew by 33.3 million euro or 3.8%, going from 878.6 million euro in 2018 to 911.9 million euro in 2019. This trend is due to higher revenues involving subcontracted works and those commissioned by third parties carried out in 2019 amounting to roughly 19.0 million euro, and higher revenues from new connections coming to roughly 1.4 million euro. Revenues from dispensing reflected the overall result of the tariffs introduced by the Authority for 2016-2019 and the recognition of premiums for contract quality in 2019, which increased by 13.3 million euro.

Revenues (mn€)

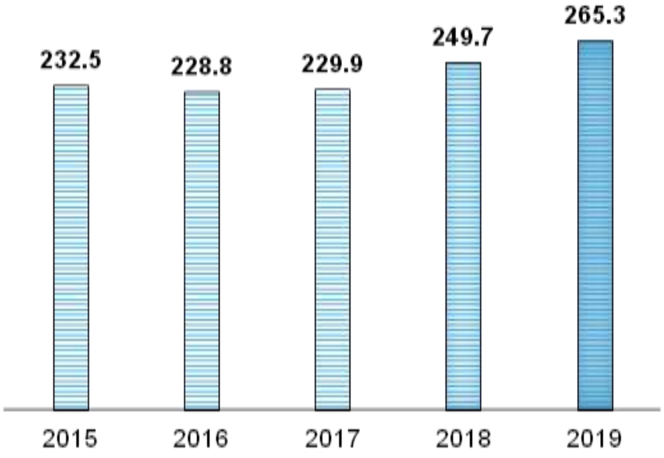


911.9
million euro revenues

Operating costs saw an increase coming to 16.1 million euro or 3.5%, going from 455.7 million euro in 2018 to 471.8 million euro at the end of 2019. This trend is due to the higher costs involved in the works carried out, as described under revenues, coming to 19.0 million euro overall, and higher operating costs for network and plant management amounting to 3.0 million euro. This growth was partially offset by the lower cost ensuing from the application of Ifrs 16, amounting to roughly 4.0 million euro, and lowers costs for electricity consumed by plants, coming to roughly 2.0 million euro (due to both the lower price of electricity and the lower volumes consumed).

Ebitda grew by 15.6 million euro or 6.2%, going from 249.7 million euro at the end of 2018 to 265.3 million euro in 2019, largely thanks to higher revenues from dispensing, higher revenues from new connections and, lastly, the effects of the application of Ifrs 16, coming to 4.0 million euro.

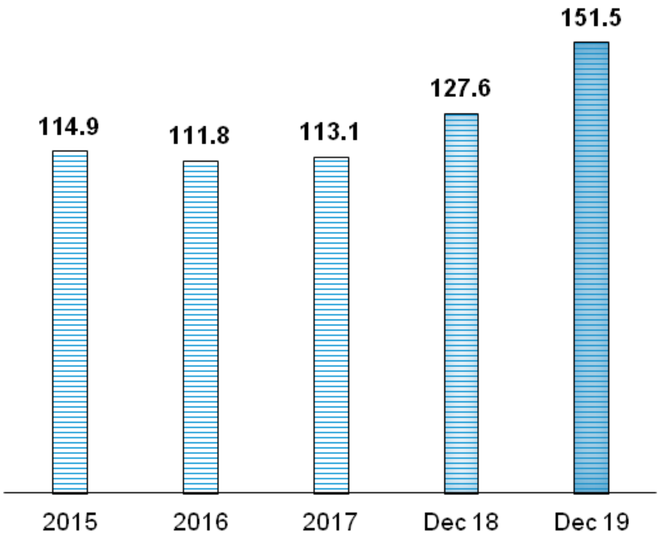
Ebitda (mn€)



265.3
million euro Ebitda

In 2019, net investments in the integrated water cycle area amounted to 151.5 million euro, up 23.9 million euro over the previous year. Including the capital grants received, which fell by 6.0 million euro, the investments made increased by 17.9 million euro and reached 175.8 million euro, compared to the 157.9 million euro seen one year earlier.
These investments mainly involved extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.
Investments were made coming to 99.7 million euro in the aqueduct, 48.3 million euro in sewerage and 27.7 million euro in purification.

Net investments water cycle (mn€)



151.5
million euro net investments water cycle (+23.9 million euro)

The more significant works include: in the aqueduct, the increased activity in network improvement linked to Arera resolution 917/2017 on the regulation of the technical quality of the integrated water system, upgrading interconnections in the Modena area water system, and interventions aimed at introducing district-based networks; 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, including Budrio, Argenta, East Modena and, in the areas served by AcegasApsAmga, Padua and Trieste; in purification, creating the second line and first rainwater reservoir in the Sasso Marconi purifier and revamping the water line in the Ravenna purifier, in addition to work on plants in the area served by the AcegasApsAmga Group.
Requests for new water and sewerage connections increased over the previous year.
Capital grants amounting to 24.2 million euro included 13.4 million euro deriving from the tariff component called for by the New Investments Fund (FoNI) tariff method and fell by 6.0 million euro compared to the previous year.

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

Integrated water cycle (mn€)	Dec 19	Dec 18	Abs. change	% change
Aqueduct	99.7	81.5	+18.2	+22.3%
Purification	27.7	26.9	+0.8	+3.0%
Sewerage	48.3	49.5	-1.2	-2.4%
Total integrated water cycle gross	**175.8**	**157.9**	**+17.9**	**+11.3%**
Capital grants	24.2	30.2	-6.0	-19.9%
of which FoNI (Nre investment fund)	13.4	12.5	+0.9	+7.2%
Total integrated water cycle net	**151.5**	**127.6**	**+23.9**	**+18.7%**

Significant operating investments in aqueduct, sewerage and purification

Rab, which defines the value of assets recognised by the Authority for return on invested capital, rose compared to the figure seen in 2018, thanks to growth in all Group companies.

Rab (bn€)

1.55
billion euro
2019 Rab

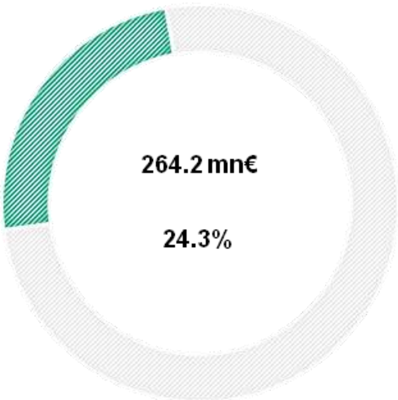
1.06.04

Waste management

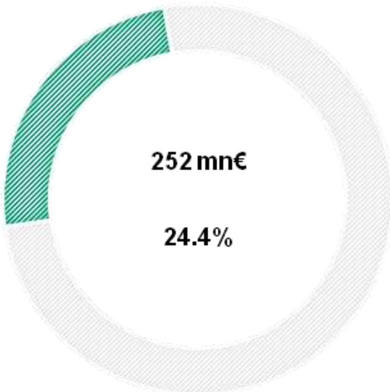
Ebitda increases

At the end of 2019, the waste management area accounted for 24.3% of the Hera Group's overall Ebitda, showing a 4.8% growth in Ebitda over the previous year. In waste treatment and recovery, consolidated its national leadership in 2019 by deploying complete and integrated marketing offers, shaping marketing partnerships with main sector players and remaining constantly present in calls for tenders, in addition to maintaining a complete and avant-garde set of plants able to offer effective and sustainable solutions that support a circular economy.
As examples of the latter point, note the further reinforcement of Aliplast Spa's outstanding activity in plastic recycling and the contribution coming from the Sant'Agata Bolognese biomethane production plant. This new asset creates a virtuous cycle that begins with households, through the sorted collection of organic waste, and goes back to the area served, since the gas produced is injected into the network, to fuel private vehicles or public transportation, or again for household use, with an immediate benefit on air quality. Note furthermore that, in the third quarter of 2019, strategies in simplification and overall operating efficiency improvement led Waste Recycling Spa to be merged into Herambiente Servizi Industriali Srl, which thus became Italy's largest company dedicated to industrial waste management.
As regards municipal waste management services, the Hera Group offers this service to 189 municipalities; compared to December 2018, mention must go to the entry within the Group's consolidated scope of Cosea Ambiente, a company that manages waste collection and street sweeping services mainly within the province of Bologna.
Environmental resource protection was confirmed as a priority goal in 2019 as well, along with optimising reuse, as is demonstrated by the Group's special focus on promoting sorted waste in all areas served.

Waste management area Ebitda 2019



Waste management area Ebitda 2018



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

Growth in Ebitda: +4.8%

(mn€)	Dec 19	Dec 18	Abs. change	% change
Area Ebitda	**264.2**	**252.0**	**+12.2**	**+4.8%**
Group Ebitda	1,085.1	1,031.1	+54.0	+5.2%
Percentage weight	24.3%	24.4%	-0.1 p.p.	

Volumes marketed and treated by the Group in 2019 are as follows:

Market waste: +3.2%

Quantity (k tons)	Dec 19	Dec 18	Abs. change	% change
Municipal waste	2,347.8	2,348.0	-0.2	-0.0%
Market waste	2,211.1	2,142.8	+68.3	+3.2%
Commercialized waste	**4,558.9**	**4,490.8**	**+68.1**	**+1.5%**
Plant by-products	2,616.2	2,802.2	-186.0	-6.6%
Waste treated by type	**7,175.1**	**7,293.0**	**-117.9**	**-1.6%**

An analysis of this data shows a rise in commercial waste due to market waste, which rose by 3.2%, with municipal waste remaining essentially stable. The growth in market volumes is a result of the fully operational status of the Sant'Agata biomethane plant and the new line in Ostellato, as well as the additions to the scope of operations discussed below. Lastly, market volumes benefitted from an increase in intermediated flows.
While municipal waste was virtually unchanged, sorted and sandy shore waste increased by 6.9% and unsorted waste showed a 6.9% drop.

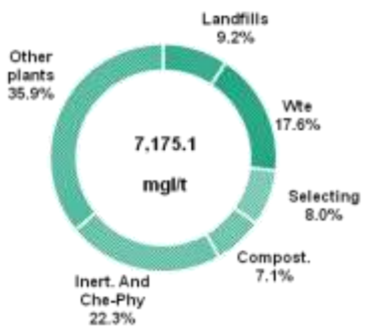
Plant by-products decreased, owing to a lower production of leachate in landfills, caused by the lower amount of rainfall seen in 2019.

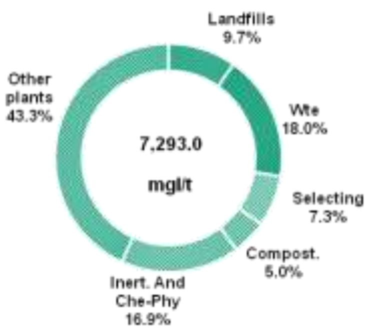
Further progress was made in sorted municipal waste, which went from 62.5% at the end of 2018 to 64.6% in 2019. At the end of 2019, sorted waste increased by 2.1% in the areas served by Hera Spa and by 0.8% in the areas served by Marche Multiservizi Spa, while growth settled at 2.4% in the Triveneto region.

Sorted waste (%)

Waste treated by type of plant 2019   Waste treated by type of plant 2018

Lesser use of landfills





Quantity (k tons)	Dec 19	Dec 18	Abs. change	% change
Landfills	663.5	704.3	-40.8	-5.8%
Wte	1,259.9	1,309.8	-49.9	-3.8%
Selecting plants and other	572.8	531.2	+41.6	+7.8%
Composting and stabilisation plants	506.1	361.5	+144.6	+40.0%
Inertisation and chemical-physical plants	1,600.2	1,231.7	+368.5	+29.9%
Other plants	2,572.7	3,154.6	-581.9	-18.4%
Waste treated by plant	**7,175.1**	**7,293.0**	**-117.9**	**-1.6%**

The Hera Group operates in the entire waste cycle, with 95 plants used for municipal and special waste treatment and plastic material regeneration. The most important of these include: 10 waste-to-energy plants, 12 composters/digesters and 15 selecting plants.

The Group's path of growth in the industrial waste treatment and environmental services for businesses sector continued in 2019, due to reasons including the acquisition of Pistoia Ambiente Srl, which manages the Serravalle Pistoiese landfill. Lastly, the second half of the year saw a new non-dangerous waste treatment plant inaugurated in Cordenons, in the province of Pordenone, and municipal and non-dangerous special waste treatment plant managed in Gaggio Montano.

Waste treatment showed a 1.6% decrease compared to 2018. Note in particular the lower quantity in landfills, while in the chain of waste-to-energy plants the drop in waste treated compared to 2018 is mainly due to changes in scheduled shut-downs and planned maintenance. The higher amount treated in selecting plants is mainly due to a different classification of some plants in the subcontracted/other plants area. The higher amount treated in composters and stabilisers is mainly due to the higher volumes treated in the Sant'Agata plants and the new line in Ostellato. The higher amount treated in stabilisation and chemical-physical plants is due to a different classification of some plants in the subcontracted/other plants area, despite the decrease in landfill leachate due to lesser rainfall. Lastly, the decrease in subcontracted/other plants is mainly due to a lower amount of by-products, mainly waste water, treated in subcontracted plants, and the representation of a few plants in other categories (as mentioned above), in spite of the higher volumes created by the entry of Cosea Ambiente Spa.

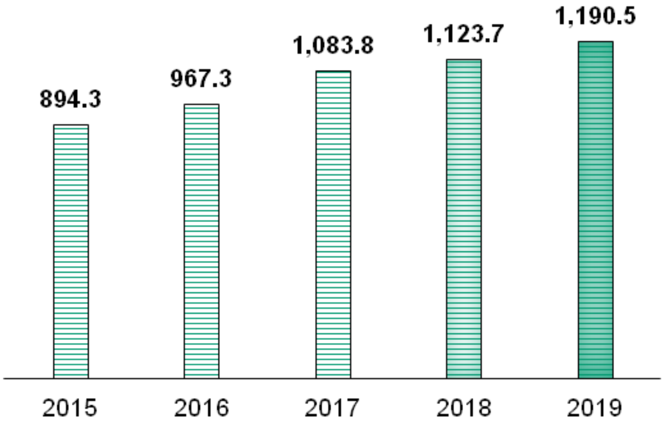
The table below summarises the area's operating results:

Ebitda increases

Income statement (mn€)	Dec 19	% inc.	Dec 18	% inc.	Abs. change	% change
Revenues	1,190.5		1,123.7		+66.8	+5.9%
Operating costs	(733.5)	-61.6%	(684.3)	-60.9%	+49.2	+7.2%
Personnel costs	(201.2)	-16.9%	(196.1)	-17.4%	+5.1	+2.6%
Capitalised costs	8.4	0.7%	8.8	0.8%	-0.4	-4.6%
Ebitda	**264.2**	**22.2%**	**252.0**	**22.4%**	**+12.2**	**+4.8%**

Revenues rose by 5.9% or 66.8 million euro, going from 1,123.7 million euro at 31 December 2018 to 1,190.5 million euro in 2019. Excluding the change in scope of operations due to the entry of Cosea Ambiente Spa, Pistoia Ambiente Srl and the Gaggio Montano plant (hereafter, changes in scope of operations), which contributed with roughly 22.9 million euro, the waste management area saw revenues grow by roughly 44 million euro over the previous year. This change is due to a positive trend seen in prices for special waste, the contribution coming from the Sant'Agata biomethane plant, which began working in 2018 but whose inclusion among operating results began in 2019, and the one coming from Aliplast, owing to higher quantities managed and sold. These positive factors, along with higher revenues for developments in sorted waste in municipal waste services, were only partially offset by the lower volumes treated and lower revenues from electricity generation. As regards the latter, they are due to the loss of energy incentives for some plants, lower production in W-t-e and biogas, and a decrease in Grin, in spite of increased prices in market and thermal energy and the guarantee of origin certificates obtained. The latter were gained following the certification of some Group plants as suitable for producing the energy injected into the national electricity grid from renewable sources.

Revenues (mn€)

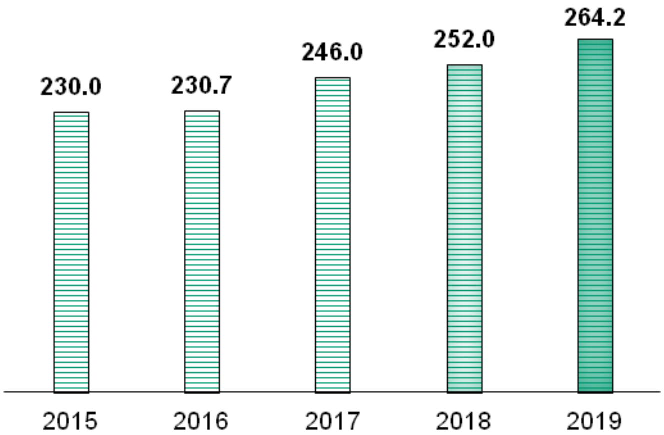


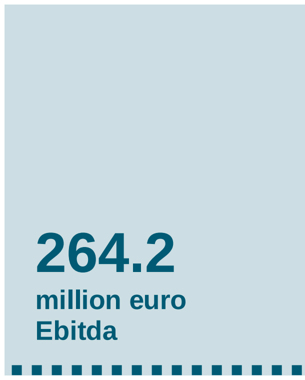
Operating costs at the end of 2019 increased by 7.2% or 49.2 million euro, going from 684.3 million euro in December 2018 to 733.5 million euro in 2019. Not including the changes in scope of operations, which contributed with 12.4 million euro, higher costs were seen totalling 36.9 million euro. In the waste treatment business, note the higher costs involved in marketing development and upgrading, in addition to higher costs involved in planned maintenance on some Group plants. Furthermore, note the decrease in purchasing costs on the Pet sustained by Aliplast Spa. As regards municipal waste, note the higher costs involved in developing new projects for sorted waste. Lastly, note the lower costs tied to the application of accounting standard Ifrs 16, coming to roughly 6.1 million euro.

The cost of personnel, not including the changes in scope of operations mentioned above, increased by roughly 4.5 million euro or 0.3%.

Ebitda went from 252.0 million at the end of 2018 to 264.2 million euro in 2019, showing growth amounting to 12.2 million euro or 4.8%. This change was sustained by higher prices for special and industrial waste treatment, lower costs traceable to the application of accounting standard Ifrs 16, the contribution coming from Aliplast Spa and the new scope of operations. The positive factors indicated above more than offset the lower revenues due to the fall in volumes treated and lesser incentives for electricity generation.

Ebitda (mn€)

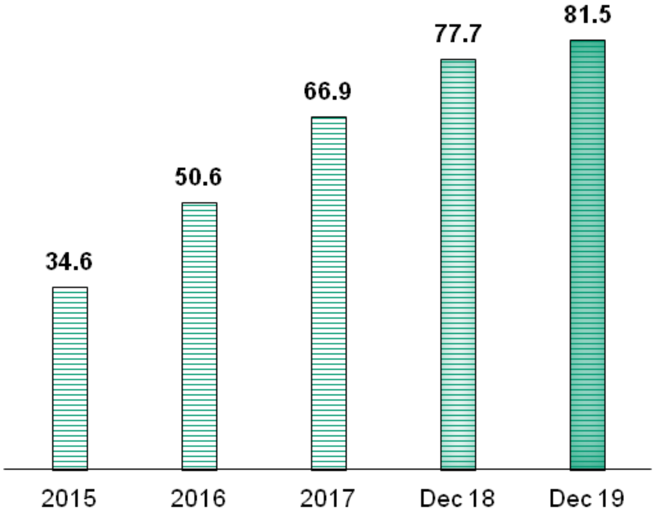




Net investments in the waste management area concerned plant maintenance and upgrading and amounted to 81.5 million euro, up 3.8 million euro over the previous year.
The composter/digester sector dropped by 16.2 million euro, due to the significant interventions carried out one year earlier on the Sant'Agata Bolognese composter in constructing the biomethane plant, in addition to other interventions including upgrading the Tre Monti mechanical biological treatment plant.
Investments in landfills rose by 6.3 million euro, mainly due to the work done on the first part of the Cordenons plant and interventions on the tenth sector of the Ravenna landfill.
The Wte plants sector saw a 3.7 million euro increase in investments, mainly involving non-recurring maintenance done on the Padua, Bologna and Trieste plants.
Increased investments in the special waste plants sector, coming to 0.9 million euro, mainly concerned maintenance on the Ravenna industrial waste treatment plants.
The ecological islands and collection equipment sector showed higher investments coming to 4.7 million euro, mainly concentrated in the areas served by Hera Spa, while the 4.1 million euro increase in the selection and recovery plants sector

is mainly due to interventions on the mobile soil washing plant in Chioggia, installation of the polyethylene extruder and higher non-recurring maintenance in companies belonging to the Aliplast Group.

Net investments waste management (mn€)



81.5
million euro net investments waste management (+3.8 million euro)

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

Waste management (mn€)	Dec 19	Dec 18	Abs. Change	% change
Composting/digestors	8.3	24.5	-16.2	-66.1%
Landfills	17.1	10.8	+6.3	+58.3%
Wte	14.0	10.3	+3.7	+35.9%
Rs plants	4.5	3.6	+0.9	+25.0%
Ecological areas and collection equipment	17.0	12.3	+4.7	+38.2%
Transshipment, selecting and other plants	20.9	16.8	+4.1	+24.4%
Total waste management gross	**81.8**	**78.1**	**+3.7**	**+4.7%**
Capital grants	0.3	0.4	-0.1	-25.0%
Total waste management net	**81.5**	**77.7**	**+3.8**	**+4.9%**

Operating investments rise

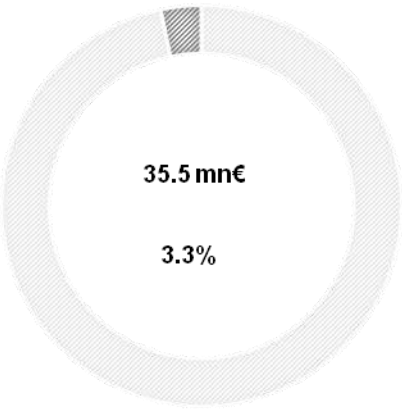
1.06.05

Other services

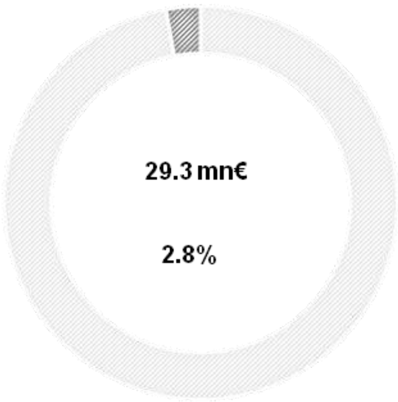
The other services area covers all minor businesses managed by the Group, including public lighting, telecommunications and cemetery services. At the end of 2019, this area's results showed a 21.1% increase over the previous year, with Ebitda going from 29.3 million euro at December 2018 to 35.5 million euro in 2019.

Ebitda rises

Ebitda other services 2019



Ebitda other services 2018



The changes occurred in terms of Ebitda are as follows:

(mn€)	Dec 19	Dec 18	Abs. change	% change
Area Ebitda	**35.5**	**29.3**	**+6.2**	**+21.1%**
Group Ebitda	1,085.1	1,031.1	+54.0	+5.2%
Percentage weight	3.3%	2.8%	+0.5 p.p.	

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

Quantity	Dec 19	Dec 18	Abs. change	% change
Public lighting				
Lighting points (k)	548.7	534.3	+14.4	+2.7%
of which led	27.5%	14.9%	+12.6 p.p.	
Municipalities served	181.0	176.0	+5.0	+2.8%

An analysis of the data regarding public lighting shows a growth of 14.4 thousand lighting points and the acquisition of five new municipalities served. Over 2019, the Hera Group acquired roughly 20 thousand lighting points in ten new municipalities. The most significant of these were: roughly 2 thousand lighting points in Lazio, roughly 8 thousand lighting points in Lombardy, roughly 8 thousand lighting points in Emilia-Romagna and roughly 2 thousand lighting points in the areas served by Marche Multiservizi Spa. These increases fully offset the loss of roughly 6 thousand lighting points and five municipalities served in the provinces of Ravenna, Forlì, Rimini and Padua. The percentage of lighting points using led light bulbs also increased, settling at 27.5% in 2019, up 12.6 percentage points. This trend reflects the constant attention shown by the Group towards an increasingly efficient and sustainable management of public lighting.

548.7 thousand lighting points

Among the indicators for the other services area, note also the 4,200 Km fibre optic ultra-broadband network owned by the Hera Group through its digital company, Acantho Spa. This network serves the main cities in the Emilia Romagna region as well as Padua and Trieste, offering businesses and private customers a high-performance connectivity with outstanding reliability, system and data security and service continuity.

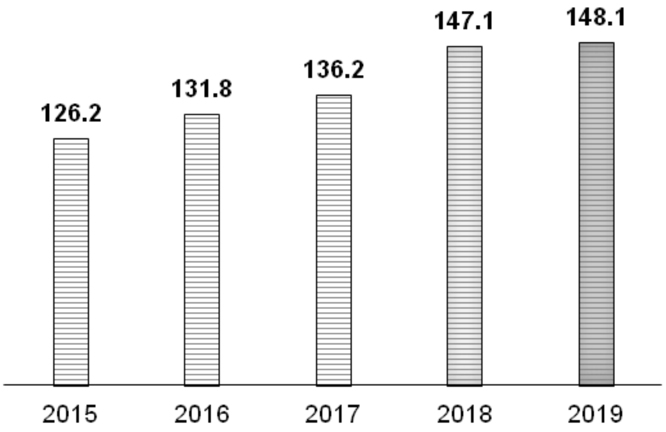
The area's operating results are provided in the table below:

Area grows

Income statement (mn€)	Dec 19	% inc.	Dec 18	% inc.	Abs. change	% change
Revenues	148.1		147.1		+1.0	+0.7%
Operating costs	(94.3)	-63.7%	(100.2)	-68.1%	-5.9	-5.9%
Personnel costs	(20.2)	-13.7%	(20.0)	-13.6%	+0.2	+1.0%
Capitalised costs	2.0	1.4%	2.5	1.7%	-0.5	-20.3%
Ebitda	**35.5**	**24.0%**	**29.3**	**19.9%**	**+6.2**	**+21.1%**

Revenues for the area were essentially in line with December 2018, showing slight growth coming to 0.7%, the equivalent of 1 million euro. This trend is mainly due to higher revenues in the telecommunications and public lighting businesses, in spite of lower revenues in cemetery services.

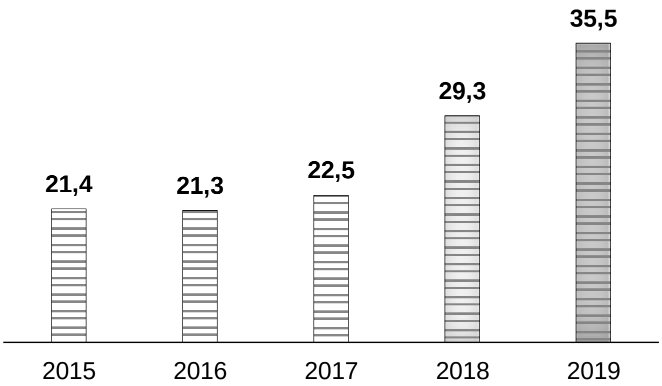
Revenues (mn€)



148.1
million euro
revenues

Ebitda showed a 6.2 million euro growth over December 2018. This trend is due to higher margins in telecommunications services and lower costs due to the application of Ifrs 16 coming to roughly 4 million euro.

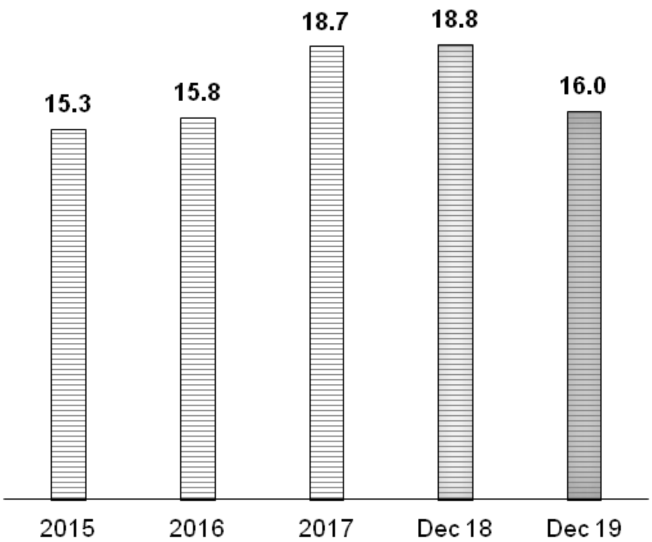
Ebitda (mn€)

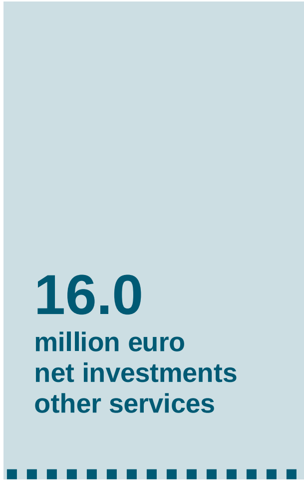


35.5
million euro
Ebitda

Investments in the other services area came to 16.0 million euro, down compared to the previous year.
In telecommunications, 10.1 million euro were invested in networks and Tlc and Idc (Internet data centre) services, in line with 2018, while the 5.9 million euro invested in the public lighting service went to maintaining, upgrading and modernising lampposts in the areas served. These investments fell by 2.8 million euro due to the substantial interventions dating to the previous year in the municipality of Pesaro carried out by the company Marche Multiservizi Spa and in the municipalities served by the company Hera Luce Srl, in addition to the changes in the way of recording works falling under the application of accounting standard Ifric 12.

Net investments other services (mn€)





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

Other services (mn€)	Dec 19	Dec 18	Abs. change	% change
Tlc	10.1	10.0	+0.1	+1.0%
Public lighting and street lights	5.9	8.7	-2.8	-32.2%
Total other services gross	**16.0**	**18.8**	**-2.8**	**-14.9%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total other services net	**16.0**	**18.8**	**-2.8**	**-14.9%**

1.07
Significant events occurred during the year

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

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

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

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

Waste Recycling Spa / Hasi Srl
April
With a document stipulated on 2 April 2019 and effective as of 1 July 2019, the merger by incorporation of Waste Recycling Spa into Hasi Srl, both entirely held by Herambiente Spa, was completed.

Acantho Spa
On 23 April 2019, Aimag Spa transferred its entire holding in Acantho Spa to Hera Spa, equivalent to 3.282% of the company's share capital.
Owing to this transaction, Hera Spa increased its holding in Acantho Spa's share capital from 77.359% to 80.641%.

Cosea Ambiente Spa
May
On 9 May 2019, Hera Spa, upon being selected during the procedure for the transfer of Cosea Ambiente Spa's shares, acquired 100% of the latter's share capital.

AcegasApsAmga Spa – Uniflotte Srl
June
On 24 June 2019, effective as of 1 July 2019, a document was stipulated concerning the transfer to Uniflotte Srl of AcegasApsAmga Spa's corporate branch responsible for managing the company's vehicle fleet.

Pistoia Ambiente Srl
July
On 17 July 2019, Herambiente Spa acquired 100% of the share capital of Pistoiambiente Srl, a company based in the Pistoia area and operating in the waste sector.

Hera Spa / Ascopiave Spa
On 30 July 2019, giving effect to the content of the binding term sheet signed on 17 June 2019 by Hera Spa and Ascopiave Spa, the companies signed a specific and framework agreement aimed at guiding a complex partnership between the two Groups in the area of gas and electricity customer marketing and gas distribution.

Blu Ranton Srl / Hera Comm Marche Srl
September
With a document signed on 17 September 2019, the merger by incorporation of Blu Ranton Srl into Hera Comm Marche Srl, effective as of 1 October 2019, was completed, entailing a transfer of Blu Ranton Srl's electricity branch to Hera Comm Srl.
This transaction was intended to rationalise Group companies operating in the same economic area, sales to end customers in the natural gas sector.

Sangroservizi Srl / Hera Comm Marche Srl
On 17 September 2019, Hera Comm Srl transferred to Hera Comm Marche Srl its shareholding in Sangroservizi Srl, equivalent to 100% of the latter's share capital.
On the same date, the merger of Sangroservizi Srl into Hera Comm Marche Srl was stipulated, which became effective as of 1 October 2019.
This transaction was intended to rationalise Group companies operating in the same economic area, sales to end customers in the natural gas sector.

Alimpet Srl / Aliplast Spa
With a document stipulated on 23 September 2019, the merger by incorporation of Alimpet Srl into Aliplast Spa, which already owned all shares, effective as of 1 January 2020.
This transaction was intended to concentrate, within the incorporating company, activities in plastic material for packaging collection, processing, storage, treatment and sales.

SO.SEL Spa
On 26 September 2019, Hera Comm Srl transferred to Lirca Srl its shareholding in So.Sel Spa, a company operating in the utility marketing management sector, corresponding to 26% of the share capital.

November

Hera Comm NordEst Srl
Effective as of 1 November 2019, EnergiaBaseTrieste Srl, a company entirely controlled by Hera Comm Srl and operating in gas and electricity sales in the Veneto and Friuli-Venezia Giulia regions, resolved to increase its share capital from 180 thousand euro to 1 million euro, entirely feed from the single shareholder Hera Comm Srl through a contribution in kind of its corporate branch Clienti Nord-Est.
At the same time, and with the same effective date, EnergiaBaseTrieste Srl changed its company name to Hera Comm NordEst Srl.
This transaction was part of a complex agreement stipulated between Hera Spa and Ascopiave Spa, which consists in Ascopiave transferring control of gas and electricity sales in the areas it serves to the Hera Group, and in reinforcing Ascopiave in the gas distribution business through the acquisition, from the Hera Group, of some distribution branches in North-Eastern Italy (Atem in Udine and Padua).

AP Reti Gas Nord Est Srl
On 12 November 2019, AcegasApsAmga Spa established the company AP Reti Gas Nord Est Srl.
At a later date, on 15 November 2019, the company resolved to increase its share capital from 10 thousand euro to 15 million euro, subscribed and fully paid up, and effective as of 1 January 2020, from the single shareholder AcegasApsAmga Spa, through a transfer of the corporate branch Reti distribuzione.

Sigas doo
On 21 November 2019, AcegasApsAmga Spa divested its shareholding in Sigas doo, a company involved in methane supply in Serbia, equivalent to 95.78% of the share capital.

December

Hera Comm Srl
As part of the Ascopiave transaction, on 2 December 2019, Hera Comm Srl's Shareholders Meeting resolved, effective as of 3 December 2019, to change the company from a limited liability company to a joint stock company.
The Municipality shareholders of Hera Comm Spa, as regards this resolution for a corporate change, exercised their right of withdrawal and, as of 11 December 2019, are no longer among shareholders, transferring their shareholdings to Hera Spa.

EstEnergy Spa
As part of the Ascopiave transaction, on 2 December 2019, EstEnergy Spa's Shareholders Meeting resolved to increase the company's share capital from 1,718,096 euro to 266,061,261 euro, subscribed and fully paid up at a later date, on 19 December 2019, by shareholders Hera Spa and Hera Comm Spa.

Centro Idrico di Novoledo Srl
On 4 December 2019, the company Centro Idrico di Novoledo Srl, 50% held by AcegasApsAmga Spa and operating in the chemical, physical and microbiological water control sector, was liquidated.

Cosea Ambiente Spa
On 12 December 2019, Cosea Ambiente Spa transferred, effective as of 1 January 2020, its waste management and street sweeping corporate branch to Hera Spa and its fleet and container corporate branch to Uniflotte Srl. At the same time, Cosea Ambiente Spa's Shareholders Meeting resolved to proceed with the voluntary dissolution of the company, with the same effective date.

Atr Srl / Inrete Distribuzione Energia Spa
A documented stipulated on 18 December 2019 completed, effective as of 1 January 2020, the merger by incorporation of A Tutta Rete Srl into Inrete Distribuzione Energia Spa.

Hera Servizi Energia Srl
On 18 December 2019, Hera Comm Spa transferred to AcegasApsAmga Servizi Energetici Spa its shareholding in Hera Servizi Energia Srl, a company operating in energy and heat management services, corresponding to 57.89% of the share capital.

S2A Scarl
On 18 December 2019, Hera Spa transferred its shareholding in S2A Scarl, a company operating in the field of applied research as regards sectors typical of the smart territory, corresponding to 23.81% of the share capital.

Ascopiave transaction closing
What follows is a summary of the corporate transactions involved in the Hera – Ascopiave partnership. For a more detailed description of the entire transaction, see paragraph 1.03.01 of this report. In particular, on 19 December 2019, the following agreements were stipulated:

- Ascopiave Spa transferred to Hera Comm Spa its shareholding in Amgas Blu Srl, corresponding to 100% of the share capital;
- Ascopiave Spa transferred to Hera Spa its shareholding in EstEnergy Spa, corresponding to 49% of the share capital. At a later date, shareholders Hera Spa and Hera Comm Spa subscribed and paid up the increase in share capital from 1,718,096 euro to 266,061,261 euro resolved on 2 December 2019;
- Hera Comm Spa transferred to EstEnergy Spa its shareholding in Hera Comm NordEst Srl, corresponding to 100% of the share capital;
- Ascopiave Spa transferred to EstEnergy Spa:
    - its shareholding in Ascotrade Spa, corresponding to 89% of the share capital;
    - its shareholding in Blue Meta Spa, corresponding to 100% of the share capital;
    - its shareholding in Ascopiave Energie Spa, corresponding to 100% of the share capital;
    - its shareholding in Asm Set Spa, corresponding to 49% of the share capital;
    - its shareholding in the liquidating Sinergie Italiane Srl, corresponding to 30,94% of the share capital.
- Hera Spa transferred to Ascopiave Spa its shareholding in EstEnergy Spa, corresponding to 48% of the share capital;
- AcegasApsAmga Spa transferred to Ascopiave Spa its shareholding in Ap Reti Gas Nord Est Srl, corresponding to 100% of the share capital;
- Hera Spa transferred to Ascopiave Spa part of its shareholding in Hera Comm Spa, corresponding to 3% of the share capital.

Significant events occurred after the reporting period

Ascopiave Spa
On 30 January 2020, Hera Spa acquired 2.5% of the capital of Ascopiave Spa from Amber Capital UK LLP.

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

Pistoia Ambiente Srl/ Herambiente Spa
On 17 March 2020 and 18 March 2020, the administrative bodies of Pistoia Ambiente Srl, a company entirely controlled by Herambiente Spa, and those of Herambiente Spa, approved a project for a merger by incorporation of Pistoia Ambiente Srl into Herambiente Spa. The merger will be effective as of 1 July 2020.

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

1.08
Covid-19 emergency management

In March 2020, the health emergency caused by the Coronavirus reached significant proportions within the areas served by the Group, which as of the beginning of the crisis managed the situation proactively in a range of ways. The governance of the crisis began with the establishment of an Extraordinary risk management committee (Crisis committee), with the participation of the Chairman and the CEO, which immediately took concrete action and organised activities in inter-department working groups, in addition to preparing simulations of the operating and financial scenarios ensuing from the crisis and the measures introduced by the government. The Committee meets on a weekly basis in order to define operating plans to be applied according to developments in the situation, and to prepare extraordinary measures to face the emergency and prevent and contain infection. The Crisis committee is supported by an Operating committee, made up of over 20 people including managers, the Head of health and the Head of the prevention and protection service, which is also active seven days a week and 24 hours a day. Its task is to constantly monitor the situation, defining measures able to maintain services and safety, and guarantee that co-workers are constantly informed, both through institutional communications channels and with a dedicated email address for questions raised by personnel.

Worker protection – The actions foreseen to protect Group employees, in line with the indications provided by health authorities, involve giving work leave to pregnant or breast-feeding women and immunodepressed people, activating remote working for a very wide range of employees in order to guarantee that service is not interrupted (reaching almost 2,400 active users among employees, equivalent to roughly 50% of office workers) and extending its use (from one day a week to all working days), extending home departure to almost 900 workers, drastically reducing business trips, cancelling internal events in training classrooms, making use of holiday leave and applying rules to maintain distance between people, in particular in shared spaces such as cafeterias. Furthermore, extensive cleaning was done at headquarters and in locations dedicated to contact with the public. Health safety norms for workers were introduced for services carried out on-field, such as reducing movement (including the extension of the vehicle at home program for maintenance workers) and eliminating the use of dressing rooms or, if this is not possible, revising work shifts to reduce contact among operating teams. Lastly, Hera set in place, with an additional investment entirely paid by the company, an Covid-19 insurance policy for all employees infected by the virus. This policy provides, as an added benefit, a package of guarantees and services and, in particular, includes indemnity for hospitalisation and recovery time, as well as post-recovery assistance.
On 19 March, nine employees tested positive, 57 were in quarantine, 51 were on cautionary leave for health reasons and 117 had returned to the workplace after leave. The overall number of employees involved is 234.

Suppliers and purchases – Suppliers have been invited to follow the same worker protection measures adopted by the Hera Group, and the requirements for gaining access to Hera facilities have been revised. To support small and medium enterprises with credits for supplies or services, and give these companies access to an additional source of financing, Hera has expressed its willingness to pay these credits, offering all support needed to complete the related factoring procedures. To avoid interruptions in worker protection actions, increased amounts of materials for cleaning and sanitizing environments have been purchased, and reserves of individual protection items (masks, glasses, overalls and disposable gloves) have been increased.

Customers – Customers have been invited to give priority to digital channels rather than going to help desks, where entry is only permitted for a few customers at a time and Plexiglas barriers have been installed to protect customers and personnel. When the emergency worsened, Hera closed all help desks from 13 to 25 March, along with recycling centres, except for the ones in province capitals and in Imola. While waiting for specific measures to be announced by the government and Arera, customers experiencing economic difficulty have been given the possibility of delaying bill payment for thirty days or paying by instalments over three months, as was previously possible as well. Furthermore, for bills to be paid within the end of April, interest will not be applied for late payment. Service suspension for arrears has also been interrupted, as of the beginning of the crisis in the water service and beginning on 13 March for electricity and gas, in compliance with the measures introduced by Arera.

Communications towards stakeholders – communication with reference figures in the areas served and their stakeholders is constant and continuous, including releases published on the website.
Lastly, operational planning has been made in the event of an escalation, which includes detailed plans for continuity in public utility services and updated analyses of operating and financial effects. At the current date, based on the observations it has made, Hera believes it has introduced all measures necessary to mitigate the effects of the emergency.

Potential impact on business, the financial situation and operating performance – Considering the continually changing nature of the health emergency, including its effects and the respective measures that will be taken by the government, the Crisis committee will keep monitoring the situation and updating its own predictions. Its goal is to promptly offer a response that is as adequate as possible, in a pre-emptive sense as well.
Even though the health emergency has created a context of widespread uncertainty, and its future state and effects cannot currently be entirely foreseen, the Group has made a prediction, taking into account a necessarily short-term scenario, as to the possible impact of the crisis on the Group's revenues, its financial situation and the possible effects in terms of impairment of its assets, including goodwill. In particular, as regards the first point, depending on the duration of the crisis (ending within May, or else July 2020), it is reasonable to presume that the impact on Group Ebitda will be limited to a few percentage points, and will only partially affect the growth expected for 2020, considering that roughly half of the Group's Ebitda derives

from regulated activities that operate with recognised returns. As regards the possible effects on the Group's net financial position, a realistic estimate, over the same time period, points towards a potential deterioration between approximately 3% and 4%.
The Group's senior management believes that it has the resources required to face the scenarios mentioned above, as foreseeable at present.

Considerations as to financial reporting – As regards financial reporting, the Group's directors believe that the health emergency caused by Covid-19, which appeared as such for the first time in the month of January in China and only recently in our country, is a non-adjusting event, according to the indications provided in Ias 10. It was therefore not taken into account in the valuation processes concerning the items included in the Group's consolidated financial statements at 31 December 2019.
The aforementioned accounting principle Ias 10 also requires companies to provide, as part of the information included in their financial statements, an estimate of the impact of events that have not led to adjustments in the statements (non-adjusting event). In this regard, the following information is held to be relevant in satisfying this requirement:

- impairment test – in order to measure the risk exposure for non-recovery of items subject to impairment tests (as described in further detail in note 32 of paragraph 2.02.06 "Commentary notes to the financial statement formats"), a sensitivity analysis has been developed for the operating margins of each business area, so as to identify the decrease in percentage at which the value of each Cgu would essentially correspond to the recoverable value. More specifically, only a reduction in Ebitda coming to more than 12%, for all years covered by the business plan (that is, without expecting any recovery after 2020) would lead to an equivalence between the book value and the recoverable value, concerning moreover only one Cgu (the integrated water service);
- value of derivative instruments – the impact of the health emergency on financial and raw material markets could introduces changes in the fair value of these instruments, with an ensuing impact on equity and the income statement. As regards derivative financial instruments on commodities designated in hedge accounting, future transactions are still considered highly probable. Note 21 of paragraph 2.02.06 "Commentary notes to the financial statement formats" contains a sensitivity analysis, in the event of a shock to the underlying variables, which still feasibly represents the situation;
- estimate of losses in credits – at present, it is not possible to make predictions concerning the impact potentially deriving from credit recovery. The Group will closely monitor this situation, in order to evaluate whether to introduce changes in the parameters included in its prognostic approach, whose main features are described in the "Risk management" section of paragraph 2.02.04 "Accounting policies and consolidation principles".

1.09
Corporate governance report

1 Issuer profile

The Hera Group was born in 2002 out of the integration of 11 Emilia-Romagna public service companies, and in the subsequent years continued its territorial growth in order to expand its core business, in particular through the subsequent merger of important companies (Agea Spa, Meta Spa, Sat Spa, Acegas Aps Spa and Amga Azienda Multiservizi Spa), and most recently through its partnership with Ascopiave Spa in the commercial energy sector.
Hera is one of the leading Italian multi-utilities in the waste management, water, gas and electricity businesses, with more than 9,200 employees, counting both open-ended and fixed-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, and Imola as well as the Veneto, Friuli-Venezia Giulia, Marche and Abruzzo Regions. Hera is an Issuer that uses the traditional governance system and its organizational structure is versatile and capable of adapting to an economic, business and regulatory, technological, environmental and human capital context that is increasingly volatile and affected by significant changes.
The Hera Group's entrepreneurial and organizational model, unique in this sector, makes it possible to combine strong territorial roots with the need to grow in size, in order to offer increasingly efficient services while remaining open to new partners. Since its inception, Hera has developed a trajectory of growth both organic and along external lines.
Its development strategy entails actions to support organic growth in the businesses already served, but also consolidation and acquisition operations to expand the current perimeter of operations, maintaining the Group's solid financial structure in the context of a shared industrial vision.
On the internal front, Hera addresses all possible opportunities for developing activities in its businesses, leveraging innovation, efficiency and excellence.
The strategy for external lines of growth is based on three cornerstones:

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

Over the years, the Hera Group has, however, implemented a plan to rationalise its shareholdings, reducing their number significantly and more effectively merging the various companies by business area and geographical contiguity.
Hera is also committed to acting every day to enhance the experience and develop the skills of its employees, and to promote cooperation and the exchange of knowledge, so that work is a source of satisfaction and pride for people as well as an important factor for the success of the company.
Hera's goal is to become the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates, while respecting the local environment.
As early as 2003, Hera included Corporate Social Responsibility in its strategy, a concept which has since evolved into the broader perspective of shared value, understood as a tool for increasing competitiveness and a key factor for achieving sustainable development, in keeping with the guidelines identified by the United Nations. 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 25 March 2020

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

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

Share Capital Structure

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

b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b) of the TUF)

Article 7 of Hera's Articles of Association to stipulate that the majority of voting rights in the company be held by Municipalities, Provinces and Consortiums established in accordance with Article 31 of Legislative Decree 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)

The parties that directly or indirectly hold more than 3% of the share capital of the Company represented by shares with voting rights, are as follows, based on communications made pursuant to article 120 of the TUF, as well as any other data in the possession of the Company.

Declarant	Direct shareholder	share % of s.c.	share % of c.s. with voting rights
Municipality of Bologna	Municipality of Bologna	8.926%	8.926%
Municipality of Imola	Con.Ami	7.293%	7.293%
Municipality of Modena	Municipality of Modena	6.519%	6.519%
Lazard Asset Management	Lazard Asset Management	5.043%	5.043%
Municipality of Ravenna	Ravenna Holding Spa	4.981%	4.981%
Municipality of Trieste	Municipality of Trieste	3.731%	3.731%
Municipality of Padua	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)

In accordance with Article 122 of the TUF, the following shareholders' agreement are in effect:

- First-level Shareholders' Agreement, between 111 public shareholders, concerning the procedures for exercising voting rights and the transfer of the shareholdings held in Hera by members, signed on 26 June 2018, with a duration of three years, from 1 July 2018 to 30 June 2021;
- Second level Shareholders' Agreement between 32 public shareholders of Hera belonging to the Bologna area, concerning the rules governing the exercise of voting rights, the transfer of the shares held in Hera by members, as well as the appointment of the members of the Board of Directors, stipulated on 26 June 2018, whose effects start on 1 July 2018, and last until 30 June 2021;

- Second level Shareholders' Agreement between 20 public shareholders of Hera belonging to the Modena area, concerning the rules governing the exercise of voting rights, the transfer of the shares held in Hera by members, as well as the appointment of the members of the Board of Directors, stipulated on 26 June 2018, whose effects begin on 1 July 2018, and last until 30 June 2021;
- Second level Shareholders' Agreement between 20 public shareholders of Hera belonging to the Modena area, concerning the rules governing the exercise of voting rights, the transfer of the shares held in Hera by members, as well as the appointment of the members of the Board of Directors, stipulated on 26 June 2018, whose effects begin on 1 July 2018, and last until 30 June 2021;

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

1) First-level Shareholders' Agreement

The Agreement concerns 693,666,738 shares conferred to the voting trust, corresponding to 46.56923% of the share capital of Hera, 1,377,332,593 voting rights conferred to the voting trust, corresponding to 61.17566% of the total voting rights making up the share capital and 572,267,488 blocked shares corresponding to 38.41911% of the share capital.

Content and bodies of the Agreement

Voting trust

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

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

$$\text{\% shares blocked} = \frac{\text{Number of shares blocked by main shareholder}}{\text{Hera shares blocked}} \times 100$$

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

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

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

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

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

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

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

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

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

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

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

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

Stock Blocking Syndicate

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Penalties

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

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

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

Agreement duration and modifications

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

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

2) Second-level Shareholders' Agreement, Bologna area

The Agreement concerns 173,722,812 ordinary Hera shares conferred to the voting trust with a nominal value of 1 euro, equal to 11.66286% of the current share capital of Hera, held in total by the 32 public shareholders, and 338,840,704 voting rights, equal to 15.04996% of the total voting rights that make up the share capital.

Content of the Agreement

Voting trust

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

The Agreement Assembly meets:

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

The decisions of the Agreement Assembly are validly made by a majority of those present, provided that a yes vote has been expressed by the Municipality of Bologna and at least eight other Parties.

The Parties to the Agreement undertake to ensure that their vote at the Shareholders' Meeting conforms to the resolutions adopted by the Agreement Assembly.

Identification of the members of the Hera Board of Directors

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

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

Finally, the Parties undertake to ensure that the Directors appointed by them, at the first meeting of the Board of Directors of Hera S.p.A., proceed with appointing the office of Chief Executive Officer, it being understood that they will consult each other before the name of the candidate is formalized.

Before the name of the candidate for Chief Executive Officer of the Board of Directors of Hera S.p.A. is formalised, the Mayor of the Municipality of Bologna or a person appointed by him, in the interest of the Parties, will consult with the common representative of the shareholders of the Romagna Territorial area and will inform the Chairman of the Voting Trust Committee.

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

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

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

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

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

3) Second-level Shareholders' Agreement, Modena area
The total number of voting rights conferred on the voting syndicate is 233,486,914 and the relative percentage of the total voting rights that make up the share capital of Hera is approximately 10.37056%.

Content of the Agreement

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

(i) at least one day before each meeting of the Voting Trust Committee, in accordance with the Hera Agreement, that includes on its agenda one of the resolutions and activities referred to in Article 4.3 of the Hera Pact;
(ii) at least one day before each meeting of the Hera S.p.A. shareholders that includes any items on its agenda different from that covered by the Committee as outlined in point i) above;

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

(i) only one member of the majority list for the Board of Directors elections is reserved for the parties to the Modena pact, the Shareholders' meeting of the Voting Trust shall arrange for it;
(ii) the parties to the Modena agreement are assigned the right to designate two members of the majority list for the Board of Directors election, the Municipality of Modena will be in charge of designating who will be proposed as vice chairman of the Board of Directors, while the second member will be designated by the Shareholders' meeting of the Voting Trust;
(iii) more than two members of the majority list for the election of the Board of Directors are to be appointed by the Parties to the Modena agreement; the Municipality of Modena will be responsible for appointing two thirds of the members, rounded up to the nearest whole number, including the one who will be proposed as vice president, while the other members will be appointed by the Shareholders' meeting of the Voting Trust.

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

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

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

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

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

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

4) Sub-agreement between the Municipalities of Padua and Trieste
The Agreement concerns 101,696,159 ordinary Hera shares, equal to 6.82736% of the current share capital of Hera, held in total by the two participating municipalities, and 203,392,318 voting rights, equal to 9.03388% of the total voting rights that make up the share capital.

Content of the Sub-agreement
The purpose of the Sub-agreement is to establish a consultation and voting syndicate that will be instrumental to ensuring the realization of certain provisions regarding Hera's corporate governance in implementation of the provisions of the Agreement.
Specifically, the Sub-agreement regulates the procedures for the joint appointment of a member of the Hera Executive Committee, providing that the Parties confirm their mutual commitment to consulting in good faith in order to identify and agree which of the two directors elected to the Company's Board of Directors, upon their appointment, should be the director to be appointed as member of the Hera Executive Committee.
As agreed to by the Parties, with effect from November 2018 and until the natural expiry of the Board of Directors of Hera, the director designated by the Municipality of Padua has assumed the position of member of the Executive Committee in place of the member representing the Municipality of Trieste, previously in office.

Duration of the Sub-agreement
The Sub-agreement has a duration of three years from the date of its signing (26 June 2018).
In view of the expiry of the Sub-agreement, the parties undertake, in accordance with the principles of good faith, to do everything in their power, and in compliance with current legislation, to renegotiate new shareholders' agreements in accordance with the spirit of this Sub-agreement.

Nature of the Agreement and persons exercising control over Hera S.p.A. through the Sub-agreement
In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, lett. a) del TUF.
In view of the nature of the Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

g) Mandates to increase share capital and authorisations to purchase treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the TUF)
The shareholder's meeting of 30 April 2019 authorized, pursuant to the limits established by Article 2357 of the Italian Civil Code, to purchase, within 18 months of the date of the resolution, on one or more occasions, up to a revolving maximum of 60 million ordinary Hera shares with a par value of 1 euro each, equal to approximately 4.03% of the ordinary shares making up the share capital, in accordance with the following conditions:

(i) 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 S.p.A., involving a maximum increase in investment of 200 million euro.
(iii) use of the treasury shares purchased within the scope of transactions representing investment opportunities or other transactions involving the allocation or disposal of treasury shares;

It should be noted that the buy-back authorisation only concerns the purchase of ordinary shares, thus excluding the possibility of purchasing derivative financial instruments, and that the number of treasury shares in portfolio at the end of the 2019 financial year was 14,074,512.

3 Compliance (pursuant to art. 123-bis, paragraph 2, letter a), 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 currently in force is available to the public on the Committee for Corporate Governance website, at:
https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2018clean.pdf

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

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

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

Eligibility to submit lists and their composition

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

In addition, in order to ensure the election of the minimum number of independent directors, pursuant to article 17.3 of the Articles of Association, at least two candidates on each list must meet the independence requirements established for Statutory Auditors by article 148, paragraph 3 of Legislative Decree 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A.
The provisions of article 17 of the Articles of Association, as will be modified by the Extraordinary Shareholders' Meeting of 29 April 2020, in implementation of Law 160 of 27 December 2019, also guarantee compliance with current legislation regarding the balance between genders in the administrative and control bodies of listed companies.
If the list voting system does not ensure the minimum gender quota required by law, the candidate of the most represented gender positioned last on the list of candidates elected from the list with the highest number of votes shall be replaced by the candidate of the less-represented gender who was positioned first among the non-elected candidates on the same list and so on, up to the minimum number of directors belonging to the less-represented gender. If the minimum number of directors belonging to the less represented gender still has not been reached even after applying this criterion, the replacement criterion indicated will be applied to the minority lists, starting from the list that received the highest number of votes.

Appointment mechanism
The members of the Board of Directors are appointed in accordance with the provisions of Articles 16 and 17 of the Articles of Association, as will be modified by the Extraordinary Shareholders' Meeting of 29 April 2020, and therefore:

- the company is managed by a Board of Directors composed of 15 members;
- the members of the Board of Directors are appointed on the basis of lists in which the candidates are marked with a progressive number and, in any case, number no more than the number of members to be elected:
- 11 members taken from the list that obtained the highest number of votes according to the rank order in which they were listed, of which at least 4 must be of the less-represented gender;
- for the appointment of the remaining four members, the votes obtained by each of the lists other than the majority list, and which have not been presented or voted for by shareholders connected to the shareholders who presented or voted for the same majority list in accordance with the regulations in force at the time, are subsequently divided by one, two, three and four; The quotients deriving from this division are progressively assigned to the candidates on each list, in the order provided for by the list. Candidates are then arranged in a single descending ranking, according to the quotients assigned to each candidate. The candidates elected shall be those who the highest quotients, in relation to the remaining members to be elected, of which at least one must be of the less-represented gender.

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

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

b) Composition (pursuant to Article 123-bis, paragraph 2, letter d) and d-bis, of the TUF)
The shareholder's meeting held 27 April 2017 has appointed for three financial years a Board of Directors, whose mandate lasts from now until the approval of the financial statement for the 2019 financial year, composed of 15 members, including:

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

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

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

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

List no. 2, presented by the shareholders Arca Fondi S.G.R. S.p.A., manager of the Arca Azioni Italia fund; Eurizon Capital SGR Spa manager of the following funds: Eurizon Progetto Italia 40, Eurizon Progetto Italia 20, Eurizon Azioni Italia, Eurizon Azioni PMI Italia and Eurizon Progetto Italia 70; Eurizon Capital SA manager of the following funds: Equity Italy, Equity Small Mid Cap Italy and Equity Italy Smart Volatility; Fideuram Asset Management (Ireland) manager of the following funds: Fideuram Fund Equity Italy and Fonditalia Equity Italy; Fideuram Investimenti Spa, manager of the Fideuram Italia fund; Interfund Sicav Interfund Equity Italy; Legal & General Assurance (Pensions Management) Limited; Mediolanum Gestione Fondi SGR Spa, manager of: Mediolanum Flessibile Italia and Mediolanum Flessibile Sviluppo Italia funds; Mediolanum International Funds - challenge fund - challenge fund Italian Equity; Pioneer Investment Management SGRpa, manager of the Pioneer Azionario Crescita fund; Pioneer Asset Management SA, manager of the PF Italian Equity and PF European Potential funds, together holders of 19,140,764 Hera shares, corresponding to 1.255% of the Hera Spa shares with voting rights, a list that was voted for by 23.625290% of the share capital present, and containing the names, in ranked order, the following candidates :

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

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

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

Following the shareholders' meeting vote, as well as the subsequent meeting of the Board of Directors held on the same date for the appointment of Executive Chairman, Chief Executive Officer and Vice President, the administrative body was made up as follows:

1. Tomaso Tommasi di Vignano (Chairman of the Executive Committee)
2. Stefano Venier (Chief Executive Officer)
3. Giovanni Basile (Vice Chairman of the Executive Committee)
4. Giorgia Gagliardi
5. Stefano Manara
6. Danilo Manfredi
7. Giovanni Xilo
8. Sara Lorenzon
9. Marina Vignola
10. Aldo Luciano
11. Federica Seganti

12. Erwin Paul Walter Rauhe
13. Massimo Giusti
14. Francesca Fiore
15. Duccio Regoli

It should also be noted that, following the appointment and more precisely with effect from 5 October 2017, director Aldo Luciano resigned from office; the Board of Directors of Hera Spa, pursuant to article 17.10 of the current Articles of Association of Hera Spa and pursuant to article 2386 of the Civil Code, in the meeting of 8 November 2017, through with a resolution approved by the Board of Statutory Auditors, acted to appoint by cooptation Alessandro Melcarne to replace Aldo Luciano, specifying that the co-opted director would remain in office until the next Assembly of Shareholders who, on 28 April 2018, confirmed his appointment.
The current composition of the Board of Directors is indicated below while Table 1 attached to this report provides more detailed information on the composition and functioning of the Board of Directors, as well as the specific section on the Company's website where the personal and professional details of each director are outlined.

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

Diversity Criteria and Policies
The appointment of the Board of Directors took place during the Shareholders' Meeting of 27 April 2017, following the presentation of three lists, one majority and two minority, which guaranteed, in accordance with regulatory provisions currently in force on the balance between genders, that at least 1/3 of the members of the Board of Directors consisted of the less-represented gender (five members of the less-represented gender out of a total of 15 directors).
Of the current 15 directors, five are between 30 and 50 years old, eight are between 50 and 60 years old and two are over 60 years old, for an average age of 52.
The directors possess proven professional competence in financial, economic, and legal matters and in the fields of sustainability, social and environmental issues.
The Board of Directors has expressed a high level of satisfaction with its composition, the characteristics of its components and its functioning.
Furthermore, Hera maintains as a priority the objective of ensuring equal treatment and opportunities between genders, including within the company organization as a whole, on the assumption that:

- differences in gender, culture and origin are now universally recognized as a value and must therefore be managed in the best possible way;

- feeling equal and included leads to the generation of cooperative behaviours at work and fosters an organisational coexistence which promotes greater sharing of the company culture.

Already in 2011, in order to further promote the development and dissemination of a company policy on equal opportunities and equality at work, the figure of the Diversity Manager was established with the aim of fostering the implementation of this company policy on equal opportunities and diversity enhancement.
The mission of Diversity Management can be described in the following macro-points:

- spreading the culture of inclusion among public, private and civil society, and sharing best practices with local institutions and companies to strengthen the social network;
- supporting the management and valorisation of plurality in the company;
- strengthening the Hera Group's role in developing the culture of appreciating differences and fostering work-life balance.

Spreading a culture of diversity, introducing time-saving projects aimed at achieving an effective balance between everyday life and work, health and wellbeing and fostering empowerment have been central themes in the company's work to date.

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.

Induction Programme
In line with past practices, the Board of Directors has taken steps to prepare specific and in-depth discussions at Board meetings, intensifying this action in order to ensure that the directors acquire adequate knowledge of the main issues concerning the Company as quickly as possible.
Starting from previous years, specific induction sessions were carried out to provide directors with adequate knowledge of the main sectors of activity (networks, energy and environment) and several in-depth sessions were prepared, within the meetings of the Board of Administration, focusing on business issues, investments, organization, the market scenario, the evolution of regulations, upcoming tenders, and risk management.
The induction plan and updating sessions related to risk issues (in particular environmental ones) and investments continued in 2019 as well.
Specifically, visits to the Group's plants and production sites were organized; furthermore, in-depth analyses were carried out on risk assessment, crisis management, legislation relating to environmental services, financial risk reports and investments. New protocols have also been adopted with reference to the Organization Model pursuant to Legislative Decree 231/2001 and the periodic Reports of the Internal Controls and Risks Committee were presented.
In 2019 as well, further investigations were carried out as part of strategy day, as a moment of collaborative reflection on the future, with the support of management. These included a session dedicated to the strategic initiatives of competitors and their potential impact on the sector and on the Hera Group.

c) Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)
The Board of Directors is the central administrative body of the Company. In conformity with the recommendations of the Code, whereby the Board of Directors must meet on a regular basis, the Company's Articles of Association require the Board to meet at least every three months and whenever the Chairman considers necessary or when requested by at least one-third of its members or by the Board of Statutory Auditors. In addition, in conformity with the recommendations of the Code, which require the Board to be organised and to operate in such a way as to guarantee the effective and efficient performance of its duties, thereby ensuring the creation of value for shareholders and defining the nature and the level of risk compatible with the issuer's strategic objectives, the Company's Articles of Association provide that the Board of Directors be vested with the widest powers for the ordinary and extraordinary management of the Company without any limitations, with the power to carry out all acts considered necessary or appropriate for the pursuit of the corporate purpose, excluding only those which, by law or by virtue of the Articles of Association, are strictly reserved to the Shareholders' Meeting.
In particular, in accordance with the provisions of the Articles of Association, and in addition to the definition of the structure of the Group, deliberations on the following matters fall to the exclusive competence of the Board:

- appointment and/or removal of the Chairman and Vice Chairman;
- appointment and/or removal of the CEO and/or the General Manager;
- formation and composition of the Executive Committee, appointment and/or removal of the members of the Executive Committee;
- determination of the powers delegated to the Chairman, the CEO and/or the General Manager and/or the Executive Committee, and modification of those powers;
- approval and modification of any long-term plans or business plans;
- approval and modification of Group regulations, if adopted;
- recruitment and/or appointment, on the proposal of the Group CEO, of the managers responsible for each departmental area;
- proposal to place on the agenda of the Shareholders' Meeting the modification of Article 6.4 (shares and shares with 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;
- the acquisition and disposal of equity investments with a value exceeding 500,000 euro (five hundred thousand);
- purchase and/or sale of properties with a value exceeding 500,000 euro;

- provision of sureties, liens and/or other real guarantees with a value exceeding 500,000 euro;
- purchase and/or sale of companies and/or business units;
- appointment of directors of subsidiaries and affiliates;
- participation in calls for tender and/or public procedures involving the assumption of contractual obligations exceeding 25 million euro.

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

The Board of Directors met on 11 occasions in 2019. All the directors took part in 7 of these meetings, while almost all of them took part in the other 4; all the statutory auditors took part in 7 of the meetings, while almost all of them took part in 4. The average length of the meetings of the Board of Directors was approximately two hours and forty minutes.

The high rate of participation of directors in the meetings of the Board of Directors was confirmed in 2019 (equal to 94%), in line with the average data of the companies belonging to the FTSE MIB Index.

The General director of Operations, invited to participate in the meetings of the Board of Directors, attended 10 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 25 March 2020, a total of 4 Board of Directors meetings have been held: all the directors and all of the statutory auditors took part in 1 of these meetings, while the other 3 meetings was were attended by almost all of the current directors and almost all of the current statutory auditors. As of that date, 4 meetings of the Board of Directors had been planned for the remainder of the year.

The Board of Directors, in conformity with the provisions of Article 1.C.1. letter g) of the Code, evaluated the size, composition and functioning of the Board itself and its committees, and confirmed its positive judgement with regard to the functioning of the Board.

This evaluation was carried out with the support of Spencer Stuart, an independent expert on issues of governance experts and administrative body consultancy services.

This company's methodology focuses on the structure and composition of the collegiate body, on the methods of operation the Board has adopted for making decisions, and on the way responsibilities should be defined. The focus is on the effectiveness of the Board and the Committees in performing their corporate policy and control functions.

This proposed methodology aims to grant continuity over time to the activities carried out in past years and is based on the following tools:

1. interviews with the members and chairman of the Board of Statutory Auditors focused on the main areas of interest (size, composition, functioning) of the Board;
2. examination of the corporate documentation (minutes of the Board meetings) and verification of the effectiveness of the actions taken during the last year, to follow up on the comments the Directors expressed during the previous self-assessment;
3. analyses of international best practices and comparison with these practices;

The final results of the project are presented and discussed in an ad hoc session of the Board.

Structured interviews

As indicated, the project takes place through individual interviews with the Directors and the Chairman of the Board of Statutory Auditors.

The interviews are based on an Interview Schedule which is sent to the Directors before the meetings with the Spencer Stuart consultants and which covers corporate governance, the functioning of the board, the composition of the Board, and the exercise of direction and control powers.

Each question requires both a quantitative assessment and a qualitative comment on the topic under examination. The directors express the degree to which they agree with the statements contained in the interview schedule, using an internationally recognized scale.

All the analyses and comments are processed in an absolutely anonymous and confidential manner. By way of example, the thematic areas relating to the end-of-mandate balance sheet and the guidelines for the qualitative and quantitative composition of the Board of Directors are analysed; in addition, as per common practice, the assessment also addresses issues relating to the organization of the Board of Directors and its Committees, the roles and responsibilities of the Directors with a focus on certain key issues, the participation and commitment displayed by the Directors, and the overall effectiveness of the Board of Directors.

Examination of company documents

Hera's corporate documentation is analysed in order to understand the Board the Committees' level of involvement and to verify aspects such as the frequency and average duration of the meetings, methods for presenting proposals, the quality of information given to the Board, the level of participation of the Directors and any managers invited to participate, the contributions the Directors make to the discussions and the quality of the minutes.

Analyses of international best practices
The interviews with the Directors also involve analysing the operating practices adopted by the Hera Board of Directors so as to compare them with the best practices.

The interviews of the directors revealed a very high overall level of appreciation for the way the Board operates: the responses, in accordance with the topics included in the interview schedule, are equal to 92 %.
Spencer Stuart, which supported the Board of Directors in this assessment activity, underlined that the level of appreciation in this case is very high as compared with other Boards in Italy and abroad.

The Board of Directors, in the 25 March 2020 meeting, expressed a positive judgement as to the size, composition and functioning of the Board itself, as well as of the Committees into which it is divided.

In particular, the areas of excellence the Directors appreciated the most include:
- the usefulness of the annual meeting of the Directors;
- the minutes of meetings of the Board, which were precise, exhaustive and faithful;
- the effectiveness of the functions carried out by the Board of Directors as regards risk managmenet;;
- the effectiveness of the functions carried out by the Board of Directors as regards Corporate Social Responsibility – CSR;

the structure of the "crisis management" process.Of the proposals that were identified as part of the Directors' assessments, the following are of note:
- revising, in light of the recent publication of the new Self-Regulatory Code for listed Companies, the Corporate Governance policies;
- continue organising the "Strategy Day", as a time at which the Board can reflect on the future;
- continue with training activities for Directors based on the defined program, including visits to significant operating sites, reinforcing the sessions concerning investments, risks and subsidiaries and jointly controlled companied.

d) Delegated bodies
There are two executive directors on the Hera Board of Directors, the Chairman and the Chief Executive Officer, to whom different company sectors report and to whom the consequent powers have been granted as explained in more detail below.
Neither of the two executive directors can be described as the principal supervisor for the management of the company (chief executive officer).

Chairman of the Board of Directors
The Board of Directors passed a unanimous resolution to grant the following powers to the Chairman:
1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the CEO;
3. to oversee the deliberations of the Company's administrative bodies, without neglecting the reports presented periodically by the Internal Auditing Department;
4. to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;
5. in cases of urgency, in association with the CEO, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
6. in association with the CEO, to propose to the Board of Directors the appointment of Company representatives on the administrative and control bodies of affiliate companies;
7. to represent the company in relations with the shareholding Public Authorities;
8. to propose to the Board the candidates for membership of the Committees that the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or that it intends to establish;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. to supervise the Company's performance for the purposes of achieving the corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
12. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
13. to supervise the management of the Company and, as far as his authority permits, of its subsidiaries, reporting each month to the Board of Directors;
14. to draw up the Long-term Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
15. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
16. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies that do not constitute joint-stock companies, of which the Company is a member, with the power to issue special proxies;
17. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;

18. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (Consob), the Ministry for Foreign Trade, and the Italian Exchange Office, and any other Public Administration or Authority; by way of example:
   a) to sign notices, including notices to the General Register of Shares and to Consob, and to fulfil the corporate obligations provided by law and regulations;
   b) 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 judgements 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 500 thousand euro 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 300 thousand euro for each operation;

22. as far as his authority permits, to stipulate, amend and terminate commercial agreements 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 2 million euro for each transaction;

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

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, for the award of works, plant supplies, including turnkey and / or goods and / or studies and / or research and / or services in general to any national, EU or international entity, public or private; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of 25 million euro for each individual operation - in cases of urgency, the decision concerning amounts exceeding 25 million euro will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;

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 500 thousand euro 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 instalments, the payment, and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro 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 instalments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro 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 5 million euro 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:
    a) settle individual labour disputes concerning all categories of employees;
    b) request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
36. 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. grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
38. as far as his authority permits, decide on the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than 300 thousand euro for each operation;
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: To this end, as far as his authority permits, he:
    a) ensures that the Risk Committee identifies the main business risks, taking into account the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
    b) implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their overall appropriateness, effectiveness and efficiency,
    c) ensures that the system is suited to the dynamics of the operating conditions and of the legislative and regulatory context.
    d) may ask the Internal Auditing Structure to perform checks on specific operational areas, and on compliance with internal rules and procedures in carrying out corporate operations,
    e) promptly informs the Control and Risks Committee (or the Board of Directors) regarding problem areas or issues that emerge in carrying out his activities or of which he has been informed, in order that the Committee (or Board) may take appropriate actions.

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

Chief Executive Officer

The Board of Directors passed a unanimous resolution to grant the following powers to the Chief Executive Officer:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. in cases of urgency, in association with the Chairman, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
3. to implement corporate and Group strategies, within the context of the directives established by the Board of Directors, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
4. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
5. to draw up the annual budget to be submitted to the Board of Directors;
6. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
7. to make monthly reports to the Board of Directors, as far as his authority permits, as regards the specified subsidiary companies;
8. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
9. to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to 1 million euro 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 assign receivables and accept the assignment of receivables claimed by Company suppliers (contracts for reverse factoring and/or indirect factoring) without recourse and/or with recourse up to a maximum amount of 250 million euro per transaction and to operate with companies and factoring institutions by signing all related deeds;

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 500 thousand euro 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, for the award of works, plant supplies, including turnkey and/or goods and/or studies and/or research and/or services in general to any national, EU or international entity, public or private; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of 25 million euro for each individual operation - in cases of urgency, the decision concerning amounts exceeding 25 million euro will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;

18. as far as his authority permits, to stipulate, amend and terminate commercial agreements 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 2 million euro 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 300 thousand euro for each operation;

21. to conclude transactions up to an amount of 5 million euro 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 instalments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro for each operation;

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

24. as far as his authority permits, decide on the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than 300 thousand euro for each operation;

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

a) Marcello Guerrini, as Corporate Systems Central Director.
b) Roberto Barilli, as Operations General Director and in particular for the regulated services planning and coordination department
c) Salvatore Molè, as Innovation Central Director.
d) Franco Fogacci, as Director of Water;
e) Antonio Dondi, as Director of Environmental Services;

   f) Cristian Fabbri, as Director of the Central Market Department (especially for activities regarding district heating, the Imola cogenerator productive unit and all the plants and activities falling under this authority).
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 into account the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
   b) implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their overall appropriateness, effectiveness and efficiency,
   c) ensures 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.
   f) The organisational structure establishes that the Chief Executive Officer oversees the Administration Central Management, Finance and Control Department, Innovation Central Management, Shared Value and Sustainability Central Management, Business Development and Subsidiary Central Management, Market Central Management, and Operations Central Management.

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 at least three days before the meeting, with the exception of cases of necessity and urgency, all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors, in keeping with the specific procedure shared by the Board of Directors as well.
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; and Stefano Venier and Federica Seganti, members.
Subsequently, following the resignation of Federica Seganti from the Executive Committee on 8 November 2018, the Board of Directors, which met on the same date, appointed Alessandro Melcarne to replace her.
In view of the above, the Executive Committee is made up of the following:

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

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

1. as to contracts and agreements pertaining to the corporate purpose with a value exceeding 2 million euro for each individual contract;
2. in the interests of the Company, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, with a value exceeding 300 thousand euro and up to 1 million euro for each operation;
3. as to the Company's subscription to bodies, associations and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the said entity and where participation in the same involves an outlay of more than 300 thousand euro and up to 1 million euro for each operation;
4. to settle disputes and/or waive credits of an amount exceeding 5 million euro;
5. as to the activation, amendment and termination of contracts for the opening of lines of credit or loans of any type and duration involving a cost commitment of more than 1 million euro and up to 5 million euro for each operation;
6. as to issuing calls for tender and/or the stipulation, amendment and termination of contracts for investments relating to:
   - works and supplies necessary for the transformation and maintenance of properties and plants for an amount exceeding 20 million euro for each operation;
   - purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding 10 million euro for each operation;

- The Committee is also responsible for:

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

The Executive Committee met on 6 occasions in 2019, and all of the meetings were attended by all members. The average duration of the meetings of the Executive Committee was one hour and 15 minutes.

f) Independent directors

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

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

The independence of the aforementioned directors had already been assessed, at the time of their appointment, by the Board of Directors, which announced the outcome by means of a press release circulated 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 the case of the over nine-year term of office does not apply to any of the current independent directors, the Board of Directors, in analogy to what has happened in previous years, reserves the right to evaluate the independence of its members in relation to the duration requirement of the assignment on a case-by-case basis in keeping with the principle of substance over form.

During the 25 March 2020 session, in light of the declarations made by each of the non-executive directors and taking into account that the Board of Directors is not aware of any relationships maintained by the current non-executive directors such as to compromise or condition their independent judgment, the Board of Directors confirmed the assessment of its members' independence.
The Board of Statutory Auditors, in compliance with the provisions of article The Board of Statutory Auditors, in conformity with the provisions contained in Article 3.C.5 of the Code, has checked the correct application of the criteria and assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.
During the 2019 financial year, the independent directors, in compliance with the provisions of article 3.C.6 of the Corporate Governance Code, met separately and independently on 18 December 2019.

Lead independent director

It is the right of the independent directors to identify a Lead independent director from among their own members, even though the requirements of the Corporate Governance Code for appointing this figure are not met, since the Chairman is not the main person responsible for the management of the company and does not control the issuer.
None of the 13 independent directors exercised this option and therefore the Board of Directors did not appoint a Lead Independent Director.

5. Handling of corporate information

For the purposes of governing the communication to the sector Authorities and the public of notices, data and price-sensitive information pertaining to the management and activities carried out, the dissemination of which 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 by incorporating the legislative innovations effective as of 3 July 2016 introduced by the European legislation on Market abuse regulation (MAR) (EU Regulation 596/2014, Directive 2014/57/EU, EU Implementation Regulations 2016/347 and 2016/1055), as well as the Consob guidelines on the subject issued in October 2017.
This procedure has the aim of:

I. identifying and ascertaining specific confidential and material information, i.e. information relating to data, events, projects or circumstances that may take on a privileged nature and, consequently, influence the price of Hera shares;
II. defining procedures for authorization and management within the Group;
III. governing the procedures for external communication in terms of documentation, notices issued, interviews given, statements made and meetings conducted.

The aforementioned procedure is aimed at identifying the corporate functions that support top management in identifying and consequently mapping the relevant information, as well as the subjects who have access to it and the moment in which such information can take on the character of inside information, based on the assessments made by top management itself.
In compliance with the provisions of the Consob Guidelines, a so-called Relevant Information List (RIL) is drawn up that includes the names of the subjects who have access to the relevant information as identified following the mapping. The RIL stands alongside the already-existing list of people with access to privileged information, the management and storage methods of which were already updated at the time in compliance with the provisions introduced by the MAR (EU Regulation 596/2014, Directive 2014/57 / EU, EU Implementing Regulation 2016/347), which, in particular, expanded the concept of privileged information, establishing that it is information of a precise nature which has not been made public and which directly or indirectly concerns 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 on the prices of related financial derivative instruments, and introducing the concept of inside information that is part of a protracted process.
Furthermore, in applying the internal dealing procedure updated by Hera Spa following the entry into force of the MAR (EU Regulation 596/2014, Directive 2014/57 / EU, EU Implementing Regulations 2016/523 and 2016/522) relevant subjects, obliged to communicate to Consob the transactions they carry out on the financial instruments of Hera Spa, are considered to include the members of the Board of Directors, the standing auditors, the general managers, and the holders of an equity investment calculated pursuant to article 118 of the Consob Issuers Regulation as equal to at least 10% of the total voting rights that make up the Company's share capital, as well as persons closely associated with them. This procedure governs the timing and methods of communicating the operations carried out by the relevant subjects. Hera S.p.A. has identified the Legal and Corporate Affairs Department as the entity responsible for receiving, managing and disseminating this type of information to the market.
The responsible entity will utilize the External Relations Central Department to disseminate the information to the market.

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

The internal committees, established pursuant to the Borsa Italiana Spa's Code of Conduct, represent an internal organ of the Board of Directors with the role of consulting and making proposals; information on their composition, evaluated at the time of appointment on the basis of the specific skills and professionalism required, 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 has the task of periodically assessing the adequacy, overall consistency and effective application of the policy adopted for the remuneration of executive directors and executives with strategic responsibilities, drawing on the information provided by the managing directors to do so. It makes proposals on this matter to the Board of Directors.
The Committee also submits proposals to the Board or expresses opinions on the remuneration of executive directors and other directors holding particular offices as well as the setting of performance objectives related to the variable component of this remuneration; it also monitors the effective achievement of performance objectives.
In the performance of its functions, the Remuneration Committee has access to the information and business functions necessary for carrying out its duties.
This Committee, established for the first time at the 4 November 2002 meeting of the Board of Directors and last renewed in terms of its composition on 10 May 2017, is composed of the following independent non-executive directors: Giovanni Basile, as Chairman, Francesca Fiore , Massimo Giusti and Stefano Manara.
It should be noted that Chairman Giovanni Basile, as well as member Massimo Giusti, have specific experience in financial matters deemed adequate by the Board of Directors at the time of their appointment. The Chairman of the Board of Directors

and the Group CEO may participate in the Committee's activities following an explicit invitation by the Chairman of the Committee.
The Committee met once in 2019, and this meeting was attended by all the members. The length of the meeting of the Remuneration Committee, duly recorded in the minutes, was approximately two hours.
It should be noted that, in 2019, the Remuneration Committee addressed issues surrounding the reporting of the 2018 variable remuneration (corporate objectives component and welfare component), the reporting of the 2018 variable remuneration for top management, and 2019 remuneration policies for directors and managers (RAL, RGA, RDA).
On the proposal of the Remuneration Committee, with the renewal of the Board of Directors during the Shareholders' Meeting of 27 April 2017, a claw-back clause was introduced that provides for ex-post correction mechanisms in the remuneration system for executive directors, as well as a clause which, in the event of resignation, dismissal or termination of the latter, establishes an indemnity in the amount of 18 monthly salaries.
For additional information, please refer to the Report on remuneration policies and compensation paid pursuant to Article 123-ter of the TUF.

c) Controls and Risks Committee

Composition and functioning of the Controls and Risks Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)
As established by the Code, the Board of Directors, at its meeting of 4 November 2002, passed a resolution to establish the Internal Controls Committee: Subsequently, during the course of the Company's Board of Directors meeting that took place 17 December 2012, in application of updates to the Code of Self-Discipline, the Internal Control Committee took on the additional function of Risk Management Committee in order to manage the Company's risks and support the administrative body in associated assessments and decisions. This Committee, whose composition was renewed on 10 May 2017, is made up of Giovanni Basile as Chairman, Erwin Paul Walter Rauhe, Duccio Regoli and Sara Lorenzon. It should be noted that Chairman Giovanni Basile, as well as member Erwin Paul Walter Rauhe, have specific experience in accounting and financial matters deemed adequate by the Board of Directors at the time of their appointment.
The Control and Risk Committee met seven times in 2019; five sessions were attended by all the members, while two sessions were attended by almost all the members. The average length of the meetings of the Internal Controls Committee, duly recorded in the minutes, was approximately one hour and forty minutes.

Functions assigned to the Controls and Risks Committee
The Control and Risk Committee is tasked with supervising the functionality of the internal control system, the efficiency of company processes and the reliability of the information provided to corporate bodies and the market, as well as compliance with laws and regulations and the protection of corporate assets.
The Controls and Risks Committee is furthermore tasked with supporting, through appropriate information-gathering activities, 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.
In carrying out its supportive role in relation to the Board of Directors, the Committee therefore expresses its judgment concerning:

- 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;
- 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;
- at least on an annual basis, the work plan drafted by the Supervisor of the Internal Auditing Structure in consultation with the Board of Statutory Auditors and the Directors in charge of the internal control and risk management system.

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

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

During the course of the meetings held during 2019 financial year, which were duly recorded, the following measures were carried out:

- examining and approving periodic reports;
- updating ongoing and completed audits;
- drafting the 2020 Audit Plan and 2020 Budget of the Department of Internal Auditing;

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 2019, and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy and efficacy of the internal control and risk management system, including in terms of sustainability, in relation to the features of the company and the type of risk undertaken, also considering its subsidiaries with strategic importance.

d) Ethics and Sustainability Committee

Composition and functioning
During its meeting of 12 September 2007, the Board of Directors of Hera S.p.A. established the text of the mission and values and working principles of the Group, and consequently approved the updated version of the Code of Ethics that constitutes a social responsibility tool for the Company in implementing ethical principles inspired by good practices and aimed at the pursuit of the Company's mission.
Therefore, in implementing the aforementioned code, the Board of Directors, in its 8 October 2007 meeting, set up a special Committee made up of three members, at least one of whom is a director of the Company, and two experts on matters of social responsibility and the issues addressed by Legislative Decree 231/01, also highlighting that at least one member must be external.
Subsequently, in its 8 November 2018 meeting, the Hera Board of Directors, in compliance with the provisions of article 4 (Establishment and functioning of the internal committees of the Board of Directors) of the current Corporate Governance Code for listed companies of Borsa Italiana Spa, has deemed it appropriate to assign the Ethics Committee the functions of supervising the sustainability issues connected with exercising company activities and the dynamics of interaction with all stakeholders. It further decided to change the committee's name to the Ethics and Sustainability Committee and to expand its composition, raising the number of members from three to four, including two Directors of Hera Spa.
The Committee, renewed on 10 May 2017, is thus composed of two directors of Hera Spa, namely Massimo Giusti, Chairman, and Federica Seganti, appointed on 8 November 2018, as well as Mario Viviani and a manager with expertise in social responsibility.
The Board of Directors of Hera Spa, in its18 December 2019 meeting, resolved to once again update the code, adopting a fifth edition following a participatory process that involved the top management of Hera and Group employees involved through various corporate communication systems, as well as the Group's social partners. Benchmarking analyses were also carried out on other companies and meetings were held involving Group managers, middle managers and executives as spokespersons to report on previous seminars.
The Ethics and Sustainability Committee met seven times in 2019; five sessions were attended by all the members, while two sessions were attended by almost all the members. The average duration of the meetings of the Committee was approximately one hour and thirty minutes

Functions of the Ethics and Sustainability Committee
The Ethics and Sustainability Committee is responsible for monitoring the dissemination and implementation of as well as compliance with the principles of the code of ethics. Since 2008, when the code of ethics went into effect, a special confidential, direct channel has been activated between the Committee and any stakeholders interested in reporting any conduct in violation of the code and values promoted by the Group.
In the meetings held during the year, the Committee examined the reports sent in and conducted consequent investigations with the departments in question, evaluated the contents of the 2018 Sustainability Report, and launched the process of updating the Code of Ethics.

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.

Risk Corporate Governance
Hera's organizational structure is designed for optimal management of any risk exposure arising from its business; it benefits from an integrated approach, aimed to uphold management effectiveness and profitability across the entire value chain.
The corporate governance system for risk management implemented by the Group enables organisational strategies to be handled uniformly and consistently (Enterprise risk management).
For a more detailed description, please refer to paragraph 1.02.01 Risk governance of the Management Report.

The Risk Committee

The Risk Committee was appointed by the Board of Directors on 28 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. Furthermore, 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 General Director of Hera Trading Srl are also expected to attend.

The significant risks dealt with by the Risk Committee comprise the following areas: strategic, economic, financial, regulatory, competitive, technological, environmental and related to human capital.
In 2019 the Risk Committee met four times and provided information on risk management to the Board of Directors in the meetings of 20 February and 30 July 2019.

The Group's risk management structure
In the overall design of the risk management process, Hera has adopted a structured approach that mirrors industry best practices, through the introduction of Enterprise risk management (ERM). This stance is aimed at formulating a systematic and coherent approach to the control and management of risks and creating an effective model of direction, monitoring and representation so as to ensure management processes are appropriate and consistent with the objectives set by top management.
For a more detailed description, please refer to paragraph 1.02.02, Management methods, in the Management Report.
On 20 January 2016, the first ERM report was presented to the Board of Directors with a mapping of the Group's risks, accompanied by the appropriate assessment measures for each individual and consolidated risk (impact, probability, severity, control levels). At that time, the Board of Directors approved the Hera Group risk management policy Guidelines and risk limits for 2016.
On 15 February 2017, the second ERM report was presented to the Board of Directors that extended the perimeter of reference and the set and types of risks subject to control. On the same occasion, the limits for 2017 and updating of the Hera Group risk management policy Guidelines were approved.
On 27 September 2017, information was presented to the Board of Directors regarding risk management activities within the Group.
In particular, the following pertinent issues were addressed:

- the lines of defence against risks and the structure of governance;
- Compliance with Law 262/2005 and compliance with Legislative Decree 231/2001, clarifying the role of the Financial Reporting Manager and the Supervisory Body in their respective reports to the Board of Directors;
- risk management governance, clarifying the role of the Risk Committee, in particular in conveying information flows to the Board of Directors, the Board of Statutory Auditors, and the Control and Risk Committee and Internal Auditing, and the governance system implemented through the adoption of the ERM with its assignment of the role of strategic direction to the Board of Directors, which is responsible for deciding on the Group's risk profile and approving the Hera Group risk management policy Guidelines.

On 10 January 2018, the third ERM report was presented to the Board of Directors.
On 10 January 2019, the fourth ERM report was presented to the Board of Directors.
On 10 January 2020, the fifth ERM report was presented to the Board of Directors with an expansion of the reference perimeter and the set of risks subject to control and backtesting of the risks relating to the previous ERM analysis. The risk limits for the year 2020 were also approved, as was the update of the Hera Group risk management policy guidelines.

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

Introduction
The internal control and risk management system specific to financial reporting is designed to ensure the reliability, accuracy and timeliness of company information on financial statements and the ability of the relevant business processes to produce such information in accordance with the Group's accounting principles.
The internal control and risk management system in relation to Hera's financial information process is inspired by the CoSO Framework (issued by the Committee of Sponsoring Organizations of the Treadway Commission), an internationally recognized model.
The definition of the internal control and risk management system was established in keeping with applicable norms and regulations:

- Legislative Decree no. 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 the legislative decree to assimilate the Transparency Directive (2004/109/CE) regarding information on listed companies, approved on 30 October 2007), regarding the drafting of corporate financial document;
- 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 in corporate management (Article 2434 c.c.), for disloyalty crime originating from conferred or promised utility (Article 2635 and 2635 Bis c.c.) and for the crime of obstructing the functions of public and surveillance authorities (Article 2638 c.c.) to the Appointed Managers in charge of drafting corporate financial documents;

- Legislative Decree no. 231/2001 that references the above-mentioned regulations of the Civil Code and the administrative responsibility of legal subjects for crimes committed against the Public Administration and includes the Appointed Manager in charge of drafting corporate financial documents among the Apical Subjects.

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

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

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

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

- Risk assessment for the identification, updating and evaluation of risks regarding company information;
- identifying controls and updates for financial-administrative procedures in view of the identified risks;
- Evaluating the identified risks.

Step 1: Risk Assessment

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

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

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

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

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

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

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

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

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

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 defines a series of reports synthesizing the results of the assessments of controls in relation to the risks previously identified on the basis of the outcomes of the monitoring activities performed.

After having been shared with the CEO, the prepared Executive Summary is communicated to Hera 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 with effect from 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 Hera Spa 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

In 2017, the new Internal Auditing Director was appointed to ensure the adequate functioning of the internal control and risk management system, reporting to the Vice Chairman.

The Internal Auditing department provides a report on its activities, every three months or whenever it is considered 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 its 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. In particular, the law introduced the criminal liability of entities for certain offences committed in the interest or to the advantage of those entities by persons fulfilling roles of representation, administration or management of the entity or of one of its organisational units with financial and operational independence, or by persons who exercise management and control thereof, including on a de facto basis, and lastly, by persons subject to the direction or supervision of one of the above-mentioned parties. Significant offences are those committed against Public Administration and corporate offences committed in the interest of the companies.

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

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

At present, the organisational, management and control model pursuant to Legislative Decree no. 231/2001 includes 25 protocols, implemented over time and relating to individual sensitive areas, which aim to ensure transparency and a sense of responsibility in internal relations and with the outside world.

For each process at risk, the protocols identify principles, roles and responsibilities to be followed in managing the activities and define the periodic information flows used to monitor them.
Each protocol ensures that the Supervisory Body engages in constant monitoring of activities at risk.
The procedures adopted incorporate the principles of the code of ethics in order to guide Group management according to the values and operating principles defined in the Charter of Values.
Risk factors and critical issues were identified and weighed through risk assessments carried ou on the Group's business areas and infrastructure processes. The specific risks inherent in these 231 areas are defined by the Supervisory Body in an annual auditing plan that takes into account risk assessments, the coverage of new processes, regulatory developments and the extension of the scope of activities of Group companies.
The model involves establishing an ongoing legal compliance check, drafting the Audit Report on the effective implementation of the protocols in Group companies falling within the 231 perimeter, providing assistance with drafting re-entry plans in adopting the recommendations outlined in the report, and carrying out specific follow-ups to verify that re-entry plans have been implemented and the critical points highlighted have actually been resolved.
The model entails an informative and training component that targets the subjects involved in sensitive processes in order to raise awareness about prohibited and mandatory behaviours, create awareness of the related ethical behaviours and promote a Group culture for managing corporate risks.
An integral part of the model is the Supervisory Body's bi-annual examination of the information flows concerning activities at risk.
The risk analysis document with its related audit plan is drawn up for the whole Group every three years, the last of which refers to the period 2019-2021.
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 has also instituted the Supervisory Body, approving its regulations:
This body, currently made up of an external member with the role of Chairman, the Legal and Corporate Central Director of Hera Spa, and the Internal Auditing Director of Hera Spa, has the specific task of periodically reporting to the corporate bodies of the Parent Company regarding implementation of the organizational model pursuant to Legislative Decree 231/2001and will remain in office until the date of the Shareholders' Meeting approving the financial statements as of 31 December 2019.
The Supervisory Body met times in 2019; five sessions were attended by all the members, while one session was attended by almost all the members.
The average length of the meetings of the Supervisory Body was approximately one hour.
The Supervisory Body approved and updated the 231 protocols that make up the organizational model, examined the system of information flows that allow it to supervise the functioning and observance of the models and examined reports made following audits, as well as consulting legislative developments pursuant to Legislative Decree 231/2001 and planning additional activities.
In addition to the aforementioned meetings, the Supervisory Body met two more times to engage with the Board of Statutory Auditors of Hera Spa and the Board of Directors of a Group company.
In order to carry out the checks and controls, the Supervisory Board drew up a schedule of measures for verifying compliance with the protocols adopted.

Corruption prevention model.

In 2019, Hera Spa obtained the ISO 37001 certification for the prevention of corruption. The Hera Group has consequently adopted a management system for corruption prevention that is integrated into the organization, management and control model pursuant to Legislative Decree 231/01, the foundations of which are rooted in the principles and values expressed in the code of ethics and in the quality and sustainability policy.
Along these lines, the Group has set up a model for corruption prevention which involves establishing a Compliance Department for the prevention of corruption that coincides with the Supervisory Body, to oversee the management system for preventing corruption.
The main responsibilities/functions of the Corruption Prevention Compliance Department are:
a) overseeing the design and implementation of the management system for the prevention of corruption;
b) providing advice and guidance to staff (defined as employees at all levels and subjects entrusted with positions of collaboration, including internships and traineeships) about the management system for preventing corruption and corruption issues;
c) ensuring that the management system for corruption prevention complies with the requirements of UNI ISO 37001;
d) duly reporting on the functioning of the management system for corruption prevention to the Board of Directors and top management.
Hera Group top management and management staff are personally committed to respecting the model for corruption prevention, including by carrying out awareness-raising and dissemination activities for the principles of the rules aimed at preventing corrupt acts in their own departments.
The corruption prevention model concerns everyone who works for the Hera Group.

In 2019 the Hera Group also approved the procedure for defining the so-called whistleblowing system, aimed at preventing the risk of crimes and combating possible violations and fostering the culture of ethics and legality.

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

f) Appointed Manager in charge of drafting corporate financial reports and other corporate roles and functions.
In compliance with the provisions of the TUF and the Company's Articles of Association, in consultation with the Board of Statutory Auditors, the Board of Directors resolved on 1 October 2014 to appoint Luca Moroni to the role of Finance and Control Administration Central Director, in the post of Appointed Manager in charge of drafting corporate financial reports. He is in possession of the professional qualifications set forth in Article 29 of the Company's Articles of Association, in compliance with the TUF (Article 154-bis, paragraph 1).
The Appointed Manager is tasked with establishing adequate financial and administrative procedures for the creation of the financial statement and consolidated financial statement as well as any other financial communication. To this end, the Appointed Manager will have access to a dedicated budget approved by the Board of Directors and an adequate organizational structure (in terms of quantity and quality of resources) dedicated to the preparation/updating of financial-administrative procedures and periodical assessment activities concerning the suitability and actual application of financial-administrative rules and procedures. If the internal resources prove to be insufficient for the suitable management of these activities, the Appointed Manager is permitted to exercise the power of expenditure granted to him or her.
The Board of Directors verify that the Appointed Manager has access to adequate powers and means to carry out the tasks entrusted to him or her by Article 154-bis, and also to 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:

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

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

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

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

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

8 The Interests of Directors and Transactions with Related Parties

At its meeting of 10 October 2006, the Board of Directors of Hera S.p.A. approved, in compliance with Articles 1 and 9 of the then-in force Corporate Governance Code, guidelines for significant transactions, transactions with related parties and transactions in which a director has an interest (Guidelines), in order to ensure that these transactions are conducted transparently and in conformity with the criteria of substantive and procedural correctness.
Subsequently, the Board of Directors of Hera S.p.A. approved the new procedure for transactions with Related Parties (Procedure) in compliance with the provisions of the Consob Regulation adopted by virtue of Resolution no. 17221 of 12 March 2010 and subsequent amendments and integrations thereto ("Consob Regulation"), later updated on 21 December 2015.
The Procedure cancels and completely replaces the rules on transactions with Related Parties contained in the Guidelines, but there is no change to the existing rules set out in the Guidelines concerning significant transactions and transactions in which a director has an interest.
In the Procedure, the Board of Directors fully adopted the definitions of Related 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, that is, 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, that is transactions with Related Parties that are neither of Major Importance nor of Negligible Amount;
- framework resolutions, that is, that series of transactions with Related Parties;
- Ordinary Transactions, that is, 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 amount;

- Transactions of negligible amount, that is, transactions for which the maximum foreseeable amount of the consideration or of the value of the service does not exceed the sum of 1 million euro for each transaction;
- 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 transactions with related parties (hereinafter referred to as the Committee) regarding the interest, appropriateness and substantive correctness of the transaction;
- transactions of major importance falling with the competence of the Board of Directors, in which the Committee must be involved in the negotiation and investigation phases and in which the transaction may be approved following the receipt of a reasoned favourable opinion from the Committee regarding the interest, appropriateness and substantive correctness of the transaction, 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 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.

9 Appointment of the statutory auditors

List voting

The auditors are appointed by the shareholders' meeting on the basis of the voting list system set forth in Article 26 of the Articles of Association, as will be modified by the Extraordinary Shareholders' Meeting of 29 April 2020, in implementation of Law 160 of 27 December 2019 and the subsequent Consob Communication no. 1 of 30 January 2020, in order to ensure the appointment of a statutory auditor, acting as Chairman, and an alternate auditor, in compliance with the applicable gender balance legislation.
In accordance with Article 25 of the Articles of Association, the office of Statutory Auditor is incompatible with the offices of councillor or alderman in regional public authorities, as well as with that of Statutory Auditor in more than three listed companies other than subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code and Article 93 of Legislative Decree no. 58/98. In the latter case, a Statutory Auditor who subsequently exceeds this limit will automatically forfeit the office of Statutory Auditor of the Company.
Article 26 of the Articles of Association governs the terms and conditions for filing and publishing lists, as well as the related documentation, in compliance with current regulations.

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

Eligibility to submit lists and their composition

Shareholders who alone or together with other shareholders represent at least 1% of the share capital with voting rights in the ordinary shareholders' meeting, or the alternative percentage required by current legislation and indicated in the notice of call, may submit lists.
In this regard, it should be noted that, on the occasion of the last renewal of the administrative body which took place at the Shareholders' Meeting of 27 April 2017, the shareholding required for presenting lists of candidates for the election of the sitting administrative body was identified by Consob (through Resolution No. 19856 of 25 January 2017) in the amount of 1%, equal to the percentage provided for in article 26.2 of the current Articles of Association.

In particular, (i) municipalities, provinces and consortia constituted pursuant to Article 31 of Legislative Decree no. 267/2000 or other entities or public authorities, as well as consortia or joint-stock companies controlled, directly or indirectly, by these may present a single list and (ii) the shareholders not indicated in (i) may submit lists provided that they represent at least 1% of the shares with voting rights or the percentage established by current regulation and indicated in the notice concerning the meeting.
In order to demonstrate ownership of the number of shares necessary for presenting lists, shareholders must file the appropriate certification proving ownership of the number of shares represented at the registered office within the deadline set by the Company for posting the lists.

The lists contain a number of candidates not exceeding the number of members to be elected, listed by means of progressive numbering. Each candidate may appear on only one list under penalty of ineligibility. Each list must contain a number of candidates belonging to the less- represented gender that ensures compliance with the balance between genders, at least to the minimum extent required by current legislation, including regulations.

Appointment mechanism
The members of the Supervisory Body are appointed in accordance with the provisions of Article 26 of the Articles of Association:

- The Board of Statutory Auditors comprises three standing members and two alternate members.
- two standing auditors and one alternate auditor will be taken from the list that obtains the highest number of votes cast by the shareholders, in the progressive order in which they are listed, of which at least one standing auditor of the less-represented gender;
- the third standing auditor and the other alternate auditor will be taken from the other lists, electing respectively the first and second candidates on the list that receive the second highest number of votes, of which at least one alternate auditor to be of the less-represented gender. In the event of a tie between two or more lists, the oldest candidate will be elected as statutory auditor, in compliance with the gender balance required by applicable legislation, including regulations;
- If the list voting system does not ensure the minimum number of standing and alternate auditors of the less-represented gender required by law, the candidate of the most represented gender positioned last on the list of candidates elected from the list with the highest number of votes shall be replaced by the candidate of the less-represented gender who was positioned first among the non-elected candidates on the same list and so on, up to the minimum number of directors belonging to the less-represented gender. If the minimum number of directors belonging to the less-represented gender still has not been reached even after applying this criterion, the replacement criterion indicated will be applied to the minority lists, starting from the list that received the highest number of votes.
- the Board of Statutory Auditors is chaired by the first candidate on the list obtaining the second highest percentage of votes. In the event of a tie between two or more lists, the oldest candidate will be elected as statutory auditor, in compliance with the gender balance required by current legislation, including regulations;
- for the appointment of statutory auditors who for whatever reason are not appointed by the list voting procedure, the shareholders' meeting resolves with the majorities required by law, in compliance with the gender balance required by applicable legislation, including regulations.

Replacing members of the Board of Statutory Auditors
In the event of the replacement of a sitting Statutory Auditor, he or she will be succeeded by the alternate Auditor belonging to the same list as the Auditor to be replaced, respecting the principles of minority representation and gender balance.
The appointment of auditors to round out the Board of Statutory Auditors, pursuant to article 2401 of the Civil Code, will be carried out by the shareholders' meeting with the majorities provided for by the law, from among the names submitted by the same shareholders presenting the list to which the auditor who left the office belonged, in compliance with the principle of necessary representation of minorities and gender balance; where this is not possible, the shareholders' meeting will have to proceed with the replacement with the majorities required by law, in compliance with the gender balance rules set forth by applicable legislation, including regulations.

Composition and functioning of the Board of Statutory Auditors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)
The Shareholders' Meeting of 27 April 2017 appointed a Board of Statutory Auditors made up of three standing members and two alternates, currently in office until the approval of the financial statements for the 2019 financial year, the composition of which complies with applicable regulations regarding gender balance.
This appointment was made through the list voting mechanism, in order to guarantee the minority lists the right to appoint a standing auditor, with the function of Chairman, and an alternate auditor.
At the Shareholders' Meeting of 27 April 2017 mentioned above, three lists of candidates were presented, listed below along with an indication of their proposing Shareholders:

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

Standing Auditors
1. Marianna Girolomini
2. Antonio Gaiani

Alternate Auditors
1. Valeria Bortolotti

List no. 2, presented by the shareholders Arca Fondi S.G.R. S.p.A., manager of the Arca Azioni Italia fund; Eurizon Capital SGR Spa manager of the following funds: Eurizon Progetto Italia 40, Eurizon Progetto Italia 20, Eurizon Azioni Italia, Eurizon Azioni PMI Italia and Eurizon Progetto Italia 70; Eurizon Capital SA manager of the following funds: Equity Italy, Equity Small Mid Cap Italy and Equity Italy Smart Volatility; Fideuram Asset Management (Ireland) manager of the following funds: Fideuram Fund Equity Italy and Fonditalia Equity Italy; Fideuram Investimenti Spa, manager of the Fideuram Italia fund; Interfund Sicav Interfund Equity Italy; Legal & General Assurance (Pensions Management) Limited; Mediolanum Gestione Fondi SGR Spa, manager of: Mediolanum Flessibile Italia and Mediolanum Flessibile Sviluppo Italia funds; Mediolanum International Funds - challenge fund - challenge fund Italian Equity; Pioneer Investment Management SGRpa, manager of the Pioneer Azionario Crescita fund; Pioneer Asset Management SA, manager of the PF Italian Equity and PF European Potential funds, together holders of of 19,140,764 Hera shares, corresponding to 1.285% of the Hera Spa shares with voting rights, a list that was voted for by 23.794414% of the share capital present, and containing the names, in ranked order, the following candidates:

Standing Auditors
1. Myriam Amato

Alternate Auditors
1. Stefano Gnocchi
2. Emanuela Rollino

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

Standing Auditors
1. Elisabetta Baldazzi

Alternate Auditors
1. Antonio Venturini

Following the shareholders' meeting vote, the Supervisory Body was made up as follows:
1. Myriam Amato Chairman
2. Marianna Girolomini Standing Auditor
3. Antonio Gaiani Standing Auditor
4. Valeria Bortolotti Alternate Auditor
5. Stefano Gnocchi Alternate Auditor

From the date of appointment to that of this report, there have been no changes in the composition of the body.
For the current composition of the Board of Statutory Auditors please see Table 2, noting that the personal and professional details of each member are available on the website www.gruppohera.it

The Board of Statutory Auditors, in compliance with the provisions of article 8 of the Code, has checked the correct application of the criteria and assessment procedures adopted for ascertaining the independence of its members including for the purposes of Article 144-novies of the Issuer's Regulation.
The independence of the aforementioned auditors had already been assessed, at the time of their appointment, by the Board of Directors, which announced the outcome by means of a press release circulated to the market.
At the meeting of 12 March 2019, in light of the declarations made by each auditor, the Board of Statutory Auditors confirmed the independence of its members.
In the same session, the Board of Statutory Auditors also carried out its own self-assessment, based on an analysis of the suitability of its members and the adequate composition of the body with reference to the requirements of professionalism, competence and integrity set forth by current legislation.
For the purposes of the aforementioned self-assessment, the Board carried out information-gathering and evaluations by requesting its members to provide information and data relating to qualitative, quantitative and operational profiles.
In particular

- it ascertained that its members meet the requirements of independence, honorability, professionalism, competence and experience;
- have adequate time and resources to carry out the assignment, respect the limit on multiple positions, and are properly composed with reference to gender balance and the age of members.

As regards its overall operations, the Board of Statutory Auditors gave an adequate evaluation to:

- the way the meetings were carried out;
- the Chairman's activity;
- the Exchange of significant corporate information (with Auditing firms, Supervisory bodies, Internal audit functions, Intra-Board committees and the company's Directors);
- participation in the meetings of the Board of Directors and Intra-Board committees.

The Board of Statutory Auditors met 15 times in 2019; 9 of these meetings were attended by all statutory auditors, while 6 were attended by almost all of them. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours.

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

Diversity Criteria and Policies
The appointment of the Board of Statutory Auditors took place during the Shareholders' Meeting of 27 April 2017, following the presentation of three lists, one majority and two minority, which also guaranteed the composition of the board meet regulatory provisions regarding gender balance (three members of the less-represented gender out of a total of five members).
The members of the Board of Statutory Auditors have an average age of about 49 years: two members are between 40 and 50 years old and one member is between 50 and 60 years old.
The Board of Statutory Auditors expressed a high level of appreciation as part of its self-assessment activities, specifically with reference to its functioning and composition and the characteristics of its members, particularly the requirements of eligibility, independence, integrity and professionalism established by current legislation, including according to the matters and sectors of activity connected to or inherent in the activities of the Companies as pursuant to article 4 of the Articles of Association.

10 Relations with shareholders

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

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

Ordinary and extraordinary shareholders' meetings are called in the circumstances and manner provided for by law; they are held at the registered office or even at other locations, provided these are in Italy.
The full text of the proposed resolutions, together with the illustrative reports and documents that will be submitted to the Shareholders' Meeting, are made available to the public at the company's registered offices and on the Company's website www.gruppohera.it, as well as on the authorized storage site 1Info www.1Info.it within the legal deadline for each of the matters under discussion.

The shareholders entitled to participate in the Shareholders' Meeting are those entitled to vote, pursuant to the law, at the end of the accounting day coinciding with the record date and for which the Company has received the relative communication made by the authorized intermediary by the end of the third trading day preceding the date set for the Shareholders' Meeting. However, the legitimate right to participate and vote remains if these communications are received after this deadline, provided that they are received by the beginning of the meeting. Those who become owners of shares only subsequent to this deadline will not have the right to participate in and vote at the Shareholders' Meeting.

Any person entitled to attend may be represented at the Shareholders' Meeting in accordance with the law, exercising the right to use the proxy form available on the Company's website for this purpose, and the methods that interested parties can use to notify the Company of proxies are also available electronically on this site.
At each Shareholders' Meeting, the Company identifies a person to whom the holders of voting rights will be able to confer a proxy with voting instructions covering all or some of the agenda items. The proxy to the aforementioned representative must be conferred by the end of the second open market day prior to the date of the Shareholders' Meeting, in the manner specified on the Company's website and using the specific proxy form provided there.
The proxy to the designated representative has no effect with regard to proposals for which voting instructions have not been given.

Shareholders can ask questions about the items on the agenda even before the Shareholders' Meeting, in the manner indicated on the Company's website.
Shareholders who, even jointly, represent one fortieth of the share capital, can submit a request within ten days of the publication of this notice asking that items be added to the matters to be discussed, indicating in the request the additional topics proposed, or presenting proposed resolutions on the items already on the agenda. Requests must be submitted in writing in the manner indicated on the Company website.

In accordance with Article 13 of the Articles of Association, the Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in his/her absence, by a person elected by the Shareholders' Meeting itself through a majority vote by those present. The Chairman of the Shareholders 'Meeting appoints a secretary, verifies that it has been constituted properly, ascertains the identity and legitimacy of those present and regulates the Shareholders' Meeting, in compliance with the meeting regulations, ascertaining the results of voting.

In accordance with Article 14 of the Articles of Association, both ordinary and extraordinary shareholders' meetings and their related resolutions are valid if made with the attendance requirements and majorities established by law.
Resolutions by the Extraordinary Shareholders' Meeting concerning amendments to articles 6.4 (shares and increased voting rights), 7 (public majority shareholding), 8 (limits on share ownership), 14 (validity of Shareholders' Meetings and right of veto) and 17 (appointment of the Board of Directors) of the Articles of Association will be valid if made with a yes-vote by at least 3/4 of shareholders with voting rights participating in the Shareholders' Meeting, rounded down if necessary.

The shareholders' meeting of 29 April 2003 approved the text of the meeting regulations, the updated version of which is published on the Company website at www.gruppohera.it, which indicate 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 2019 financial year, one shareholders' meeting was held on 30 April, which was attended by 10 directors.

12 Considerations regarding the 19 December 2019 letter from the Chairman of the Corporate Governance Committee

The Board of Directors, in relation to the letter sent on 19 December 2019 to the Chairmen of the administrative bodies of listed Italian companies by the Chairman of the Corporate Governance Committee, together with the seventh annual Report on the application of the Corporate Governance Code, attached to it, responded to the invitation issued by the Executive Chairman to examine the recommendations made therein, and specifically states the following:

- The Board of Directors, in conformity with the provisions of Article 1.C.1 paragraph b) as well as article 4 of the current Corporate Governance Code, has assigned the Ethics Committee the functions of supervising the sustainability issues connected with exercising company activities and the dynamics of interaction with all stakeholders, changing its name to the Ethics and Sustainability Committee and expanding its composition from three members to four. In particular, the Ethics and Sustainability Committee was tasked with monitoring the implementation of sustainability policies, with formulating, on request by the Board of Directors, opinions about specific sustainability issues, with examining corporate procedures on social and environmental matters and with reviewing the sustainability report to be submitted to the Board of Directors ahead of time. During 2019, the Hera Group also approved a Quality and Sustainability Policy which takes into account the management system for corruption prevention with the aim of pursuing a growth strategy aimed at creating shared value, in part to contribute to the achievement of the objectives of the UN 2030 Agenda.
- has continued to ensure the timeliness, thoroughness and usability of pre-meeting information by providing to each director and statutory auditor, at least three days before the meeting with the exception of cases of necessity and urgency, all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors, in keeping with the specific procedure shared by the Board of Directors as well. The members of the Board of Directors once again expressed a positive opinion of the timeliness with which such documentation is made available during their self-assessment, and this opinion was echoed by the company Spencer Stuart, who supported the Board of Directors in their self-assessment;
- has continued to apply the independence criteria established by the Code and by the current legislation for the assessment of the independence of its members in an accurate manner, reserving the right to verify the position duration requirement on a case-by-case basis in accordance with the principle of substance over form. At the same time, the Supervisory Body maintained a high level of attention in overseeing that the aforementioned independence criteria are properly applied;
- the Remuneration Committee and the Board of Directors of Hera believe that the remuneration attributed to non-executive directors and members of the control body is appropriate in relation to the competence, professionalism and commitment required in performing their role.

Table 1: structure of the Board of Directors and Committees

Board of Directors												Control and risks		Remuneration committee		Appointment committee		Exectuive committee		Ethics and sustainability	
Position	Component	birth year	date first appointed *	in office since	in office until	Exec.	Non-exec.	Code of Indep.	TUF indip. Req.	No. of other offices	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Tomaso Tommasi di Vignano	1947	04-nov-02	27-apr-17	Approv. 2019 FS	X				-	11/11							6/6	C		
CEO	Stefano Venier	1963	23-apr-14	27-apr-17	Approv. 2019 FS	X				-	11/11							6/6	M		
Vice Chairman	Giovanni Basile	1965	23-apr-14	27-apr-17	Approv. 2019 FS		X	X	X	-	10/11	7/7	C	1/1	C			6/6	M		
Director	Francesca Fiore	1967	27-apr-17	27-apr-17	Approv. 2019 FS		X	X	X	2	11/11			1/1	M						
Director	Giorgia Gagliardi	1982	23-apr-14	27-apr-17	Approv. 2019 FS		X	X	X	-	11/11										
Director	Massimo Giusti	1967	23-apr-14	27-apr-17	Approv. 2019 FS		X	X	X	2	111/11			1/1	M					8/8	C
Director	Sara Lorenzon	1981	27-apr-17	27-apr-17	Approv. 2019 FS		X	X	X	-	10/10	07-giu	M								
Director	Stefano Manara	1968	28-ago-13	27-apr-17	Approv. 2019 FS		X	X	X	1	10/10			1/1	M	Not present					
Director	Danilo Manfredi	1969	23-apr-14	27-apr-17	Approv. 2019 FS		X	X	X	-	9/11										
Director	Alessandro Melcarne	1984	08-nov-17	08-nov-17	Approv. 2019 FS		X	X	X	-	10/11							6/6	M		
Director	Erwin P.W Rauhe	1955	27-apr-17	27-apr-17	Approv. 2019 FS		X	X	X	2	11/11	7/7	M								
Director	Duccio Regoli	1961	27-apr-17	27-apr-17	Approv. 2019 FS		X	X	X	-	11/11	07-giu	M								
Director	Federica Seganti	1966	27-apr-17	27-apr-17	Approv. 2019 FS		X	X	X	4	11/11									6/7	M
Director	Marina Vignola	1970	27-apr-17	27-apr-17	Approv. 2019 FS		X	X	X	-	9/11										
Director	Giovanni Xilo	1962	27-apr-17	27-apr-17	Approv. 2019 FS		X	X	X	-	11/11										
Indicate the quorum required for the presentation of lists at the time of the last appointment: at least 1% of shares with voting rights in the ordinary shareholders' meeting (art. 17.5 of the Articles of Association).																					
No. of meetings held during the financial year in question: 11									Crc: 7		Rc: 1			Ac: /				Ec: 6		Ethics and sustainability 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 to 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, respectively (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									
Position	Component	Birth year	Date first appointed *	In office since	In office until	List **	Code of Indep.	*** (%)	No. of other offices held ****
Chairman	Myriam Amato	1974	27-Apr-17	27-Apr-17	Appr. Bil. 2019	m	X	12/15	1
Standing auditor	Girolomini Marianna	1970	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	15/15	-
Standing auditor	Gaiani Antonio	1965	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	12/15	-
Alternate auditor	Gnocchi Stefano	1974	27-Apr-17	27-Apr-17	Appr. Bil. 2019	m	X	-	2
Alternate auditor	Bortolotti Valeria	1950	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	-	-

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

No. of meetings held during the financial year in question: 15

* 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: Positions the directors hold in other companies

Name, last name	Position	Other positions (*)
Tomaso Tommasi di Vignano	Chairman	
Stefano Venier	Chief Executive Officer	
Giovanni Basile	Vice Chairman	
Francesca Fiore	Director	Member of supervisory board at Navya SA, Director Monte Titoli S.p.A.
Giorgia Gagliardi	Director	
Massimo Giusti	Director	Director, Consultinvest Spa Chairman, CEO of Sefea Impact SGR Spa
Sara Lorenzon	Director	
Stefano Manara	Director	BoD Chairman, Rest Srl
Danilo Manfredi	Director	
Alessandro Melcarne	Director	
Erwin P.W. Rauhe	Director	Indipendent director Isagro Spa, Indipendent director SOL Spa
Duccio Regoli	Director	
Federica Seganti	Director	Director Fincantieri Spa Director Eurizon Spa BoD Chairman Friulia Spa Director Finest Spa
Marina Vignola	Director	
Giovanni Xilo	Director	

(*) List of positions of 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.

1.10
Parent company management report

The following are the main indicators of the operating performance for the year as required by article 2428 of the Civil Code:

(mn€)	2019	2018	Abs. Change	% change
Revenues	1,395.7	1,390.8	4.9	0.4%
Ebitda	269.4	256.1	13.3	5.2%
Operating profit	118.8	107.6	11.2	10.4%
Net profit	166.3	195.1	(28.8)	-14.8%

To understand this trend and changes as compared to the previous year, it is necessary to take into account the current structure of the Parent Company which directly manages certain businesses (urban hygiene, integrated water service, cogeneration and district heating) and holds investments in Group companies, in addition to carrying out the main corporate functions on their behalf; please also refer to the description in paragraph 1.06 of the management report "Analysis by strategic business areas".

The increase in operating profit compared to the previous year is mainly attributable to good performance on the part of the various business areas, particularly the water cycle.

The summary of the reclassified balance sheet and financial data as at 31 December 2019 and compared with those relating to 31 December 2018 is also shown below:

Analysis of invested capital and funding sources (mn€)	31 Dec 2019	%	31 Dec 2018	%	Abs. change	% change
Net fixed assets	3,542.7	109.0%	3,479.1	109.1%	63.6	1.8%
Net working capital	(120.3)	-5.0%	(126.8)	-4.0%	6.5	-5.1%
Gross invested capital	**3,422.5**	**105.3%**	**3,352.4**	**105.2%**	**70.1**	**2.1%**
Other provisions	(171.6)	-5.3%	(164.8)	-5.2%	(6.8)	4.1%
Net invested capital	**3,250.8**	**100.0%**	**3,187.6**	**100.0%**	**63.3**	**2.0%**
Total net equity	2,390.4	73.5%	2,335.2	73.3%	55.2	2.4%
Net financial debt	860.5	26.5%	852.4	26.7%	8.1	0.9%
Sources of funding	**3,250.8**	**100.0%**	**3,187.6**	**100.0%**	**63.3**	**2.0%**

Regarding the other information required by article 2428 of the Civil Code, the following is to be noted:

Research and development activities:
Regarding activities of research and development, please refer to paragraph 1.05 "Sustainability Results".

Relations with subsidiaries, associates, parent companies and companies controlled by the latter:
Regarding relations with subsidiaries, associates, parent companies and companies controlled by the latter, as required by article 2428, paragraph 3, point 2 of the Civil Code, please refer to the financial statement formats contained in paragraph 3.04, prepared in accordance with Consob resolution 15519/2006, relating to the separate financial statements of Hera Spa; lastly, it should be noted that these financial statements do not contain atypical or unusual transactions.

Treasury shares:
Regarding the information required by article 2428, paragraph 3, points 3 and 4 of the Civil Code, the number and nominal value of the shares comprising the share capital of Hera Spa, the number and nominal value of the treasury shares in the portfolio at 31 December 2019, in addition to changes in these that occurred in 2019, please refer to note 25 of paragraph 3.02.05 and the statement of changes in shareholders' equity, and paragraph 3.01.05, relating to the separate financial statements of Hera Spa.

The foreseeable evolution of management:
Regarding the performance of the businesses units that make up the current structure of the Parent Company, please refer to paragraph 1.01.02. "Strategic approach and management policies"

The Company's use of financial instruments:
Regarding the Company's objectives and policies on financial risk management, including its hedging policies for each main category of transactions envisaged and the Company's exposure to price risk, credit risk, liquidity risk and the risk of changes in cash flows, see the description provided in paragraph 1.03.04. "Analysis of the financial structure".

Secondary offices:
The Company does not have secondary offices.

Significant events occurring after year-end:

Ascopiave S.p.a

On 30 January 2020, Hera Spa purchased 2.5% of the share capital of Ascopiave Spa from Amber Capital UK LLP.

For other transactions, please refer to the part of paragraph 1.07 of the management report, "Significant events occurred during the year", that pertains to Hera Spa.

1.11
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 2019, which closes with profits totalling € 166,311,615.54;

resolves:

- to approve Hera Spa's financial statements as at 31 December 2019 and the corporate governance report prepared by the Board of Directors;
- to allocate profits for the 1 January 2019 – 31 December 2019 financial year, for a total of € 166,311,615.54, as follows:
    - € 8,315,580.78 euro to the legal reserve; and
    - € 0.10 gross distributed to each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio) on the day of payment for said dividend; and
    - € 9,042,160.26 to the extraordinary reserve.

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

- to establish 8 July 2020 as the initial date for dividend payment, and 6 July 2020 as ex-dividend date for coupon no. 18, dividends being paid to shares recorded at 7 July 2020.
- 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.

1.12
Notice convening the Shareholders Meeting

Communication 3 April 2020

HERA S.p.A.
Holding Energia Risorse Ambiente
Viale Carlo Berti Pichat 2/4 40127 Bologna
Ph. 051.287.111 fax 051.287.525
www.gruppohera.it

An Extraordinary and Ordinary Shareholders' Meeting is called at the registered office of *Hera S.p.A. – Viale C. Berti Pichat n. 2/4, Bologna* – at "*Spazio Hera*" – on **29 April 2020, at 10:00 a.m. in single call** to discuss and resolve on the following:

Agenda

Extraordinary Session

1. Amendment to Articles 16 and 26 and cancellation of Article 34 of the Articles of Association, in compliance with provisions of Law no. 160 dated 27 December 2019: related and consequent resolutions.
2. Amendment to Article 17 of the Articles of Association, in compliance with Law no. 160 of 27 December 2019: related and consequent resolutions.

Ordinary Session

1. Financial statements as at 31 December 2019, Report on Operations, profit allocation proposal and Report of the Board of Statutory Auditors and the Independent Audit Report: related and consequent resolutions. Presentation of the consolidated financial statements as at 31 December 2019.

   Presentation of the Sustainability Report - Consolidated non-financial statement, drawn up pursuant to Italian Legislative Decree no. 254/2016.
2. Report on the remuneration policy and compensation paid: related and consequent resolutions.
3. Renewal of the authorisation to purchase treasury shares and ways of disposing the same: related and consequent resolutions.
4. Appointment of the members of the Board of Directors: related and consequent resolutions.
5. Determination of the remuneration of the members of the Board of Directors: related and consequent resolutions.
6. Appointment of the members of the Board of Statutory Auditors and Chairman: related and consequent resolutions.
7. Determination of the remuneration of the members of the Board of Statutory Auditors: related and consequent resolutions.

The full text of the proposed resolutions, together with the explanatory reports, and the documents that will be submitted to the Shareholders' Meeting are made available to the public at the Company's registered office and on the Company's website (www.gruppohera.it), as well as on the 1Info authorized storage mechanism website (www.1Info.it) within the legal deadline for each of the issues under discussion.

Tax Code / Companies' Reg. no. 04245520376
"Gruppo Hera" Group VAT no. 03819031208
Share capital, fully paid-in € 1,489,538,745.00

Appointment of the Board of Directors and of the Board of Statutory Auditors

Warning: *attention is drawn to the amendments to the Articles of Association submitted for approval to the Shareholders' Meeting, called by this notice, referred to in item 2 of the Agenda related to the Extraordinary Meeting, which, if approved, will involve, at the registration date of the relevant resolution in the Companies' Register, in particular the increase to two members of the Board of Directors relating to the least represented gender from the lists other than the list obtaining the highest number of votes, pursuant to Article 17.2 (i) of the Articles of Association.*

The Board of Directors is therefore appointed in compliance with current legislation and pursuant to Article 17 of the Articles of Association, as updated following the amendments referred to in item 2 of the Agenda, Extraordinary Session:

1) Shareholders representing at least 1% of the share capital at the Ordinary Shareholders' Meeting are entitled to submit lists for the appointment of fifteen members of the Board of Directors. Each list must contain a number of candidates, belonging to the least represented gender, which ensures, within the composition of the Board of Directors, that the balance between genders is respected at least to the minimum extent required by current legislation, including regulations, as well as by the Articles of Association.
2) the number of candidates in said lists, in which candidates are listed by consecutive numbering, shall not exceed the number of members to be elected. These lists must be lodged at the registered office, on penalty of lapse, at least twenty-five days before the date of the Shareholders' Meeting, i.e. by 4 April 2020. The lists shall be filed as follows: i) delivery, at the registered office in Viale C. Berti Pichat n. 2/4, Bologna, by contacting the Central Legal and Corporate Affairs Office during normal working hours (Monday to Friday from 9:00 a.m. to 5:00 p.m.) or ii) by e-mail at societario@gruppohera.it, provided that it is possible to identify the parties making the deposit. The lists shall be made available to the public at the registered office, on the Company's website and on the 1Info authorized storage mechanism website within next 8 April 2020. Eleven members of the Board of Directors shall be appointed from the list obtaining most votes, in consecutive order as listed. Four of these members must be of the less represented gender. For appointment of the remaining four members, the votes obtained by each list other than the one that will obtain the majority of votes and which were neither filed nor voted upon by Shareholders who are associated, pursuant to current regulations in force, with Shareholders that filed or voted the same list, shall be consecutively divided by one, two, three and four. The quotients obtained in this manner shall be assigned progressively to candidates on each list, in the order in which they appear. These candidates are placed on a single list in decreasing order in accordance with the quotient assigned to each. Candidates with the highest quotients shall be elected up to the remaining number of members required, of which at least two of the less represented gender. In the event of equal quotients among candidates on different lists, the last member to be elected shall preferably be from the list obtaining most votes or, if quotients remain equal, of the most senior candidate, in compliance with the gender balance provided for in current legislation and regulations in force.

   If the minimum number of directors belonging to the least represented gender is not elected, the candidate of the most represented gender ranking last in the list of candidates elected from the most voted list shall be replaced by the candidate of the least represented gender ranking first among the non-elected candidates of the same list and so on until the minimum number of directors belonging to the least represented gender is reached. If, albeit applying this criterion, the minimum number of directors of the less represented gender has not been reached, the aforesaid replacement criterion will be applied to minority lists, starting from the most voted one;

3) the presenters shall see that the filed list are complete with:
   i) a description of the candidates' professional curriculum vitae;
   ii) the irrevocable acceptance of the assignment by the candidates (conditional on their appointments);
   iii) a declaration on the lack of any cause for ineligibility and/or disqualification;
   iv) the certification of the possession of the requirements of integrity pursuant to Article 147-quinquies of Italian Legislative Decree no. 58/1998;
   v) the possible declaration to be in possession of independence requisites established pursuant to art. 147-ter, subsection 4, of Italian Legislative Decree no. 58/1998 and those established by the Corporate Governance Code drafted by the Corporate Governance Committee of Borsa Italiana S.p.A.;
4) at least two of the candidates in each list shall have the above-mentioned requirements of independence;
5) any list for which the aforementioned rulings are not observed, or does not include candidates of different gender, according to current regulations, shall be deemed to be unfiled;
6) no candidate may appear in more than one list and the acceptance of candidacy on more than one list shall result in disqualification;
7) each Shareholder may file or act in concert in filing and vote on one list only; agreements and votes expressed in violation of the above ruling cannot be attributed to any list.

The Board of Directors is appointed in compliance with current legislation and pursuant to Article 26 of the Articles of Association, as updated following the amendments referred to in item 1 of the Agenda, Extraordinary Session:

1) lists for the appointment of the members of the Board of Statutory Board may be filed by individual Shareholders or groups of Shareholders that represent at least 1% of shares at the Ordinary Shareholders' Meetings. Specifically:
   i) Municipal and Provincial Authorities or Consortiums established pursuant to art. 31, of Italian Legislative Decree no. 267/2000, or other public entities or authorities, and consortiums or joint stock companies, directly or indirectly controlled by such entities, shall act in concert to file a single list;
   ii) the other Shareholders will be entitled to file lists for the appointment of one standing auditor and one alternate auditor.

   Each list must contain a number of candidates, belonging to the least represented gender, which ensures that the balance between genders is respected at least to the minimum extent required by current legislation, including regulations.

   Two standing auditors and one alternate auditor, of whom at least one standing auditor of the least represented gender, shall be appointed from the list obtaining the highest number of Shareholders' votes, in the consecutive order in which they appear on the list. The third standing auditor and remaining alternate auditor shall be appointed from the other lists, respectively electing the first and second candidate from the list obtaining the second highest quotient, of whom at least one alternate auditor of the least represented gender. The chairmanship of the Board of Statutory Auditors is assigned to the first candidate on the list obtaining the second highest quotient;
2) the above-mentioned lists must contain a number of candidates not higher than the number of the members to be elected, as listed; each candidate may be included on one list only, on penalty of disqualification;
3) each Shareholder may file, or act in concert in filing, one list only;
4) should this rule be violated, no account will be taken of that Shareholder's vote on any list filed;
5) said lists must be filed with the registered office, on penalty of lapse, at least twenty-five days before the date set for the Shareholders' Meeting, i.e. by 4 April 2020. The lists shall be filed as

GRUPPO HERA

follows: i) delivery, at the registered office in Viale C. Berti Pichat n. 2/4, Bologna, by contacting the Central Legal and Corporate Affairs Office during normal working hours (Monday to Friday from 9:00 a.m. to 5:00 p.m.) or ii) by e-mail at societario@gruppohera.it, provided that it is possible to identify the parties making the deposit. The lists shall be made available to the public at the registered office, on the Company's website and on the 1Info authorized storage mechanism website within next 8 April 2020;

6) the filed lists shall be complete with:
   i) a declaration confirming the absence of agreements or links of any nature with other Shareholders filing the other lists;
   ii) an exhaustive information on the personal and professional characteristics of the candidates;
   iii) declarations must also be filed in which the individual candidates accept their candidacy and, under their own responsibility, declare the lack of any cause for ineligibility, disqualification or incompatibility as envisaged by law, the possession of integrity and professional requisites established by law for members of the Board of Statutory Auditors and the list of directorship or audit-related offices held with other companies;
7) any list for which the aforementioned rulings are not observed, or does not include candidates of different gender, according to current regulations, shall be deemed to be unfiled;
8) all parties entitled to vote may vote one list only.

Each single list for the appointment of the members of the Board of Directors and the Board of Statutory Auditors shall be complete with the indication of the identity of the presenting Shareholders and the total percentage of the shareholding held. The communication from the broker certifying the ownership of the shareholding held at the date of the filing of the list may also be received subsequently, provided that it is received before the deadline for the publication of the lists, i.e. by 5 p.m. on 8 April 2020, at the e-mail address hera@pecserviziotitoli.it.

Pursuant to Article 144-sexies, paragraph 5, of the Consob Issuers' Regulations, if only one list for the appointment of the Board of Statutory Auditors has been filed at the end of 4 April 2020, or only lists that are connected to each other have been filed, the minimum percentage of shareholding required for the filing is reduced to 0.5% of the share capital and the filing may be made until 7 April 2020 in the following ways: i) delivery to the registered office in Viale C. Berti Pichat n. 2/4, Bologna, by contacting the Central Legal and Corporate Affairs Office during normal working hours (Monday to Friday from 9:00 a.m. to 5:00 p.m.) or ii) by e-mail at societario@gruppohera.it, provided that it is possible to identify the parties making the deposit.

Right of intervention and participation by proxy

Those eligible to attend the Assembly shall be those who have voting rights at the end of the record date (20 April 2020) and of whom the Company has received the related communications sent by the authorized brokers by the end of the third trading day prior to the date set for the Shareholders' Meeting, i.e. 24 April 2020. If the aforesaid notices are received after the above-mentioned deadline, those attending the Shareholders' Meeting will be however entitled to speak and vote, provided that such notice has been received before the beginning of the Shareholders' Meeting. The owners of shares after 20 April 2020 only will have no rights to attend and vote at the Shareholders' Meeting.

Each single person entitled to attend the Shareholders' Meeting may be represented in compliance with the law, with the right to use the proxy form available on the Company's website for this purpose (www.gruppohera.it). In this website, information is also available on the ways to notify the Company on the proxies, also by e-mail.

The Company appointed Computershare S.p.A. as the representative to whom, by 27 April 2020, holders of voting rights may deliver a proxy with voting instructions on all or some of the proposals

GRUPPO HERA

on the Agenda. The above-mentioned representative must be vested with the power of attorney in the manner and by means of the specific proxy form available on the Company's website (www.gruppohera.it).
The proxy to the designated representative has no effect with regard to proposals for which no voting instructions have been provided.

Other rights of the Shareholders
Shareholders may submit questions on the issues in the Agenda also before the Shareholders' Meeting, provided that they are made by 22 April 2020, in the manners described on the Company's website (www.gruppohera.it).
Shareholders who, even jointly, represent one fortieth of the share capital can require, within 10 days from the publication hereof, a supplement to the items to be discussed, indicating the additional issues proposed in the request, or submit proposals for resolution on the issues already on the Agenda. Requests must be submitted in writing in the manner indicated on the Company's website (www.gruppohera.it).

Postponement of the Shareholders' Meeting and Shareholders' intervention
Given the current epidemiological emergency situation from COVID-19 and its currently unforeseeable developments, the Company reserves the right, where permitted or required by law, including regulations, to be issued, and within the limits set forth therein:

- to postpone the date of the Shareholders' Meeting and, consequently, the terms for the exercise of the Company's rights indicated herein;
- to indicate the specific procedures for the attendance of shareholders in the meeting;
- in any case, to adopt all those measures and to implement all those initiatives that may be necessary or even only appropriate to allow for the meeting to be held in safe conditions, in compliance with the above-mentioned regulations.

In this case, the notice of call, as amended, will be brought to the attention of Shareholders and made available to the public in the ordinary forms provided for by law and the Articles of Association, unless otherwise defined by regulations in force.

Bologna, 17 March 2020

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

GRUPPO HERA

Communication 3 April 2020

With reference to the Extraordinary and Ordinary Shareholders' Meeting of Hera S.p.A., convened at the registered office in Bologna, *Viale C. Berti Pichat no. 2/4,* for the day of 29 April 2020 at 10am, at single call, in supplementation of what was already indicated in the Notice of Call published by the Company on 17 March 2020, as well as by virtue of the measures adopted by the competent Authorities aimed at containing, combating and managing the epidemiological emergency caused by the Covid-19 virus, it is noted that, in accordance with Art. 106, paragraph 4 of Italian Decree-Law 17 March 2020, no. 18 ("Decree"), **attendance at the Shareholders' Meeting will take place exclusively by the Designated Representative (more specifically Computershare S.p.A.)** pursuant to Art. 135-*undecies* of Italian Legislative Decree no.58 dated 24 February 1998 ("Consolidated Finance Law" - TUF).
The aforementioned Designated Representative may also be granted delegations or sub-delegations in accordance with Art. 135-*novies* of the Consolidated Finance Law, in derogation of Art. 135-*undecies*, paragraph 4 of that Law.
Any physical attendance of the individual shareholders or their delegates, other than the Designated Representative, is therefore precluded.

Therefore, each person legitimated to attend at the Shareholders' Meeting must grant a delegation and the respective voting instructions to the Delegated Representative, by completing and signing the specific form, which will be made available, as soon as possible, on the Company's internet website www.gruppohera.it in the section Corporate Governance, Shareholders' Meeting.
In light of the foregoing, the methods of granting the delegation to the Designated Representative are indicated below, in partial modification of what is envisaged in the Notice of Call of the Shareholders' Meeting, published on the Company's internet website and disseminated by way of the authorised storage mechanism on 17 March 2020, as well as reported in extract in the newspaper "Il Sole24Ore" on the same date, as follows:

Instructions for Granting Delegation and Voting Instructions to the Designated Representative
The delegation with voting instructions must be granted, free of charge, by the person entitled to vote, legitimated in the forms of law, to Computershare S.p.A., as Designated Representative, by completing and signing the specific form, which will be made available, as soon as possible, on the Company's internet website www.gruppohera.it in the section Corporate Governance, Shareholders' Meetings or at the Company's registered office, to be sent, by the methods indicated in that form, by the end of the second open market day preceding the date fixed for the Shareholders' Meeting at single call (i.e. by 27 April 2020).
The delegation thus granted has effect only for proposals in relation to which the voting instructions have been granted.
The delegation and voting instructions are revocable within the same period set out above (namely, by 27 April 2020).
No vote by correspondence or by electronic means is permitted.

The persons legitimated to attend at the shareholders' meeting (members of the Board of Directors and the Board of Statutory Auditors and the Designated Representative and Secretary) may attend also or exclusively by means of telecommunication which guarantee their identification, as provided by Art. 106, paragraph 2 of the Decree.

Resolution proposals by the Shareholders on the items on the agenda

In view of the fact that attendance at the Shareholders' Meeting is permitted exclusively by way of the Delegated Representative, to allow the Shareholders to grant complete voting instructions, the persons entitled to vote may formulate to the Company, in writing, resolution and/or voting proposals on the items on the agenda of the Shareholders' Meeting by 13 April 2020 at 3pm by means of certified email sent to heraspa@pec.gruppohera.it. Each resolution proposal must indicate the item on the agenda to which it refers and indicate the specific resolution. Each proponent must communicate its share of investment and indicate the references of the intermediary's communication certifying the legitimacy to attend the shareholders' meeting. The company will publish on its website by 14 April 2020 the resolution proposals formulated by the Shareholders.

This is without prejudice to the other information contained in the Notice of Call published on 17 March 2020, to which reference is made.

Bologna, 3 April 2020

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

mln/euro	notes	2019	2018
Revenues	1	6,912.8	6,134.4
Other operating revenues	2	530.8	492.0
Use of raw materials and consumables	3	(3,458.2)	(2,984.1)
Service costs	4	(2,318.2)	(2,040.5)
Personnel costs	5	(560.4)	(551.4)
Other operating costs	6	(59.3)	(62.5)
Capitalized costs	7	37.6	43.2
Amortisation, depreciation and provisions	8	(542.6)	(521.0)
Operating revenues		**542.5**	**510.1**
Share of profits (losses) pertaining to associated companies	9	13.4	14.9
Financial income	10	108.2	96.9
Financial expenses	10	(247.6)	(203.5)
Financial operations		**(126.0)**	**(91.7)**
Other non-operating revenues (expenses)	11	111.6	-
Earnings before taxes		**528.1**	**418.4**
Taxes	12	(126.1)	(121.8)
Net profit for the period		**402.0**	**296.6**
Attributable to:			
parent company shareholders		385.7	281.9
minority shareholders		16.3	14.7
Earnings per share	**13**		
Basic		**0.262**	**0.192**
Diluted		**0.262**	**0.192**

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

mln/euro	notes	2019	2018
Profit (loss) for the period		**402.0**	**296.6**
Items reclassifiable to the income statement			
fair value of derivatives, change for the period	21	(76.8)	18.1
Tax effect related to items reclassifiable to the income statement		22.4	(5.6)
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	28	(5.6)	2.7
Tax effect related to items not reclassifiable to the income statement		1.4	(0.7)
Toal comprehensive profit (loss) for the period		**343.4**	**311.1**
Attributable to:			
parent company shareholders		327.3	296.2
minority shareholders		16.1	14.9

2.01.03
Statement of financial position

mln/euro	notes	31 Dec 19	31 Dec 18
ASSETS			
Non-current assets			
Property, plant and equipment	14.32	1,992.7	2,003.7
Rights of use	15.32	96.9	
Intangible assets	16.32	3,780.2	3,254.9
Goodwill	17.32	812.9	381.3
Equity investments	18.32	143.5	149.1
Non-current financial assets	19.35	135.3	118.4
Deferred tax assets	20	174.8	159.2
Derivative financial instruments	21	41.1	45.3
Total non-current assets		**7,177.4**	**6,111.9**
Current assets			
Inventories	22	176.5	157.3
Trade receivables	23.35	2,065.3	1,842.2
Current financial assets	19.35	70.1	37.3
Current tax assets	24.35	42.1	34.3
Other current assets	25.35	395.7	281.2
Derivative financial instruments	21	72.2	111.9
Cash and cash equivalents	19.33	364.0	535.5
Total current assets		**3,185.9**	**2,999.7**
TOTAL ASSETS		**10,363.3**	**9,111.6**

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

mln/euro	notes	31 Dec 19	31 Dec 18
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	26		
Share capital		1,474.8	1,465.3
Reserves		948.0	913.5
Profit (loss) for the year		385.7	281.9
Group net equity		**2,808.5**	**2,660.7**
Non-controlling interests		201.5	186.0
Total net equity		**3,010.0**	**2,846.7**
Non-current liabilities			
Non-current financial liabilities	27.35	3,456.3	2,672.4
Non-current lease liabilities	15.35	76.1	12.2
Post-employment and other benefits	28	127.3	129.5
Provisions for risks and charges	29	521.8	458.6
Deferred tax liabilities	20	154.5	43.1
Derivative financial instruments	21	27.4	37.9
Total non-current liabilities		**4,363.4**	**3,353.7**
Current liabilities			
Current financial liabilities	27.35	305.5	609.9
Current lease liabilities	15.35	19.4	1.7
Trade payables	30.35	1,391.8	1,360.4
Current tax liabilities	24.35	86.9	6.0
Other current liabilities	31.35	1,047.9	866.9
Derivative financial instruments	21	138.4	66.3
Total current liabilities		**2,989.9**	**2,911.2**
TOTAL LIABILITIES		**7,353.3**	**6,264.9**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**10,363.3**	**9,111.6**

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

2.01.04
Cash flow statement

mln/euro	notes	31 Dec 19	31 Dec 18
Earnings before taxes		**528.1**	**418.4**
Adjustments to reconcile net profit to the cashflow from operating activities			
Amortization and impairment of assets		433.7	391.5
Allocation to provisions		108.9	129.5
Effects of valuation using the equity method		(13.4)	(14.9)
Other non-operating revenues		(111.6)	
Financial (income) expenses		139.4	106.6
(Capital gains) losses and other non-monetary elements (including valuation of commodity derivatives)		7.0	(18.0)
Change in provision for risks and charges		(28.5)	(29.0)
Change in provision for employee benefits		(12.2)	(12.2)
Total cash flow before changes in net working capital		**1,051.4**	**971.9**
(Increase) decrease in inventories		(17.9)	(36.0)
(Increase) decrease in trade receivables		(162.5)	(183.3)
Increase (decrease) in trade payables		(65.0)	(38.5)
Increase/decrease in other current assets/liabilities		103.6	124.4
Changes in working capital		**(141.8)**	**(133.4)**
Dividends collected		13.3	15.3
Interest income and other financial income collected		44.9	70.9
Interest expenses and other financial charges paid		(115.0)	(126.6)
Taxes paid		(123.1)	(176.6)
Cash flow from operating activities (a)		**729.7**	**621.5**
Investments in property, plant and equipment		(164.2)	(159.2)
Investments in intangible assets		(369.0)	(305.2)
Investments in companies and business units net of cash and cash equivalents	33	(195.7)	(10.1)
Sale price of property, plant and equipment		4.7	5.8
Divestments in consolidated companies and contingent consideration	33	168.2	15.9
(Increase) decrease in other investment activities		(31.1)	15.2
Cash flow from (for) investing activities (b)		**(587.1)**	**(437.6)**
New issue of long-term financial liabilities	34	315.0	221.3
Repayments of non-current financial liabilities	34	(100.7)	(0.2)
Repayments and other net changes in financial payables	34	(377.0)	(133.7)
Lease finance payments	34	(19.0)	(2.3)
Proceeds from the sale of shares without loss of control		-	1.8
Acquisition of Interests in consolidated companies		(2.2)	(11.3)
Dividends paid out to Hera shareholders and non-controlling interests		(161.5)	(151.4)
Changes in treasury shares		31.3	(23.1)
Cash flow from (for) financing activities (c)		**(314.1)**	**(98.9)**
Increase (decrease) in cash and cash equivalents (a+b+c)		**(171.5)**	**85.0**
Cash and cash equivalents at the beginning of the period		535.5	450.5
Cash and cash equivalents at the end of the period		364.0	535.5

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

mln/euro	Share capital	Reserves	Reserves derivatives valued at fair value	Reserves actuarial income/(losses) post-employment benefits	Profit for the period	Net equity	Non-controlling interests	Total
Balance as of 31 Dec 17	**1,473.6**	**847.8**	**4.1**	**(31.7)**	**251.4**	**2,545.2**	**160.8**	**2,706.0**
Adoption of IFRS 9		(19.3)				(19.3)	(0.6)	(19.9)
Balance as of 1 Jan 18	**1,473.6**	**828.5**	**4.1**	**(31.7)**	**251.4**	**2,525.9**	**160.2**	**2,686.1**
Profit for the period					281.9	281.9	14.7	296.6
Other components of comprehensive income:								
fair value of derivatives, change for the period			12.4			12.4	0.1	12.5
Actuarial income/(losses) post-employment benefits				1.9		1.9	0.1	2.0
Overall profit for the period	**-**	**-**	**12.4**	**1.9**	**281.9**	**296.2**	**14.9**	**311.1**
change in treasury share	(8.3)	(14.8)				(23.1)		(23.1)
change in equity investments		(4.1)				(4.1)	(5.4)	(9.5)
change in the scope of consolidation		6.7				6.7	27.7	34.4
Allocation of revenues:								
dividends paid out					(140.9)	(140.9)	(11.4)	(152.3)
allocation to reserves		110.5			(110.5)	-		-
Balance as of 31 Dec 18	**1,465.3**	**926.8**	**16.5**	**(29.8)**	**281.9**	**2,660.7**	**186.0**	**2,846.7**
Adoption of IFRS 16		(3.4)				(3.4)	(0.6)	(4.0)
Balance as of 1 Jan 2019	**1,465.3**	**923.4**	**16.5**	**(29.8)**	**281.9**	**2,657.3**	**185.4**	**2,842.7**
Profit for the period					385.7	385.7	16.3	402.0
Other components of comprehensive income:								
fair value of derivatives, change for the period			(54.4)			(54.4)		(54.4)
Actuarial income/(losses) post-employment benefits				(4.0)		(4.0)	(0.2)	(4.2)
Overall profit for the period	**-**	**-**	**(54.4)**	**(4.0)**	**385.7**	**327.3**	**16.1**	**343.4**
change in treasury share	9.5	22.6				32.1	(0.8)	31.3
change in equity investments		(0.7)				(0.7)	(1.5)	(2.2)
change in the scope of consolidation		(58.4)				(58.4)	13.7	(44.7)
Allocation of revenues:								
dividends paid out					(149.1)	(149.1)	(11.4)	(160.5)
allocation to reserves		132.8			(132.8)	-		-
Balance as of 31 Dec 19	**1,474.8**	**1,019.7**	**(37.9)**	**(33.8)**	**385.7**	**2,808.5**	**201.5**	**3,010.0**

2.02
Explanatory notes

2.02.01
Accounting policies

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

The consolidated financial statement as at 31 December 2019, comprised of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity and explanatory notes, have been prepared in compliance with Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of International Accounting Financial Reporting Standards (hereinafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 9 of 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 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 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.

These consolidated financial statements as at 31 December 2019 were drawn up by the Board of Directors and approved by the same at the meeting held on 25 March 2020. It has been audited by Deloitte & Touche Spa.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of 31 December 2018. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results.

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

In the financial statements any non-recurring costs and revenues are indicated separately. Moreover, with reference to Consob resolution 15519 of 27 July 2006 on financial statements, specific supplementary formats of income statement, statement of financial position and cash flow statement have been included, highlighting the most significant balances with related parties, in order to avoid altering the overall clarity of the financial statements.

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

2.02.02
Adoption of IFRS 16

The new IFRS 16 - Leases, effective beginning 1 January 2019, was published by the IASB on 13 January 2016 and adopted through Regulation 2017/1986. It replaces the IAS 17 principle "Leases", as well as the IFRIC 4 interpretations "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".
This 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. Such concept substantially differs from the concept of "risks and benefits" which was significantly stressed in previous IAS 17 and IFRIC 4.
This standard establishes a single model for the reporting and valuation of leasing contracts for lessees, which provides for the entry of leased goods including operating leases among assets, with a financial liability as a balancing entry, while also providing the possibility of not applying this model to contracts relating to low-value assets and leases with a contract duration of 12 months or less (short-term leases). In contrast, the new standard does not include significant changes for lessors.
The Group has completed the evaluation of impacts arising from the introduction of the new standard as of the date it was first applied (1 January 2019). This process was divided into several phases, including the complete mapping of the contracts that are potentially suitable to include a lease and their analysis in order to understand their main clauses relevant for the purposes of IFRS 16. The process for adopting the standard involved implementing specific IT applications aimed at the accounting management of the standard itself and aligning administrative processes and controls to monitor the critical areas on which the standard focuses.
The Group has resorted to the practical device provided for the transition in order to avoid re-determining when a contract is or contains a lease. Therefore, the conclusions for qualifying a contract as a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to contracts signed or amended before 1 January 2019. This practical device was applied to all contracts, as provided for in paragraph C4 of IFRS 16.
The Group chose to apply this standard retrospectively, while recognizing the resulting aggregate effect in shareholders' equity as at 1 January 2019 (without changing the comparative data of the year 2018), in accordance with paragraphs C7-C13. In particular, with regard to lease contracts previously classified as operating leases, the Group accounted for:

- a financial liability, equal to the present value of the remaining future payments at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date;
- a right of use equal to the net carrying amount that it would have had if the standard had been applied from the beginning of the contract, using the discount rate established at the transition date.

Only for a limited number of contracts for which recovering historical information in a timely manner was not possible, the right of use was set equal to the value of the financial liability at the date of transition, net of any accruals and deferrals relating to the lease and recorded in the balance sheet at the closing date of the previous financial statements.

The following table shows the impacts deriving from the adoption of IFRS 16 at the transition date:

mln/euro	Impacts at the transition date 1 Jan 19
Right of use land and buildings	67.3
Right of use plants and machinery	4.2
Right of use other movable assets	19.5
Total rights of use	**91.0**
Non-current lease liabilities	82.7
Current lease liabilities	13.9
Total leasing liabilities	**96.6**
Deferred tax assets	1.4
Other current assets	(0.7)
Other current liabilities	0.9
Total other changes	**1.6**
Retained earnings	**(4.0)**

It should be noted that the weighted average incremental borrowing rate applied to financial liabilities recognized as at 1 January 2019 was 3.81%.

In adopting IFRS 16, the Group made use of the exemption granted in paragraph 5 a) in relation to leases lasting less than 12 months especially for certain contracts for the rental of vehicles. Similarly, the Group made use of the exemption granted in paragraph 5 b) with regard to leasing contracts with a low-value asset as the underlying asset, or when the underlying assets of the lease do not exceed a value of 5,000 euro when new. The contracts for which the exemption has been applied fall mainly into the following categories:

- electronic devices;
- furniture and furnishings.

For these contracts, the introduction of IFRS 16 did not entail recognizing the financial liability and the related right of use. The lease payments thus are recorded in the income statement on a linear basis for the duration of the respective contracts. The total fees paid for these types of leases is not significant as at 31 December 2019.

In addition, with reference to the transition rules, the Group made use of the following devices:

- used the assessment made as at 31 December 2018 in accordance with the rules of IAS 37 "Provisions, contingent liabilities and assets" when accounting for interest-bearing contracts as an alternative to applying the impairment test in compliance with IAS 36 on the value of the right of use as at 1 January 2019;
- classified contracts expiring within 12 months of the transition date as short-term leases. For these contracts, the lease fees are recorded to the income statement on a linear base.
- non-application of the standard to contracts that had not previously been identified as containing a lease, applying IAS 17 and IFRIC 4;
- excluded initial direct costs from the measurement of the right of use on 1 January 2019;
- used the information available at the transition date to determine the duration of the contract, with particular reference to extension and early closure options.

For lease contracts previously classified as financial applying IAS 17, the carrying amount of the assets subject to the lease and the related contractual obligations recognized at 31 December 2018 was reclassified, respectively, under rights of use and lease liabilities without any adjustment, except for the exemption regarding the recognition of low-value leases.

In order to facilitate the understanding of the impacts that the first-time adoption of the standard involved, the following table provides a reconcilement between future commitments relating to leasing contracts, for which, in compliance with IAS 17, information is provided in the explanatory notes 4 "Service costs" and 26 "Non-current and current financial liabilities" to the financial statements as at 31 December 2018, as well as the impact of the adoption of IFRS 16 as at 1 January 2019:

mln/euro	**1 Jan 19**
Leasing commitments active as of 31 December 2018	130.2
Minimum payments on finance lease liabilities as of 31 December 2018	15.6
Instalments for short-term leases	(0.2)
Instalments for low-value leases	(0.2)
Non-discounted finance lease liabilities as of 1 January 2019	**145.4**
Discounting effect	(34.9)
Finance lease liabilities as of 1 January 2019	**110.5**
Current value finance lease liabilities as of 31 December 2018	(13.9)
Additional finance lease liabilities as of 1 January 2019	**96.6**

2.02.03
Scope of consolidation

The consolidated financial statements as at 31 December 2019 include the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Equity investments in joint ventures in which the Group exercises joint control with other companies as well as the companies in which the Hera Group exercises remarkable influence are consolidated with the equity method.
Small-scale subsidiaries are excluded from overall consolidation and valued at fair value recorded in other items of the comprehensive income statement. These subsidiary companies are recorded in note 18, item “Other minor companies”.

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2019 financial year as compared to the consolidated financial statement at 31 December 2018:

Acquisition of control	Loss of control
"CMV Energia&Impianti Srl" compendium	"LPg" branch
"CMV Servizi Srl" compendium[1]	AP Reti Gas NordEst Srl
A Tutta Rete Srl	
Cosea Ambiente Spa	
Pistoia Ambiente Srl	
EstEnergy Spa [2]	
Ascopiave Energie Spa [2]	
Ascotrade Spa [2]	
Blue Meta Spa [2]	
Etra Energia Srl [2]	
Amgas Blu Srl [2]	
Acquisition of significant influence	**Loss of significant influence**
ASM Set Srl [2]	So.Sel Spa
Sinergie Italiane Srl in liquidation [2]	

1 Compendiums and companies included in the business referred to as “CMV distribution activity”

2 Companies included in the scope of the partnership operation with the Ascopiave Group

With effect from 1 March 2019, Hera Comm Srl gained control over the gas and electricity sales activities of CMV Energia&Impianti Srl. The transaction was carried out by means of a partial proportional demerger: each shareholder of the demerged company was assigned an equity interest in the beneficiary company. As a consequence of this operation, Hera Spa’s interest in Hera Comm Srl decreased to 99.89%. Subsequently, due to Hera Comm change of its legal form from Srl to Spa, the minority shareholders exercised their right of withdrawal on 11 December 2019.

With effect from 1 March 2019, control was gained over the gas distribution activity of CMV Servizi Srl, including the whole equity investment in A Tutta Rete Srl by Inrete Distribuzione Energia Spa. The transaction was carried out by means of a partial proportional demerger: each shareholder of the demerged company was assigned an equity interest in the beneficiary company. As a consequence of this operation, Hera Spa's interest in Inrete Distribuzione Energia Spa decreased to 99.09%.

On 9 May 2019, Hera Spa definitively won the competitive call for tenders for the acquisition of 100% shares of Cosea Ambiente Spa, a company managing waste collection services in 20 municipalities in the Tuscan-Emilian Apennines. It should also be noted that, given that no interim situation of reference was available at the acquisition date, the revenues and costs of Cosea Ambiente Spa were consolidated as of 1 January 2019. The effects of this simplification are to be considered irrelevant for the income statement for the year 2019, also with reference to the margin indicators.

With effect beginning 1 January 2019, Inrete Distribuzione Energia Spa and Hera Comm Srl sold their LPG distribution and sales businesses. From both a financial and an economic point of view, the transaction had a marginal impact.

On 17 July 2019 Herambiente S.p.A. acquired entire stake in Pistoia Ambiente Srl, a Pistoia-based company operating in the management of the special waste landfill located in the municipality of Serravalle Pistoiese.

On 26 September 2019, Hera Comm Srl sold 26% of its shares in So.Sel Spa. The divestiture involved a revenue of approximately 0.3 million euro and a capital loss of 0.7 million euro .

On 19 December 2019 a partnership agreement between the Hera Group and the Ascopiave Group was signed, which involved:

- acquiring control of EstEnergy Spa as a result of the clauses contained in the framework agreement;
- acquiring control of the sale companies Amgas Blu Srl by Hera Comm Spa and Ascopiave Energie Spa, Ascotrade Spa, Blue Meta Spa, Etra Energia Srl by EstEnergy Spa;
- acquiring the associated companies Asm SET Srl and Sinergie Italiane Srl in liquidation to be liquidated by EstEnergy Spa;

- transferring the stake in Hera Comm Nord Est Srl from Hera Comm Spa to EstEnergy Spa (operation between companies under joint control);
- transferring control of the business branch "Distribuzione Reti Gas" (part of AcegasApsAmga Spa) to the Ascopiave Group, by transferring it to the newly established company AP Reti Gas Nord Est Srl, subsequently sold;
- transferring 3% of the share capital of Hera Comm Spa to Ascopiave Spa.

The activities on which the Hera Group has gained control will be subsequently dealt with as "Ascopiave commercial activities". The implementation procedures for the partnership agreement between the Hera Group and the Ascopiave Group, which determined the above mentioned arrangement as at 31 December 2019, are described in paragraph 1.03.01 "Hera - Ascopiave Partnership" of the Directors' report.

Changes in equity investments

On 1 February 2019, after having won the public auction, Hera Spa purchased from the shareholder Unione Montana Alta Valle del Metauro a number of shares equal to 0.5% of Marche Multiservizi Spa share capital, thus increasing its stake from 46.2% to 46.7%.

On 23 April, Hera Spa purchased from Aimag Spa 3.28% of Acantho Spa share capital, thus increasing its stakes from 77.36% to 80.64%.

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

Other corporate operations

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

- With effect from 1 January 2019, Umbro Plast Srl, Cerplast Srl and Variplst Srl were merged by incorporation into Aliplast Spa;
- merger by incorporation of Waste Recycling Spa into Herambiente Servizi Industriali Srl with effect beginning 1 July 2019;
- merger by incorporation of Blu Ranton Srl and Sangroservizi Srl into Hera Comm Marche Srl with effect beginning 1 October 2019;

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting standard IFRS3. Specifically, with the aid of external professionals, the management conducted analyses of the fair value of assets and liabilities and contingent liabilities, on the basis of information concerning facts and events available at the date of acquisition. The evaluation process was completed on 31 December 2019 for the businesses "CMV sales activities", "CMV distribution activities" and Cosea Ambiente, while it is still ongoing for Pistoia Ambiente and "Ascopiave commercial activities". If new and additional information currently not known, in accordance with the relevant accounting standards, should emerge in the next 12 months, the fair value measurement may be partially modified.

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

	CMV distribution activities .	CMV distribution activities .	Cosea Ambiente	Pistoia Ambiente	Ascopiave commercial activities	Total business combination
Non-current assets						
Property, plant and equipment	0.1	0.1	4.2	11.9	0.3	16.6
Rights of use			0.8		3.2	4.0
Intangible assets	8.6	19.3	0.1	67.1	430.7	525.8
Equity investments					19.5	19.5
Financial assets		3.9			0.2	4.1
Deferred tax assets	1.6	0.3		2.3	3.9	8.1
Current assets						
Inventories		0.1		0.1	1.5	1.7
Trade receivables	12.5	3.8	3.6		179.6	199.5
Financial assets		0.1		0.3	16.4	16.8
Current tax assets		0.1	0.1		1.3	1.5
Other current assets	1.1	0.3	0.2		54.8	56.4
Derivative financial instruments					1.2	1.2
Cash and cash equivalents		0.2	0.7		16.4	17.3
Non-current liabilities						
Financial liabilities		(2.8)	(1.3)			(4.1)
Lease liabilities			(0.8)		(2.5)	(3.3)
Post-employment	(0.1)	(0.1)	(0.7)	(0.2)	(2.1)	(3.2)
Provisions for risks and charges		(0.2)	(0.4)	(18.6)	(5.5)	(24.7)
Deferred tax liabilities	(2.5)			(20.1)	(93.0)	(115.6)
Current liabilities						
Financial liabilities	(6.1)	(2.6)	(0.7)		(7.0)	(16.4)
Lease liabilities					(1.1)	(1.1)
Trade payables	(9.6)	(10.5)	(3.2)		(132.9)	(156.2)
Current tax liabilities					(72.7)	(72.7)
Other current liabilities	(3.8)	(2.2)	(1.1)	(0.1)	(22.4)	(29.6)
Derivative financial instruments					(2.1)	(2.1)
Total net assets acquired	**1.8**	**9.8**	**1.5**	**42.7**	**387.7**	**443.5**
Equivalent Fair value	1.8	10.1	1.5	43.4	722.5	779.3
Fair value of interest owned					92.2	92.2
Non-controlling interests acquired					3.6	3.6
Total value of the business combination	**1.8**	**10.1**	**1.5**	**43.4**	**818.3**	**875.1**
(Goodwill) profit	**(0.0)**	**(0.3)**	**(0.0)**	**(0.7)**	**(430.6)**	**(431.6)**

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

	CMV distribution activities.	CMV distribution activities.	Cosea Ambiente	Pistoia Ambiente	Ascopiave commercial activities	Total business combination
Reporting value of net assets acquired	**0.2**	**10.1**	**1.4**	**(1.4)**	**74.5**	**84.8**
Adjustments for fair value evaluation						
Property, plant and equipment		(0.4)		3.2		2.8
Intangible assets	8.5		0.1	67.1	430.7	506.4
Equity investments					19.3	19.3
Provisions for risks and charges				(9.2)	(5.0)	(14.2)
Trade receivables	(5.9)					(5.9)
Current assets/ (liabilities)					(40.2)	(40.2)
Deferred tax assets (liabilities)	(1.0)	0.1		(17.0)	(91.6)	(109.5)
Fair value of net assets acquired	**1.8**	**9.8**	**1.5**	**42.7**	**387.7**	**443.5**
Cash outlay			1.5	45.0	296.6	343.1
Issuance of equity instruments	1.8	10.1				11.9
Contingent consideration				(1.6)	425.9	424.3
Equivalent Fair value	**1.8**	**10.1**	**1.5**	**43.4**	**722.5**	**779.3**

As regards the managements' evaluation of the fair value of the identifiable assets acquired and liabilities incurred, that also considered the recoverable value of the assets (calculated on the basis of the business plans of the acquired activities), the following amendments were identified:

- CMV Energia&Impianti Srl gas and electricity sales activities - a customer list of 8.5 million euro was recorded and the value of trade receivables for 5.9 million euro was adjusted, gross of the related deferred tax effect.
- Pistoia Ambiente Srl – the authorisation for the waste disposal activity at the Serravalle Pistoiese landfill was valued at fair value for 67.1 million euro. This amount was established on the basis of both the characteristics of the reference context and using the incremental cash flow method (Meem). The expected average useful life of the intangible asset, approximately 10 years, is linked to the residual volumes available for disposal. The value of the post-closure provision was also adjusted upwards for 9.2 million euro, aligning it to its fair value determined at the date of the transaction. The deferred taxation corresponding to these evaluations led liabilities for 17 million euro to be registered. Please note that the analyses for establishing the fair value of assets and liabilities and contingent liabilities is still ongoing, even in relation to the consideration transferred. Consequently, as required by IFRS 3, the initial accounting for the combination was determined provisionally. In fact, the agreement with the other party provides for a possible earn-out for additional quantities that may be disposed of in the landfill; the parties, however, are still assessing the technical feasibility of this operation. The contingent higher consideration to be transferred, if the expansion is feasible, is estimated at between 12 and 15 million euro.

With respect to the assessment of "Ascopiave commercial activities", reference is made to paragraph 1.03.01 "Hera-Ascopiave partnership in the Directors' report.

Please see note 33 "Comments to the financial report" for an analysis of the cash flows associated with the combination operations.

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. In processing the values referred to the companies valued at net equity, adjustments to their respective financial statements were considered in order to adapt them to IAS/IFRS standards, in case these companies do not adopt them.

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 companies included in the scope of consolidation are included on a line-by-line basis. However, the receivables and payables, income and expenses, gains and losses resulting from operations carried out between companies included in the scope of consolidation have been eliminated. The book value of the equity investments is eliminated against the corresponding portion of investees' shareholders' equity.

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

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

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

In preparing these consolidated financial statements, the accounting policies and principles were the same as those adopted in the previous year, considering the new accounting standards reported in paragraph 2.02.05 "Accounting standards, amendments and interpretations applied as of 1 January 2019" and the what outlined in paragraph 2.02.02 "Adoption of IFRS 16". 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 at net 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:

	2019	31 Dec 19	2018	31 Dec 18
	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.277	4.257	4.262	4.301

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, 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 possible costs for dismantlement, recovering and reclamation of the site that hosts 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 recorded as assets.

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. Property, plant or equipment are classified as in progress when the process of economic use has not yet begun. The property, plant and equipment are systematically depreciated in each accounting period using the depreciation rates considered representative of the remaining useful lives of the assets. The rates of the amortisation for property, plant and equipment are outlined here below:

Category	rates
Buildings	1.8% - 2.8%
Distribution plants	1.4% - 5.9%
Production plants	2.5% - 25.0%
Other plants	3.9% - 7.5%
Equipment	5.0% - 20.0%
Electric machines	16.7% - 20.0%
Vehicles	10.0% - 20.0%

As required by IAS 16, the estimated useful lives of property, plant and equipment are reviewed each year so as to assess the need to revise them. In the event that the estimated useful lives do not provide a truthful representation of the expected future economic benefits, the relative depreciation schedule must be redefined according to the new assumptions. These changes are made prospectively to the income statement.

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

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

Investment property - An item of property is recognized as investment property when it generates cash flows largely independently of the other assets held by the Company, as it is held to earn rentals or for capital appreciation or both, not to be utilized in production or 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.

Rights of use - The right of use of a good or service is initially valued by the Group at cost. This cost includes: (a) the initial value of the lease liability (calculated as outlined in the section 'Lease liabilities'); (b) payments related to the lease contract made before the effective date; (c) initial direct costs related to property, plant and equipment; (d) an estimate of the costs to be incurred by the lessee in dismantling and restoring the asset.
After the initial recognition, the value of the right of use is reduced by accrued depreciation and impairment and is adjusted for any restatements of the lease liability. If the lease transfers the ownership of the underlying asset at the end of the lease term, the right of use is depreciated beginning from the effective date until the end of the useful life of the underlying asset, otherwise the depreciation is calculated on the basis of the lease duration.
The asset consisting of the right of use is subject to an impairment test to identify any loss in value.

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 amortization commences when the asset is available for utilisation or in any case begins to produce economic benefit for the Group. Intangible assets in progress includes costs relating to intangible assets for which the process of economic use has not yet begun. If the intangible assets have an indefinite useful life, they are not amortised but subjected to an annual impairment test, even in the absence of indicators signalling losses in value.

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

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

The concessions mainly comprise the rights associated with networks, plants and other facilities related to gas and integrated water cycle services managed by the Group and are instrumental to the management of these services. These concessions were listed as intangible assets even before the IFRIC 12 - Agreements for concession services- interpretation was first applied.
The depreciation of the concessions are calculated on the basis of the provisions of the respective conventions, and namely: i) according to a constant rate for the shorter of the following two periods: the useful life of the assets granted in concession and the duration of that same concession, provided that, when this concession expires, the outgoing operator is not granted

any compensation value (Residual industrial value, or RIV); ii) according to the useful life of the individual assets if, at the moment the concessions expire, the assets in question are expected to pass into the hands of the operator.

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

This category also includes improvements made and infrastructure constructed on the goods instrumental to the management of these services, which are the property of the Holding Companies (so called "Asset Companies", pursuant to Art. 113 of Legislative Decree no. 267/00), but managed by the Group by virtue of business branch leasing contracts. These contracts, in addition to establishing the fees due, also include clauses governing the restitution of assets, normally maintained, upon payment of a balance corresponding to the net book value or the Industrial Residual Value (also taking into account the recovery funds) of these assets.

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

The depreciation commences when the asset is ready for use according to the needs of the corporate management.

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

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

The rates of the amortisation of intangible assets are outlined here below:

Category	**rates**
Industrial patents and intellectual property rights	20.0%
Patents and trademarks	10.0%
Buildings under concession	1.8% - 3.5%
Distribution plants under concession	1.8% - 10.0%
Other plants under concession	3.5% - 12.5%

Business combinations - Business combination operations are accounted for by applying the acquisition method foreseen by IFRS 3, as a consequence of which the buyer acquires the equity and takes over the assets and liabilities of the acquired company. The cost of the operation is shown as the fair value of the transferred assets, liabilities assumed and equity instruments issued in exchange for the control of the acquired company, as at the date of acquisition. The expenses related to the business combination are generally recognised in the income statement at the time they are incurred.
Any positive difference between the cost of the transaction and the fair value at the date the assets and liabilities are acquired is attributed to goodwill (subject to impairment test, as indicated in the following section). 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 these assets have suffered an impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total write-down. The recoverable amount is either the fair value , less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the cash flows to which said assets belong. Future cash flows are discounted to present value at a rate (net of taxation) that reflects the current market value and takes into account the risks associated with the specific business activities.
If the recoverable amount of an asset (or of a cash generating unit) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

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

Investments valued at shareholders' equity method - Investments entered in this item refer to long-term investments in associated companies and joint ventures. An associated company is a company over which the Group is able to exercise remarkable influence, but not control, by means of participation in the decisions on the financial and operating policies of the investee company. A joint venture is a jointly controlled arrangement in which the entities that share joint control have rights to the net assets of the arrangement. Under the equity method, investments are recognised at cost, as adjusted for any changes following acquisition in the associated companies' net assets, minus any impairment. The excess price over the share of the fair value of an associated company's identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is tested for impairment.

Other investments - This category includes investments that are not included in the scope of consolidation, including investments in negligible size subsidiaries, associates and joint ventures. These investments, after the initial assessment, are measured at fair value through other comprehensive income components. This approach does not include equity investments held exclusively for the purpose of subsequent disposal, whose changes in fair value are recognized in profit (loss) for the fiscal period. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

Financial assets - The Group classifies financial assets through the business model adopted for managing them and on the basis of the features of contractual cashflows. In relation to the previous conditions, financial assets are subsequently valued as follows:

- amortized cost;
- fair value of the other comprehensive income components;
- fair value of the profit (loss) for the fiscal period.

The management determines their classification when they are first recorded.

Receivables and loans - This category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. Since the business model generally adopted by the Group provides for the holding of these financial instruments solely for the purpose of collecting the contractual cash flows, these assets are valued at depreciated cost on the basis of the effective interest rate method. The value of the assets is reduced on the basis of the expected losses, using information that is available without unreasonable charges or efforts, including historical, current and prospective data. Losses determined by an impairment test are recognized in the income statement, as are any subsequent reversals of impairment losses. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.
This category includes, as provided by the interpretation IFRIC 12, the financial assets associated to those public service under concession for which the Group has the unconditional contractual right to receive liquidity from the issuer for the construction services rendered. The Financial Asset Model is used by the Group for the contracts for the provision of public lighting services, in view of their characteristics, in which increasingly frequently the issuer guarantees the area provider a specific amount, or at any rate which can be reliably determined, not depending on the use of the infrastructure by the final customer. Under that model, the financial asset reported in the balance sheet in relation to the issuer for an amount equal to the fair value of the construction services rendered.

Financial assets at fair value recorded in the comprehensive income components - This category includes assets, other than derivatives, held by the Group for the purpose of receiving contractual cash flows (represented by equity and interest payments) or for monetisation through sale. These assets are valued at fair value, the latter determined by referring to the

market prices at the balance sheet date or using financial measurement techniques and models, recording their change in value in equity "Reserve for fair value assessments of financial assets". The changes in value due to the impairment test as well as of profit/loss on the exchange rate are recorded in the profit (loss) for the fiscal period This reserve is reclassified to income only when the financial asset is actually sold. Classification as a current or non-current asset depends on management's plans and on the real tradability of the security. Those whose sale is expected during the next 12 months are recorded as current assets.
Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

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

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

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

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

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

Inventories - Inventories are reported at the lower of cost or market, including directly attributable costs, or net estimated realizable value, whichever is the lower. The cost configurations used for the valuation of stocks are the average cost measured on a continuous basis (used for raw materials and consumables) and the specific cost of other inventories. The net realisable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.
The value of obsolete and slow-moving stock is written down in relation to the possible use or realization, by means of the provision of a specific materials obsolescence allowance.
Inventories of work in progress are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

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

Financial liabilities - This item is initially stated at cost, corresponding to the fair value of the liability net of the transaction costs which are directly attributable to the issue of said liability. Following their initial recognition, financial liabilities, with the exception of derivatives, are valued on the basis of amortised cost, using the original effective interest rate method. If the estimates of payments are revised, the adjustment of the liability is stated as income or expense in the income statement, except for lease liabilities.

Lease liabilities - As at the effective date of the contract, lease liabilities are calculated as the present value of payments due, discounted using the interest rate of the lease or, in case it is not easily identifiable, the marginal lending rate. The payments included in the calculation of the liability are: (a) fixed payments; (b) variable payments depending on an index or a rate; (c) amounts expected to be paid to secure the residual value; (d) the exercise price of the purchase option, if any, if the term of the lease considers it; (e) any penalties for terminating the contract, if the term of the lease considers them.

After the initial date, lease liabilities are modified as a result of: a) accrued financial expenses recorded to the income statement; b) payments made to the lessor; c) any new valuations or changes to the lease or the revision of the assumptions regarding the payments due to the lessor.

Post-employment benefits - Liabilities related to defined-benefit plans (such as the employee severance accrued until 1 January 2007) are reported net of any plan assets on the basis of actuarial assumptions and on an accrual basis, in keeping with the service necessary to obtain benefits. The liability is valued by independent actuaries. Independent actuaries assess the financial liabilities. Actuarial gains and losses are reported as other comprehensive income/losses. Following Law 296 of 27 December 2006, for companies with more than 50 employees, the severance amounts accruing after 1 January 2017 qualify as a defined-benefit plan.

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

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

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

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

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

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

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

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

Whenever applicable, the group adopts the fair value option.

Fair Value Hierarchy
The financial instruments measured at fair value are classified through a three-level hierarchy based on the way the fair value was determined, i.e., with reference to the factors used in determining the value:

- **level 1,** financial instruments the fair value of which is determined on the basis of quoted prices in active markets;

- **level 2,** financial instruments the fair value of which is determined using valuation techniques that employ parameters that are directly or indirectly observable on the market. Instruments valued on the basis of the market forward curve and short term differential contracts are classified in this category;
- **level 3,** financial instruments the fair value of which is determined using valuation techniques that employ parameters that cannot be observed on the market, using internal estimates exclusively.

Assets and liabilities held for sale - Assets and liabilities held for sale are those whose value will be recovered mainly through sale rather than use. Assets and liabilities are classified under this category the moment the sale operation is considered highly likely and the assets and liabilities are immediately available for sale in their current condition. These assets are valued at either cost or fair value, whichever is lower, net of sales costs.

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

Revenue and cost recognition - Revenues and income are recognised 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:

- revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- revenues from the distribution are recognized on the basis of the tariffs paid by the Aeegsi and are subject to equalization at year end to reflect in accordance with the competence criterion the compensation recognised by the Authority in relation to the investments made;
- revenues are booked at the time (or as) the obligation is fulfilled, transferring the promised good or service to the customer. The transfer occurs when (or as) the customer gains control over the good or service. The revenue recorded corresponds to the price attributed to the obligation to be recorded. Revenue is recorded only if the consideration for the goods or services transferred to the customer is likely to be received;
- costs are accounted for in accordance with the accruals principle.

Lease payments - As defined by IFRS 16, lease payments relating to lease contracts for low-value assets and leases with a contract duration of 12 months or less (short-term leases) are recorded in the income statement as charges for the period. The Group has set a threshold of 5,000 euro for deeming the individual underlying asset to be of modest value.

Financial income and expense - Financial income and expense are recognised on an accrual basis. Dividends from "other investments" are recorded in the income statement, at the time the right to receive payment is established, the economic benefits arising from the dividends are likely to be received by the Group and their value can be assessed reliably.

Taxes - taxes are the sum of current, deferred and possible substitute taxes. Current taxes are calculated on the taxable income for the financial period. Taxable income differs from the result recorded in the income statement, as it may exclude both positive and negative components which will be taxable or deductible in other years, and components that will never be taxable or deductible. The item "Current tax liabilities" are calculated on the basis of the tax rates applicable on the balance sheet date.

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by law 244 of 24 December 2007 and in particular the reinforced derivation principle established by Article 83 of the TUIR. This regulation calls for entities that use IFRSs to apply, including in a departure from the provisions of the TUIR, the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards.

Deferred taxes are calculated having regard to timing differences in taxation, and are recorded under item "Deferred tax liabilities". "Deferred tax assets" are recognized to the extent that the existence of a taxable income at least equal to the amount of the differences to be offset is considered probable when the timing differences will reverse. Deferred tax assets are determined on the basis of the tax rates foreseen to be in force during the financial year in which the tax asset will be conferred or the tax liability will be extinguished, on the basis of tax rates established by provisions in force or substantively in force at the date of the financial statements. These changes are charged to the income statement, or equity, depending on how the difference in question was originally charged.

Finally, substitute taxes may be recorded when legal provisions exist that allow the Group to take advantage of special tax regimes. These are, by nature, non-recurring taxes, which may be attributed to the Group's desire to opt or not for the related tax regime.

Translation of foreign currency balances - The functional and reporting currency adopted by the Group is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the period end date and the related exchange gains and losses are recognized through profit or loss. Any net gain that might arise is set aside in a specific restricted reserve until the date of realization.

Earnings per share - The earnings per share are represented by the net profit for the year attributable to the shareholders holding ordinary shares, taking into account the weighted average of the ordinary shares outstanding during the year. The diluted earnings per share are obtained by means of the adjustment of the weighted average of the shares outstanding, taking into account all the potential ordinary shares with dilution effect.

Transactions with related parties - Transactions with related parties take place on an arms'-length basis, in observance of efficiency and cost-effectiveness criteria.

Risk management

Credit risk

The credit risk faced by the Group originates from the articulation of the client portfolios in the main business areas in which it operates; for the same reason, this risk is spread out over a large number of clients. In order to manage the credit risk, the Group has defined procedures for selecting, monitoring and evaluating its customer portfolio. The reference market is the Italian market.

The Group's credit management model makes it possible to analytically determine the different risks associated with the collectability of trade receivables as soon as they arise and progressively according to their increasing seniority. This approach allows the company to reduce the concentration and exposure to credit risk posed by both business and household customers. With regard to receivables from small-sized customers, write-downs are carried out on the basis of future-oriented analysis regarding the amount of probable future income, taking into consideration the seniority of the receivables, the type of recovery action undertaken and the status of the creditor. From time to time, analyses are conducted on the individual credit positions yet to be resolved, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down.

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.

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.

Interest rate risk and currency risk on financing transactions

The cost of financing is affected by interest rate fluctuations. In the same way, the fair value of financial liabilities is also subject to interest rate and exchange rate fluctuations.

The Group regularly assesses its exposure to such risks and manages them by means of derivative financial instruments, in accordance with its risk management guidelines. To mitigate interest rate volatility risk and simultaneously ensure a correct balance between fixed rate debt and variable rate debt, the Group has stipulated interest rate derivatives in relation to a portion of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has signed foreign exchange derivatives to fully hedge loans in foreign currencies.

Under these guidelines, derivative financial instruments may only be used to manage its exposure to interest and exchange rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out.

Market risk and currency risk on commercial transactions

Concerning the wholesale business carried on by Hera Trading 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).

In relation to these risks, the Group has set up a number of instruments, including different types of commodity derivatives aimed at pre-establishing the effects on sales margins irrespective of changes in market conditions. The organisational model adopted and the supporting management systems make it possible to identify the nature of the operation (hedging vs. trading) and produce the information required for a formal identification of the purpose of these instruments. Specifically, from an operational standpoint, the Group identified a "Commercial Portfolio", including contracts signed to manage the Group's procurement activities, and a "Trading Portfolio", including instruments whose purpose cannot be strictly related to the underlying procurement activities, but which are nevertheless entered into with a view to optimizing and managing the Group's overall exposure.

Covid 19 emergency management
Reference should be made to paragraph 1.08 "Covid-19 emergency management" of the directors' report for a more detailed analysis of the health emergency caused by the pandemic, with reference to the plans implemented by the Group to tackle it, the analysis of the effects that it might have, and the reports provided also with reference to the provisions of IAS 10 accounting standard. With regard to the latter aspect, it should be noted that, from an accounting standpoint, the Group's management considered the aforesaid health emergency, which first occurred in China in January and only recently in Italy, to be a "not-adjusting event", in accordance with the provisions of the aforesaid accounting standard, and therefore was not taken into account in the evaluation processes concerning the items recorded in the Group's consolidated financial statements as at 31 December 2019.

For an exhaustive discussion of how the Group analyses, measures, monitors and manages exposure to these risks, please refer to paragraph 1.02.03 "Risk Areas: identification and management of risk factors" in the Directors' report.

Significant estimates and valuations

Preparation of the consolidated financial statements and related notes requires the use of estimates and valuations by the directors, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.
Specifically, information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

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

Impairment test
The Group carries out an analysis of the recoverable value of goodwill as well as of its investment (not majority investment) in companies holding assets for generating thermoelectric energy, through impairment tests, at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates as specified in note 32 of the comments to the financial statement formats.

Provisions for risks
These provisions were made by adopting the same procedures as in previous years, with reference to reports by the legal advisors and consultants that are following the cases, and on the basis of developments in the relevant legal proceedings as well as of the updates of the hypotheses concerning future expenses for post-mortem costs of the landfills, following the revision of the estimated costs identified by external consultants.

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

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

Depreciation
Depreciation is calculated on the basis of the useful life of an asset. The useful life is determined by Management at the time the asset is recognized in the balance sheet; valuations of the duration of useful life are based on historical experience, market conditions and the expectation of future events that could affect the useful life itself, including technological changes. Therefore, it is possible that the actual useful life could differ from the estimated useful life.

Fair Value assessment and evaluation process
The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices. in the absence prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. The fair value of derivatives contracts on commodity are determined using directly observable market inputs, where available. The methodology for calculating the fair value of these instruments includes the assessment of the non-performance risk, where relevant. All derivative contracts entered into by the Group are with leading institutional counterparties.

2.02.05
Changes to international accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2019

Beginning 1 January 2019, the following accounting standards and associated amendments as issued by the IASB and endorsed by the European Union, apply:

Changes to IFRS 9 - Financial Instruments (Regulation 498/2018). Document issued by IASB on 12 October 2017, applicable from 1 January 2019 with early application allowed. The amendments allow companies, if a specific condition is met, to valuate certain prepaid financial assets by means of so-called negative compensation at amortised cost, or at fair value with changes in the other components of the comprehensive income statement, instead of at fair value in the income statement.

IFRIC 23 – Uncertainty concerning tax treatment (Regulation 1595/2018). 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. In particular, this interpretation requires an organisation to analyse all uncertainties in the application of tax regulations (individually or as a whole depending on the features), always assuming that the tax authority will examine the tax position in question, in full knowledge of all relevant information. If the organisation considers it unlikely that the tax authority will accept the tax regime followed, the effect of uncertainty in estimating income taxes should be reflected on current and deferred taxes. No new disclosure requirements is established, but it is necessary to determine whether it is relevant to provide information on the remarks made by management.

Changes to IAS 28 - Investments in Associates and Joint Ventures (Regulation 237/2019). Document issued by IASB on 12 October 2017, applicable from 1 January 2019 with early application allowed. The amendments clarify that companies must use the provisions of IFRS 9 to account for long-term investments in associates or joint ventures for which the equity method is not applied.

Changes to IAS 19 - Changes to the plan, reduction or liquidation (Regulation 402/2019). Document issued by IASB on 7 February 2018 and applicable beginning 1 January 2019. The amendments specify how an organization should state a change (curtailment or settlement) to a defined benefit plan. The amendments require the organization to adjust its assumptions and remeasure the net liability or asset related to its plan. In particular, after such an event, the organization shall use updated assumptions to measure current service cost and associated interest for the remainder of the reporting period following the event.

On 12 December 2017 the IASB published the document "Improvements to the International Financial Reporting Standards: 2015-2017 Cycle" (Regulation 412/2019). These improvements include amendments to four existing international accounting standards:
IFRS 3 - business combinations. The amendment specifies that when the company gains control of a business that represents a joint operation, the interest it previously held in that business must be remeasured;
IFRS 11 - Joint arrangements. It is clarified that the value of an investment previously held in a joint operation does not need to be reviewed when joint control over it;
IAS 12 - Income taxes The improvement clarifies that an organization is required to account for taxes related to the payment of dividends (including payments on financial instruments classified to be part of shareholders' equity) in the same way as dividends, that is recording them to the income statement, comprehensive income statement or shareholders' equity;
IAS 23 - Financial expenses Any loan originally entered into to build a specific asset is required to be considered as generic debt when the asset is available for its intended use or sale.
These amendments, applicable beginning 1 January 2019 with early application allowed, clarify, correct or remove redundant statements or formulations in the text of the standards in question.

With reference to the application of these amendments and new interpretations, there were no observable effects on the Group's financial statements. It should be noted that the effects on the financial statements deriving from the first application of IFRS 16 "Leases" are illustrated in section 2.02.02.

Accounting standards, amendments and interpretations endorsed by the European Union which are not yet applicable and have not been adopted early by the Group.

As of 1 January 2020, the following accounting standards and amendments of accounting standards will be obligatorily applied, having also already concluded the process of community endorsement:

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

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

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

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

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

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

Changes to IFRS 3 - business combinations. Document issued by IASB on 22 October 2018, applicable from 1 January 2020 with early application allowed. The amendments clarify the definition of business and will facilitate companies in determining whether the acquisition carried out concerns a business or rather a set of activities. Specifically, the new definition highlights that the aim of a business is to provide goods and services to customers, while the previous definition focused on yields in the form of dividends, cost savings or other economic benefits for investors. Considering that this amendment is to be applied to new acquisition operations that will be concluded as from 1 January 2020, any effects will be recognised in the consolidated financial statements for the period following this date.

Amendments to IAS 1 - Presentation of Financial Statements: reporting liabilities as current or non-current. Document issued by IASB on 23 January 2020, applicable from 1 January 2022 with early application allowed. The amendments clarify the requirements to be considered in determining whether payables and other liabilities with uncertain settlement date should be classified as current or non-current in the statement of financial position (including payables that can be settled by conversion into equity instruments).

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

2.02.06

Commentary notes to the financial statement formats

Please note that paragraphs 1.03 and 1.06 of the Directors' 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

	2019	2018	Changes
Revenues from sales and services	6,910.9	6,118.9	792.0
Changes in contract work in progress, semi-finished and finished products	1.9	15.5	(13.6)
Total	**6,912.8**	**6,134.4**	**778.4**

"Revenues from sales and services", the increase compared to the previous fiscal period mainly stems from the Gas and Electricity operating sectors. Regarding the gas and electricity sectors there was an increase in both trading activities on the natural gas markets and the sale of electricity and methane gas, an increase of revenues from the sale of energy produced by the plants managed by the Group, partially offset by the decrease of trading activities on electricity.

This item essentially includes allocations for services provided to end customers not yet invoiced, including 135 million euro for the electricity sector, 120.5 million euro for the gas sector and 102.9 million euro for the water sector.

Revenues are achieved mainly in Italy.

"Changes to contract work in progress, semi-finished and finished products" the decrease compared to the previous fiscal period is mainly attributable to the lower volume of contract work in the public lighting business.

2 Other operating revenues

	2019	2018	Changes
Long-term contracts	300.4	254.5	45.9
White certificates	91.6	95.7	(4.1)
Operating grants and grants for separated waste collection	62.5	63.3	(0.8)
Grants related to plants	12.3	10.7	1.6
Use of funds	7.4	7.3	0.1
Insurance refunds	3.7	4.8	(1.1)
Other revenues	52.9	55.7	(2.8)
Total	**530.8**	**492.0**	**38.8**

"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 the higher number of investments in the water networks held under concession, in the public lightning plants and in natural gas distribution networks.

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

"Operating grants and grants for separated waste collection" include operating grants, amounting to 27.4 million euro (32.9 million euro in 2018), mainly comprising incentives provided by the GSE for the production of energy from renewable sources, contributions from sorted waste collection in the amount of 35.1 million euro (30.4 million euro in 2018) mainly comprising the value of packaging (cardboard, iron, plastic and glass) transferred to the Conai consortia as well as contributions from public entities, authorities or institutions for specific projects carried out by the Group's companies.

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

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

3 Use of raw materials and consumables

	2019	2018	Changes
Gas earmarked for sale, net of changes in stocks	1,946.6	1,450.8	495.8
Electricity	1,099.5	1,207.6	(108.1)
White and grey certificates	107.2	105.5	1.7
Maintenance materials net of changes in stocks	76.3	71.2	5.1
Water	49.5	48.8	0.7
Plastics net of changes in stocks	47.5	51.1	(3.6)
Charges and revenues from derivatives	44.7	(32.9)	77.6
Chemical products	20.0	17.5	2.5
Fuels, motor fuels and lubricants	17.4	16.3	1.1
Methane gas for industrial use	13.3	13.9	(0.6)
Charges and revenues from certificate valuation	2.6	-	2.6
Fuels for heat management	1.9	1.8	0.1
Consumables and miscellaneous	31.7	32.5	(0.8)
Total	**3,458.2**	**2,984.1**	**474.1**

"Gas earmarked for sale net of changes in stocks", the increase as compared to the 2018 financial year is due to the greater volumes of procurement activity on the wholesale natural gas markets.

"Electricity", the decrease as compared to 2018 is mainly due to the lower volumes of procurement activity on wholesale markets through bilateral contracts, partially offset by the increase in purchases through the GME.
"White and Grey Certificates" includes the purchase cost of the various types of environmental certificates incurred during 2019, and specifically: 92.2 million euro for White certificates (90.8 million euro in 2018) and 13.3 million euro for Grey certificates (14.2 million euro in 2018) and 1.7 million euro for Recs certificates - renewable energy certificate system (0.1 million euro in 2018). Over the course of the year, market prices for all types of certificates remained substantially unchanged compared to the previous year. It should also be noted that in relation to white certificates, supply needs are defined according to the obligations allocated to distribution companies.

"Plastic materials" includes the cost of purchasing plastic raw materials destined for subsequent processing, transformation and sales.

"Charges and revenues from certificate valuation" reflects the valorisation of environmental certificates in stock, mainly made up of white and grey certificates as well as the valorisation of commitments for purchasing electricity certifications produced from renewable sources in relation to contracts signed with end customers.

For the item "Charges and revenues from derivatives", please see note 21.

4 Service costs

	2019	2018	Changes
Transport and storage	1,225.1	998.7	226.4
Work and maintenance expenses	407.1	363.9	43.2
Waste transportation, disposal and collection	354.6	324.0	30.6
Fees paid to local authorities	66.4	67.4	(1.0)
IT and data processing services	50.6	46.2	4.4
Professional, legal and tax services	36.4	33.0	3.4
Other commercial services	28.8	45.6	(16.8)
Technical services	24.9	22.0	2.9
Recruitment, training and other staff costs	19.0	19.9	(0.9)
Insurance	15.5	15.8	(0.3)
Postal and telephone costs	13.8	14.5	(0.7)
Rents and leases payable	12.6	26.7	(14.1)
Bank fees and charges	10.9	10.7	0.2
Cleaning and surveillance services	8.3	7.7	0.6
Meter reading	7.0	6.9	0.1
Legal and financial announcements and advertising, communication with customers	6.2	8.0	(1.8)
Remuneration to statutory auditors and directors	5.4	5.2	0.2
Rents payables	1.3	4.0	(2.7)
Other service costs	24.3	20.3	4.0
Total	**2,318.2**	**2,040.5**	**277.7**

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution as well as the network costs charged to the end customers. The increase as compared to 2018 is mainly connected to the increase in electricity sales volumes.

"Charges for works and maintenance" includes the costs for the construction or improvement of infrastructures under concession pursuant to the application of the IFRIC 12 interpretation and costs for maintaining the plants managed by the Group. The change compared to the previous fiscal period is mainly due to greater investments in networks under concession, as already highlighted in note 2 "Other operating revenues", and to greater costs incurred in developing the activities relating to the "decontamination" business and to increased ancillary services requested by the Group's end customers in the gas and electricity sector.

“Waste transportation, disposal and collection”, the increase is due to the higher volumes and costs of both urban hygiene and waste disposal sectors. Specifically, the increase of the waste disposal sector is due to the development of the commercial activity of the "decontamination" business, as well as the outsourcing process for treating by-products from composting plants.

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

"Professional, legal and tax services", the change is mainly due to back office costs for the administrative management of contracts for gas and electricity customers.

"Other commercial services" includes the costs incurred in developing and managing sales activities, specifically natural gas and electricity sales and associated support structures. It is worth noting that, in view of transitioning the electric power market from the greater protection system to the deregulated market and the resulting opportunities to expand the customer base, over the course of the year the Group developed a series of commercial initiatives and adapted its management systems in order to accurately monitor the incremental costs related to the new contracts. As required by IFRS 15, these incremental costs, involving mainly commissions paid to agents, were recorded as assets and are depreciated over the average lifetime of new customers (churn rate). The decrease compared to the previous period therefore reflects, thanks to the new business processes, the recognition as assets of agency costs previously recorded entirely in the income statement.

"Rents and tenancy payable" and "lease payables", the changes as compared with the previous period reflects the fact that as at 31 December 2018 the two items included fees paid for lease and rental contracts, amounting to 14.4 million euro, falling within the scope of application of accounting standard IFRS 16 beginning 1 January 2019. For further details, see paragraph 2.02.02 "Adoption of IFRS 16" and note 15 "Rights of use and leasing liabilities". It should also be noted that this item also includes the instalments relating to short-term leases and leases of low value, the value of which for 2019 is not significant.

"Other costs for services" mainly includes the items concerning consumption, organizational services and laboratory analyses.

5 Personnel costs

	2019	2018	Changes
Salaries and wages	396.9	384.9	12.0
Social security expenses	127.7	128.6	(0.9)
Post-employment and other benefits	0.8	0.7	0.1
Other costs	35.0	37.2	(2.2)
Total	**560.4**	**551.4**	**9.0**

The increase of 9 million euro in labour costs as compared with the previous period is mainly due to business combination operations carried out over the period that expanded the number of employees, as well as to the normal evolution of contractual trends regarding the national collective labour agreement.

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

	2019	2018	Changes
Managers	150	150	-
Middle management	541	532	9
Clerks	4,720	4,593	127
Blue-collar workers	3,340	3,287	53
Total	**8,751**	**8,562**	**189**

Overall, the average cost of labour per capita for 2019 was 64.0 thousand euro (64.4 thousand euro in 2018).

At 31 December 2019, the actual number of employees was 8,982 (8,622 employees at 31 December 2018).

Please note that the difference between the average number for the period and the actual number of employees as of 31 December 2019 is mainly due to the partnership operation with Ascopiave that occurred 19 December 2019, which involved the recruitment of 259 units in the sales sector and the departure of 102 units following the sale of the gas distribution branch.

6 Other operating costs

	2019	2018	Changes
Taxation other than income taxes	13.3	17.5	(4.2)
State rentals	13.0	12.3	0.7
Losses on the sale and disposal of assets	5.3	5.6	(0.3)
Landfill special tax	4.5	3.9	0.6
Bad debt losses	0.4	-	0.4
Other minor charges	22.8	23.2	(0.4)
Total	**59.3**	**62.5**	**(3.2)**

"Taxation other than income taxes" mainly relates to taxes on buildings, stamp duties and registration fees, public area occupation fees and excise duties. Note that the value for the 2018 period included the payment of the ICI/IMU tax for previous fiscal periods as a result of a court settlement.

"State rentals" is mainly related to fees paid to the Emilia Romagna region, land reclamation consortia, sector agencies and mountain-area communities, mainly regarding the withdrawal and use of water, as well as maintenance and management costs for hydraulic works, and rents established by decree 2012/933 as well as fees paid for the functioning of Atesir.

"Losses on the sale of goods and disposal of assets", arising mainly from the disposal of certain components of the WTE plants and disposal and treatment plants and distribution networks. The most significant investments for the year relate mainly to the divestiture of WTE components, in addition to the normal process of obsolete part replacements.

"Special landfill levy" refers to the relevant environmental tax for the period on landfills operated by the Group. The increase of 0.6 million euro is due mainly to higher volumes delivered to the landfills opened over the course of the 2019 fiscal period.

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

7 Capitalized costs

	2019	2018	Changes
Increase in self-constructed assets	37.6	43.2	(5.6)

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

8 Amortisation, depreciation and provisions

	2019	2018	Changes
Amortisation property, plant and equipment	167.0	164.5	2.5
Rights of use amortisation	15.1	-	15.1
Amortisation intangible assets	246.6	220.8	25.8
Allowance for bad debts	80.5	89.3	(8.8)
Provisions for risks and charges	37.7	46.9	(9.2)
Impairment of property, plant and equipment and intangibles	5.0	6.2	(1.2)
De-provisioning	(9.3)	(6.7)	(2.6)
Total	**542.6**	**521.0**	**21.6**

For breakdowns and further detail about these items, please refer to the comments under note 14 "property, plant and equipment", note 15 "Rights of use and leasing liabilities", note 16 "Intangible assets".
note 23 "Trade receivables" and note 29 "Provisions for risks and charges"

For "Amortisation property, plant and equipment", the increase is mainly due to the revision of the useful lives of some categories of electric meters, which were valued technologically obsolete and which will be replaced in the coming years, amounting to 1.7 million euro.

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

For "Intangible assets amortisation", the increase is mainly due to goods relating to public services under concession, in particular involving the methane gas distribution sector and water cycle. The increased value for the current period is partly due to:

- the revision of the technical-economic useful lives of the assets of the integrated water cycle. This analysis, which was carried out in collaboration with a leading company operating in the asset valuation sector, led to an increase in the depreciation rates of certain categories with a net effect of approximately 8.2 million euro. It should also be noted that, following this revision, the depreciation rates of the integrated water cycle are substantially in line with those defined by Arera for the 2020 - 2023 tariff period;
- incremental costs incurred to obtain sales contracts with end customers recognised under intangible assets (as illustrated in note 4); customer lists related to the acquisition of control of Sangroservizi Srl recorded at the end of 2018 and the sale of gas and electricity by CMV Energia&Impianti Srl in the first half of 2019;
- the fair value of the authorisation to operate the waste placement service at the Pistoia Ambiente Srl landfill, the control of which was acquired on 1 July 2019.

"Impairment of property, plant and equipment and intangibles" mainly refers to decreased value of a landfill located in the Imola area in which volumes of waste are still authorised to be placed. This depreciation was caused by the suspension of waste disposal ordered by the competent authorities.

The item "De-provisioning" includes the re-verification of the funds in view of the fact that the underlying risks no longer exist. As at 31 December 2019, verification are being carried out in relation to "Other provisions for risks and charges" for 8.1 million euro, mainly due 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.

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

	2019	2018	Changes
joint venture share of net profits	6.5	7.8	(1.3)
associated companies share of net profits	6.9	7.1	(0.2)
Total	**13.4**	**14.9**	**(1.5)**

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

The "net joint venture income" mainly refers to the share of the Group's net income earned by Enomondo Srl, 1.8 million euro (2.6 million euro in 2018) and Estenergy Spa, 4.7 million euro (5.2 million euro in 2018). It should be noted that at the end of the 2019 financial year, control of EstEnergy Spa was acquired, so the share of profits reflects the company's contribution to the consolidated financial statements as a jointly controlled company. For further details, reference should be made to paragraph 2.02.03 "Scope of consolidation".

"Associated companies share of net profits" relates to the companies:

- Aimag Spa, profits for 3.6 million euro (2.6 million euro in 2018);
- Sgr Servizi Spa, profits for 3,1 million euro (3.9 million euro in 2018);
- Set Spa, profits for 0.2 million euro (0.6 million euro in 2018).

10 Financial income and expense

	2019	2018	Changes
Revenues from derivatives	49.2	57.7	(8.5)
Revenues from derivatives	12.7		12.7
Customers	38.4	25.0	13.4
Other financial income	7.9	14.2	(6.3)
Total income	**108.2**	**96.9**	**11.3**
Bonds	90.1	91.7	(1.6)
Charges from derivatives	75.9	46.0	29.9
Write-downs of financial assets:	26.1	6.9	19.2
Discounting of provisions and finance leases	24.1	21.3	2.8
Valuation at depreciated cost of financial liabilities	14.7	11.0	3.7
Loans	6.3	4.9	1.4
Charges from valuation at fair value of financial liabilities	5.2	15.9	(10.7)
Factoring	1.9	3.6	(1.7)
Other financial expenses	3.3	2.2	1.1
Total expenses	**247.6**	**203.5**	**44.1**
Total net financial expense (Income)	**(139.4)**	**(106.6)**	**(32.8)**

The change in overall financial management, including reference to the Group's average cost of debt, is described in the Directors' Report in paragraph 1.03.03.

For further details on "Financial income from trading", "Other financial income", "Loans" and "Financing and bonds", see note 27 "Non-current and current financial liabilities", while for "Income and charges from valuation at fair value of financial liabilities" and "Income and charges from derivatives", see note 21 "Derivative financial instruments".

"Customers", mainly includes the interest on payments in arrears billing system for the gas and electricity customers. The increase for the financial period is mainly due to the billing of default interest for protected market customers.

"Financial income from trading", the item includes income related to the partial renegotiation, carried out during the fiscal period, of two bonds maturing in 2021 and 2024, which led to booking in the income statement the current value difference calculated in accordance with the provisions of IFRS 9 for 1.7 million euro and 11 million euro respectively.
"Other financial income" mainly includes bank interest receivables, dividends received from non-consolidated investee companies and income related to discounted receivables.

"Write-downs of financial assets" includes the result of valuations carried out as part of the impairment test, as described in note 32, and mainly refer to:

- loan of 11.6 million euro provided to the affiliate company Tamarete Energia Srl;
- equity investments of 9.1 million euro in the affiliated company Set Spa;
- equity investments of 5.2 million euro in the affiliated company Calenia Energia Spa;

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

	2019	2018	Changes
Post-closure landfills	11.5	14.1	(2.6)
Restoration of third-party assets	7.5	5.8	1.7
Leases	3.9	0.3	3.6
Employee leaving indemnity and other benefits	1.0	0.9	0.1
Plants dismantling	0.2	0.2	-
Total	**24.1**	**21.3**	**2.8**

The most substantial changes by comparison with the previous year are due to:

- the lower impact of the updated present value of the "Provisions for post-closure landfills", following the updating of its parameters to reflect current market conditions, as well as the revision of the assumptions on the timing of future disbursements in relation to certain depleted landfills;
- the higher impact of the updated present value of the "Provision for restoration of third party assets" compared to the previous year, following the reduction of the discount rate;
- the application, as at 1 January 2019, of the accounting standard for contracts containing a lease (see paragraph 2.02.02 "Adoption of IFRS 16"), which, having involved recording a discounted financial liability, resulted in the recognition of the resulting financial expense.

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

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

"Other financial charges" mainly includes expenses for financial intermediation and capital losses for the sale of equity investments.

11 Other non-operating revenues (expenses)

	2019	2018	Changes
Other non-operating revenues (expenses)	111.6	-	111.6

The item includes some effects related to the partnership operation with the Ascopiave Group, specifically:

- re-statement at fair value of the equity investment previously held in EstEnergy Spa, over which the Group previously had joint control, in relation to the acquisition of control of the company, amounting to 81.4 million euro, in accordance with the provisions of paragraph 42 of IFRS 3 for cases of business combinations carried out in several stages (step acquisition);
- net capital gain obtained following the transfer of control of the newly incorporated company AP Reti Gas Nord Est Srl, to which the "Gas network distribution" business unit was transferred, equal to 30.2 million euro.

For further details, reference should be made to paragraph 1.03.01 "Hera-Ascopiave partnership".

12 Taxes

This item is made up as follows:

	2019	2018	Changes
Current taxes (Ires, Irap and substitute tax)	139.7	132.6	7.1
Deferred taxes	(6.9)	5.9	(12.8)
Pre-paid taxes	(6.7)	(16.7)	10.0
Total	**126.1**	**121.8**	**4.3**

Taxes for the fiscal period increased from 121.8 million euro in 2018 to 126.1 million euro in 2019; The tax rate for 2018 is thus 23.9% as compared to the 29.1% of the previous year.
It should be noted that the tax rate for the year is affected by a number of results and associated non-recurrent tax effects. For a more consistent analysis of its performance, reference should be made to paragraph 1.03.02 "Economic and financial results" of the annual report, where both the pre-tax result and the tax rate for the period have been adjusted by some special items, in order to determine an adjusted tax rate, in any case significantly improved, perfectly comparable with that of the previous year.
The reduction in the tax rate, net of the above mentioned non-recurring items, was mainly due to the benefits obtained in terms of maxi and hyper depreciation and patent boxes, in particular with regard to the investments made to accompany the technological, digital and environmental transformation undertaken by the Group.

Current taxes are broken down as follows:

	2019	2018	Changes
Ires	104.2	105.0	(0.8)
Irap	33.3	27.1	6.2
Substitute tax	2.2	0.5	1.7
Total	**139.7**	**132.6**	**7.1**

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.

	2019		2018	
	Nominal effect	Percentage effect	Nominal effect	Percentage effect
Earnings before taxes	528.1		418.4	
Ires				
Standard rate	(126.7)	(24.0)%	(100.4)	(24.0)%
Irap deduction	0.7	0.1%	0.8	0.2%
Divestiture of equity investments (Pex)	3.9	0.7%	(1.2)	(0.3)%
Equity investment impairment	(6.2)	(1.2)%		
Tax benefits and incentives	11.8	2.2%	8.5	2.0%
IRES in previous financial periods	1.2	0.2%	(0.2)	(0.0)%
Equity investment appreciation	19.5	3.7%		
Other changes (increases and/or decreases)	0.6	0.1%	(1.2)	(0.3)%
Irap and other current taxes				
Irap	(31.0)	(5.9)%	(27.5)	(6.6)%
Exemption	0.1	0.0%	(0.6)	(0.1)%
Taxes	**(126.1)**	**(23.9)%**	**(121.8)**	**(29.1)%**

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 "equity investment impairment" reflects the tax effect following the non-deducibility of depreciations made as part of the impairment test, as explained in Note 32.

The item "Tax benefits and incentives" includes benefits relating to patent boxes, tax credits for research and development, maxi and over amortization.

The item "Equity investment appreciation" represents the effect related to the income from the fair value valuation of the equity interest previously held in EstEnergy Spa recorded only in the consolidated financial statements at the time the control of the company was obtained, as illustrated in note 1.03.01 "Hera-Ascopiave Partnership".

The item "Exemption", in addition to the in addition to the issuance of the relevant portion of the substitute tax relating to operations carried out in previous years, includes the substitute tax reported in the financial period and the tax asset reported for the IRES for exemption operations of intangible assets reported in business combination operations.

The prepaid and deferred taxes relating to the year 2019 refer to the following variations between taxable income and profit recorded in the financial statements:

Deferred tax assets	2019			2018		
	Temporary changes	Tax effect (Ires + Irap)	Equity changes	Temporary changes	Tax effect (Ires + Irap)	Equity changes
Pre-paid taxes with effect on the income statement and the statement of comprehensive income						
Allowance for bad debts	175.9	42.2		176.6	42.4	
Provisions for risks and charges	172.8	47.3		158.8	41.9	
Provisions for employee benefits	12.2	3.3		10.4	2.8	
Depreciation	392.2	97.9		376.0	94.9	
Equity investments	138.3	38.7		143.9	40.3	
Cash flow hedge	38.4	11.1		9.2	2.2	
Leases	6.5	1.8				
Other	84.6	22.5		70.0	18.9	
Total tax effect	**1,020.9**	**264.8**	**5.1**	**944.9**	**243.4**	**4.4**
Credited (or debited) amount to the statement of comprehensive income		9.6			1.6	
Credited (or debited) amount to the income statement		6.7			16.7	

Deferred tax liabilities	2019			2018		
	Temporary changes	Tax effect (Ires + Irap)	Equity changes	Temporary changes	Tax effect (Ires + Irap)	Equity changes
Deferred taxes with effect on the income statement and the statement of comprehensive income.						
Provisions for risks and charges	47.7	13.7		45.7	13.2	
Provisions for employee benefits	2.4	0.7		2.3	0.7	
Depreciation	789.1	163.3		283.9	81.2	
Discounted liabilities	133.8	32.1		-	-	
Deductible goodwill	29.2	8.2		29.2	8.2	
Cash flow hedge	7.7	2.2		26.7	7.7	
Leases	3.3	0.9		3.4	0.9	
Accrued capital gain	0.9	0.2		1.0	0.2	
Other	98.5	23.7		67.3	16.3	
Total tax effect	**1,112.6**	**245.0**	**123.5**	**459.5**	**128.4**	**5.0**
Credited (or debited) amount to the statement of comprehensive income		-			-	
Credited (or debited) amount to the income statement		6.9			(5.9)	

"Equity changes" includes the balances of deferred tax assets and liabilities arising from:

- business combination operations (please see paragraph 2.02.03 "Scope of consolidation" for the specific values recorded during 2019);
- the first application of the accounting standard IFRS 16 "Leases", (illustrated in section 2.02.02 "Adoption of IFRS 16" for further details).
- marginal reclassifications arising between deferred tax assets and liabilities.

These changes do not have an effect on the income statement and the statement of comprehensive income of the financial period, considering the reporting of the associated deferred tax effects.

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by law 244 of 24 December 2007, and associated implementational decrees, Ministerial Decree of 1 April 2009, no. 48 and Ministerial Decree of 8 June 2011, to coordinate international accounting standards with the rules to determine the taxable base for IRES and IRAP purposes, as per Article 4, paragraph 7-quarter,of Legislative Decree 38/2005. In particular, the reinforced derivation principle of article 83 of the Consolidated Tax Act (TUIR) was applied, which calls for entities that use IFRSs to use, including in a departure from the provisions of the TUIR, "the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards"

Reporting on tax litigations
Below is a brief summary of the Group's tax litigations as at 31 December 2019:

- notices of assessment for ICI served to Herambiente Spa and Hera Spa concerning the classification in the real estate registry of the Ferrara waste-to-energy plant. Notices of assessment issued referred to tax periods from 2008 to 2014 and altogether amount to 10.2 million euro. Regarding the notices of assessment for the years 2008 and 2009, the rulings by the tax committee of Ferrara issued in 2016 were all in favour of the Company. Subsequently, following the favourable, definitive rulings on the classification, on 11 February 2019 the Municipality of Ferrara issued orders for the total annulment of the assessments for the periods between 2008 and 2012 and the partial annulment for 2013 (for which 0.7 million euro remain to be assessed). As of today, only the proceedings for 2014, amounting to 1.5 million euro, remain suspended until the favourable ruling concerning the land registry dispute, which has already been issued, is finalised. The Group, having also consulted its lawyers, has decided not to make any provision for the litigations in question;
- notices of assessment for ICI/IMU were served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. These notices of assessment related to tax periods from 2010 to 2015 and altogether amount to 2.1 million euro. The Company filed appeals or complaints against these notices in February 2017. Some of these disputes were settled by judicial settlements in June and December 2018. The Group, having obtained the advice of its legal counsel, decided to maintain a provision of 0.2 million euro to cover residual risks;
- notices of assessment for ICI/IMU served to Herambiente Spa and Hera Spa concerning the classification in the real estate registry of the Lugo compost plant. These notices of assessment relating to tax periods from 2008 to 2011 were settled through the payment of 0.1 million euro on 29 November 2019. The 2014 tax period was settled through the payment of 0.1 million euro on 22 January 2020. For the remaining years, the Group, having also consulted its lawyers, decided to make a provision 0.4 million euro to cope with possible liabilities;
- assessment notices for the tax periods from 2013 to 2017 for TOSAP and COSAP, notified on 28 June 2018 and 20 July 2018 to Hera Spa by the Municipality of Riccione, for a total amount of 3.5 million euro, for the permanent occupation of public land with waste bins. On 26 September 2018, the related appeals were submitted and the hearing was held on 12 March 2019. On 26 November 2019, the court handed down the rulings by which the judge partially upheld the appeals, redefining the tax and the penalties, resulting in a charge to the company of 1 million euro paid on 10 March 2020. On 5 and 6 November 2019 similar assessment notices were served in relation to 2018 and 2019, for a total of 2.1 million euro against which an appeal was filed on 10 January 2020. On 30 December 2019 an assessment notice was served from the municipality of Corian for the Tosap waste bins in relation to 2014, totalling 0.2 million euro, against which an appeal was filed on 28 February 2020. The Group, having also consulted its lawyers, decided not to make any provision to the risk provision for the litigations in question;
- tax audits to Herambiente Spa, for covered fiscal years from 2009 to 2013 and focused mainly on the amount the company owed in relation to the IRAP subsidy "tax wedge". With respect to the 2009 tax period, the second instance ruling, filed on 21 November 2019, was unfavourable to the company, after a favourable ruling for the company by the Provincial Tax Commission handed down in 2015. With regard to the 2010 and 2011 tax years, two sentences were handed down in 2017, also in the Company's favour. The Inland Revenue filed appeals and the company filed appeal for 2010 on 18 May 2018; as at today a hearing has not yet been scheduled. In relation to the 2011 tax period, on 9 December 2019 the hearing was held and the ruling, handed down on 18 February 2020, was unfavourable. In 2016, additional notices of assessment were served for the 2012 and 2013 tax years, against which the Company filed the relevant appeals. On 10 November 2017 the relative rulings were filed, both unfavourable to the Company, who filed two appeals on 7 May 2018. In relation to this complex matter, the Group recognised charges of 1.4 million euro in the income statement for the amounts to be paid for provisional registration as a result of the second-instance loss for 2009 and 2011;
- tax audits to Hera Trading Srl, concerning the tax periods from 2010 to 2014. The most significant of these notifications regards the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates for the purposes of calculating IRES. In 2016, a notice of assessment was served in relation to IRES 2011, for 2.1 million euro of tax, against which the Company appealed; on January 18 2018 the ruling was filed as unfavourable to the Company, but without the application of penalties, while on 17 July 2018 the company filed an appeal. As of today, the hearing has not yet been scheduled. Against this ruling, on 6 March

2018, one third of the tax was paid, plus interests, for a total of 0.9 million euro; on 29 March 2018, the second third of the tax was paid, plus interests, for 0.7 million euro. On 7 September 2017 a similar assessment notice was served for IRES 2012, amounting to 0.5 million euro in taxes, for which a presidential suspension of execution was obtained. The hearing was held on 30 January 2018 and the ruling, which was unfavourable to the company, was filed on 8 May 2018. An appeal was therefore lodged on 7 December 2018, the hearing has not yet been scheduled, and two-thirds of the amount was provisionally paid for 0.3 million euro. On 20 July 2018 an assessment notice was served in relation to 2013, for 0.4 million euro against which an appeal was filed on 17 October 2018. In relation to that year, the suspension request was rejected and on 20 December 2018 one-third of the amount was provisionally paid for 0.2 million euro. In relation to that year, the first instance ruling was filed on 4 June 2019, unfavourable to the company, and on 7 August 2019 the second third of the amount was provisionally paid for 0.2 million euro. Following service of the appeal by the Regional Department of Friuli Venezia-Giulia, on 4 January 2020, the deed of counter-deducement with incidental appeal was filed with the Regional Tax Commission of Trieste; a second instance hearing has yet to be scheduled. Finally, it should be noted that the company was also served the same assessment notice with regard to the Robin Tax. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any provisions for the disputes in question, as the alleged violations are considered unfounded;

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

13 Earnings per share

	2019	2018
Profit (loss) for the period attributable to holders of ordinary shares of the parent entity (A)	385.7	281.9
Weighted average number of shares outstanding for the purposes of calculation of profit (loss) per share		
basic (B)	1,472,516,974	1,467,966,686
diluted (C)	1,472,516,974	1,467,966,686
Earnings (loss) per share (in euro)		
basic (A/B)	**0.262**	**0.192**
diluted (A/C)	**0.262**	**0.192**

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

As of this writing, the share capital of the parent company, Hera S.p.A., consisted of 1,489,538,745 ordinary shares, unchanged from 31 December 2018, which were used in determining basic and diluted earnings per share.

14 Property, plant and equipment

	31 Dec 19	31 Dec 18	Changes
Land and buildings	583.5	591.7	(8.2)
Plants and machinery	1,181.6	1,174.1	7.5
Other movable assets	134.9	131.1	3.8
Assets under construction	90.3	104.2	(13.9)
Total operating assets	**1,990.3**	**2,001.1**	**(10.8)**
Investment property	2.4	2.6	(0.2)
Total	**1,992.7**	**2,003.7**	**(11.0)**

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

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 18									
Land and buildings	571.3	19.5	(1.7)	(19.1)	0.6	21.1	591.7	807.5	(215.8)
Plants and machinery	1,201.6	44.5	(4.0)	(120.5)	0.8	51.7	1,174.1	2,724.5	(1,550.4)
Other movable assets	120.3	26.1	(1.7)	(28.2)	-	14.6	131.1	466.0	(334.9)
Assets under construction	119.9	69.0	(0.7)	-	0.2	(84.2)	104.2	104.2	-
Total	**2,013.1**	**159.1**	**(8.1)**	**(167.8)**	**1.6**	**3.2**	**2,001.1**	**4,102.2**	**(2,101.1)**
31 Dec 19									
Land and buildings	591.7	12.8	(0.9)	(18.3)	2.5	(4.3)	583.5	815.8	(232.3)
Plants and machinery	1,174.1	59.8	(3.1)	(123.7)	10.8	63.7	1,181.6	2,858.1	(1,676.5)
Other movable assets	131.1	24.7	(2.0)	(29.6)	2.1	8.6	134.9	489.8	(354.9)
Assets under construction	104.2	67.1	(0.6)	(0.2)	0.5	(80.7)	90.3	90.3	-
Total	**2,001.1**	**164.4**	**(6.6)**	**(171.8)**	**15.9**	**(12.7)**	**1,990.3**	**4,254.0**	**(2,263.7)**

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

"Land and buildings", totalling 583.5 million euro, consisted of 117.2 million euro in land and buildings and 466.4 million euro in buildings. These are mainly company-owned properties on which the majority of the sites and production plants stand. Investments during the period mainly related to the renewal and construction of the Group's office buildings.

"Plant and machinery", amounting to 1,181.6 million euro, is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system and, therefore: district heating, electricity in the Modena area, waste disposal and waste treatment. The main investments during the year related to waste treatment activities, for a total of 35 million euro, which include the completion of the biomethane production plant in Sant'Agata Bolognese and the construction of facilities for the landfills in Cordenons and Ravenna 9th and 10th sectors, for a total investment of 10.6 million euro. Other significant investments related to heat management and district heating, for a total of 7.5 and 7.7 million euro respectively.
The depreciation and amortisation column includes 4.4 million euro in writedowns of certain plants, including a landfill located in Imola, as explained in Note 8 "Depreciation, amortisation and provisions".

"Other movable assets", equal to 134.9 million euro, include the equipment, waste disposal bins for 68.5million euro, movable assets, furniture and electronic machines for 16.5 million euro, and vehicles and cars for 49.9 million euro.

"Assets under construction and advance payments", amounting to 90.3 million euro, include mainly investment for development of district heating and electricity distribution, cogeneration facilities and waste recycling plants.

"Other changes" includes the reclassification to Rights of use of the value of contracts previously classified as financial leases (IAS 17) and recorded under property, plant and equipment due to their nature, as explained in note 15. This item covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial year, as well as the reclassification from Property, plant and equipment to Intangible assets, especially when goods used in activities under contract are involved.

The column "Changes in the scope of consolidation" includes the business combination operations carried out during the financial year and the transfer of control of the "Gas Network Distribution" branch (transferring it to the AP Reti Gas Nord Est Srl company) as part of the partnership operation with the Ascopiave Group. More specifically, acquisition operations led to the entry of property, plant and equipment for a total of 16.6 million euro (for a more detailed analysis see paragraph 2.02.03 "Scope of consolidation"), while the divestment entailed assets disposal for 0.7 million euro. It should be noted that the main effects generated by the transfer of control of the Gas Network Distribution business unit are reported under intangible assets, since they are mainly assets under concession.

Real guarantees

	31 Dec 19	31 Dec 18
Real guarantees to third parties	153.7	164.1

These include as of 31 December 2019:

- Special mortgages and privileges on land, plants and machinery pledged by the subsidiary Frullo Energia Ambiente Srl to the banking syndicate that issued financing in the amount of 150 million euro;
- Mortgages on a building owned by the subsidiary Herambiente Servizi Industriali Srl to a banking institute in the amount of 10 million euro;
- Mortgages on two buildings owned by the subsidiary Marche Multiservizi Spa to a banking institute in the amount of 3.7 million euro;

15 Rights of use and leasing liabilities

The application of the international accounting standard IFRS 16 resulted in recognising as at 1 January 2019:

- rights of use, stated under non-current assets, were calculated for the most part as net carrying amounts of the goods under contracts, calculated as if the standard had been applied from the initial date of the contracts, using the discount rate established at the transition date;
- current and non-current liabilities were calculated as the present value of the remaining future payments at the transition date, discounted using for each contract the marginal loan rate applicable according to the expiration date.

The following tables show the breakdown of rights of use (reported net of the associated amortisation provision) and leasing liabilities at the transition date and the related movements as at 31 December 2019.

	31 Dec 19	Impacts at the transition date 1 Jan 19	IAS 17 effect 31 Dec 18
Non-current assets			
Right of use land and buildings	69.1	67.3	16.3
Right of use plants and machinery	7.9	4.2	5.3
Right of use other movable assets	19.9	19.5	
Total	**96.9**	**91.0**	**21.6**
Non-current liabilities			
Non-current lease liabilities	76.1	82.7	12.2
Current liabilities			
Current lease liabilities	19.4	13.9	1.7
Total	**95.5**	**96.6**	**13.9**

	Net opening balance	New contracts and contractual changes	Decrease	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 19									
Rights of use land and buildings	67.3	(10.3)	-	(7.7)	3.3	16.5	69.1	101.3	(32.2)
Rights of use plants and machinery	4.2	-	-	(0.9)	-	4.6	7.9	10.0	(2.1)
Rights of use other movable assets	19.5	6.2	-	(6.5)	0.7	-	19.9	32.5	(12.6)
Total	**91.0**	**(4.1)**	**-**	**(15.1)**	**4.0**	**21.1**	**96.9**	**143.8**	**(46.9)**

The column "New contracts and contractual amendments" shows the leases signed over the course of the period, as well as the change in the assumptions regarding their duration and contractual options.

The column "Other changes" includes the value of contracts previously classified as financial leases (IAS 17) and recorded under property, plant and equipment due to their nature.

"Rights of use land and buildings", totalling 69.1 million euro, consisted of 63.9 million euro in rights of use of buildings and 5.2 million euro in rights of use of land. The rights of use for buildings refer mainly to contracts concerning the real estate structures used for headquarters, offices and customer service desk.

"Rights of use of plant and machinery" equal 7.9 million euro and refer mainly to contracts regarding purification and composting plants.

"Rights of use of other movable assets" equal 19.9 million euro and refer mainly to contracts concerning IT infrastructures (especially data centres), operational vehicles and cars.

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

	Net opening balance	New contracts and contractual changes	Decreases	Financial expenses	Changes in the scope of consolidation	Other changes	Net closing balance
31 Dec 19							
Lease liabilities	**96.6**	**(4.2)**	**(18.9)**	**4.0**	**4.1**	**13.9**	**95.5**
of which							
non-current liabilities	82.7						76.1
current liabilities	13.9						19.4

Financial liabilities due to leases mainly include financial payables arising from the rental fees of the Group's operating and administrative offices. The column "New contracts and contractual amendments" mainly includes the re-assessment of the liabilities of some of the existing contracts, generated by the update of the assumptions underlying the contracts themselves concerning options of renewal, purchase or early termination. "Decreases" are generated by the reimbursement of contractual fees due over the course of the financial period. "Other changes" includes the reclassification of the debt of contracts previously classified under financial leases (IAS 17) and recorded financial liabilities.

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

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

Type	31 Dec 19	Portion due within the period	Portion due within 5th year	Portion due beyond 5th year
Lease liabilities	95.5	19.4	42.7	33.4

16 Intangible assets

	31 Dec 19	31 Dec 18	Changes
Industrial patents and intellectual property rights	78.6	78.6	-
Concessions, licences, trademarks and similar rights	132.0	74.9	57.1
Public services under concession	2,718.6	2,689.1	29.5
Customer lists	578.4	153.8	424.6
Other intangible assets	49.6	34.7	14.9
Intangible assets under construction and public services under concession	157.3	172.2	(14.9)
Intangible assets under construction	65.7	51.6	14.1
Total	**3,780.2**	**3,254.9**	**525.3**

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

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 18									
Industrial patents and intellectual property rights	55.8	11.2	-	(31.3)	-	42.9	78.6	405.4	(326.8)
Concessions, licences, trademarks and similar rights	86.7	0.7	-	(12.5)	-	-	74.9	386.3	(311.4)
Public services under concession	2,574.3	152.2	(1.5)	(154.4)	37.1	81.4	2,689.1	4,548.2	(1,859.1)
Customer lists	148.1	2.0	-	(13.7)	17.1	0.3	153.8	199.1	(45.3)
Other intangible assets	36.9	4.7	(0.3)	(9.0)	-	2.4	34.7	129.6	(94.9)
Intangible assets under construction and public services under concession	161.3	100.0	(0.4)	-	-	(88.7)	172.2	172.2	-
Intangible assets under construction	63.9	34.5	-	-	-	(46.8)	51.6	51.6	-
Total	**3,127.0**	**305.3**	**(2.2)**	**(220.9)**	**54.2**	**(8.5)**	**3,254.9**	**5,892.4**	**(2,637.5)**
31 Dec 19									
Industrial patents and intellectual property rights	78.6	8.3	-	(34.1)	0.2	25.6	78.6	442.2	(363.6)
Concessions, licences, trademarks and similar rights	74.9	0.8	(0.1)	(11.9)	67.4	0.9	132.0	458.0	(326.0)
Public services under concession	2,689.1	196.2	(1.1)	(171.2)	(109.2)	114.8	2,718.6	4,593.8	(1,875.2)
Customer lists	153.8	-	-	(14.9)	439.5	-	578.4	638.0	(59.6)
Other intangible assets	34.7	24.5	-	(14.5)	(0.2)	5.1	49.6	163.8	(114.2)
Intangible assets under construction and public services under concession	172.2	90.4	(0.2)	-	(0.8)	(104.3)	157.3	157.3	-
Intangible assets under construction	51.6	48.9	(0.1)	(0.2)	-	(34.5)	65.7	65.7	-
Total	**3,254.9**	**369.1**	**(1.5)**	**(246.8)**	**396.9**	**7.6**	**3,780.2**	**6,518.8**	**(2,738.6)**

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

"Industrial patents and intellectual property rights," in the amount of 78.6 million euro, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licences, trademarks and similar rights," amounting to 132 million euro, primarily comprises the value of the rights relating to the activities of gas distribution and integrated water management, classified as intangible assets even before the interpretation of IFRIC 12 "Service concession arrangements" was first applied.

"Public services under concession", amounting to 2,718.6 million euro, include assets relating to gas distribution, electricity distribution (Imola area), the integrated water cycle and public lighting activities (except for the latter, as specified in note 19 "Current and non-current financial assets") provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC 12 interpretation. Investments for the year related mainly to the water networks, in the amount of 102.2 million euro, and gas distribution networks, in the amount of 74.1 million euro.

"Intangible assets under construction and public services under concession," amounting to 157.3 million euro, refers to investments related to the same contracts that have yet to be concluded at year-end.

"Intangible assets in progress and advance payments", equal to 65.7 million euro, essentially comprises IT projects that are still incomplete.

"Customer lists", amounting to 578.4 million euro, are recorded as a result of business combination transactions and the consequent valuation of the assets acquired. The amortisation period of these customer lists is correlated to the churn rate identified for each individual transaction.

The item "Other intangible assets", amounting to 49.6 million euro, refers mainly to the rights of use for networks and infrastructures for the passage and laying down of telecommunication networks and the incremental costs incurred for obtaining new sale contracts. Over the course of the period, and specifically in light of the new opportunities for expanding its customer base in the development of the electricity market, the Group designed a series of commercial activities and adapted its management systems in order to accurately monitor the incremental costs related to the new contracts. As required by IFRS 15, these incremental costs, involving mainly commissions paid to agents, were recorded as assets and are depreciated over the average lifetime of new customers (churn rate). The commissions stated as assets for the year 2019 amount to 23.6 million euro.

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

The column "Changes in the scope of consolidation" includes the business combination operations carried out during the financial year and the transfer of control of the "Gas Network Distribution" branch (transferring it to the AP Reti Gas Nord Est Srl company) as part of the partnership operation with the Ascopiave Group. More specifically, acquisition operations led to the entry of intangible assets for a total of 525.8 million euro (for a more detailed analysis see paragraph 2.02.03 "Scope of consolidation"), while the divestment entailed assets disposal for 128.9 million euro, specifically the gas distribution network for the regions of Veneto and Friuli-Venezia Giulia.

17 Goodwill

	31 Dec 19	31 Dec 18	Changes
Goodwill	812.9	381.3	431.6

The value of the goodwill as of 31 December 2019 mainly reflects the following operations:

- acquisition of control of "Ascopiave commercial activities" in the Veneto, Friuli-Venezia Giulia and Lombardy regions, that is the companies EstEnergy Spa, Ascotrade Spa, Ascopiave Energie Spa, Blue Meta Spa and Etra Energia Srl, as well as the company Amgas Blu Srl operating in the province of Foggia, for a total of 430.6 million euro;
- integration that in 2002 resulted in the creation of Hera S.p.A., 81.3 million euro;
- acquisition of control through the merger of Agea Spa, effective beginning 1 January 2004, 41.7 million euro;
- acquisition of control over Gruppo Meta which took place at the end of the 2005 financial year, as a result of the merger of Meta Spa into Hera Spa, 117.7 million euro;
- acquisition of control over Sat Spa through the merger into Hera Spa, effective beginning 1 January 2008, 54.9 million euro;

- acquisition of control over the Gruppo Aliplast in early 2017, 25 million euro;
- acquisition of control over the Marche Multiservizi Spa Group, 20.8 million euro.

The change as compared to the previous period is solely related to business combination operations carried out during 2019 as described in paragraph 2.02.03 "Scope of consolidation".

The carrying amounts of goodwill were tested for impairment, the results of which are outlined in note 32 "Impairment test".

18 Equity investments

	31 Dec 19	31 Dec 18	Changes
Investments valued using the equity method	135.8	136.0	(0.2)
Other Equity investments	7.7	13.1	(5.4)
Total	**143.5**	**149.1**	**(5.6)**

The changes in joint ventures and associated companies as compared to 31 December 2018 take into account the pro-quota losses and profits reported by the respective companies (including the other components of the comprehensive income statement) as well as the possible reduction of the value for any dividends that were distributed and for depreciations due to the impairment test. The share of profit (loss) pertaining to companies accounted for by the equity method is shown in note 9 "Share of profit (loss) of joint ventures and associated companies".

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

	31 Dec 18	Investments and disinvestments	Valuation net equity	Dividends paid out	Changes in the scope of consolidation	Depreciation and other changes	31 Dec 19
Aimag Spa	49.0	-	3.6	(2.2)	-	-	50.4
Enomondo Srl	16.1	-	1.8	(2.0)	-	-	15.9
EstEnergy Spa	11.3	-	4.7	(5.2)	(10.8)	-	-
Set Spa	35.4	-	0.2	-	-	(9.2)	26.4
Sgr Servizi Spa	23.1	-	3.1	(2.6)	-	(0.1)	23.5
ASM SET Srl	-	-	-	-	18.5	-	18.5
Other minor	1.1	(0.9)	(0.0)	(0.1)	1.0	-	1.1
Total	**136.0**	**(0.9)**	**13.4**	**(12.1)**	**8.7**	**(9.3)**	**135.8**

The item "Investments and disinvestments" mainly includes the divestment of shares held in the company So.sel Spa, leading to state a capital loss of 0.7 million euro and proceeds of 0.3 million euro.

The item "Changes in the scope of consolidation" includes the effects of the business combination involving the purchase of gas and electricity sales activities from the Ascopiave Group. More specifically, the acquisition of equity investments in ASM SET Srl for 18.5 million euro and in Sinergie Italiane Srl in liquidation for 1 million euro, in addition to the line-by-line consolidation of EstEnergy Spa as at 31 December 2019.

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

	31 Dec 18	Investments	Disinvestments	Depreciation	Other changes	31 Dec 19
Calenia Energia Spa	7.0	-	-	(5.2)	-	1.8
Veneta Sanitaria Finanza di Progetto Spa	3.6	-	-	-	-	3.6
Other minor	2.5	0.2	(0.4)	-	-	2.3
Total	**13.1**	**0.2**	**(0.4)**	**(5.2)**	**-**	**7.7**

The assessment of the investment in Calenia Energia Spa generated a value loss of 5.2 million euro due to the criticalities currently still existing in the electrical generation sector.

The carrying amounts of the equity investments representing vehicles through which the Group owns production quotas for electrical generation plants (Set Spa, Tamarete Energia Srl and Calenia Energia Spa) underwent the impairment test; for the test results and further details regarding the assumptions, please see note 32 "Impairment test".

Below are presented the main aggregate values of the jointly controlled company Enomondo Srl as well as companies with significant influence (Aimag Spa, Q.Thermo Srl, Set Spa, Sgr Servizi Spa, Sinergie Italiane Srl in liquidation, and Tamarete Energia Srl):

Assets	Joint ventures	Associated companies	Total
Non-current assets			
Property, plant and equipment	32.6	419.4	452.0
Rights of use		0.3	0.3
Intangible assets		53.4	53.4
Goodwill		62.5	62.5
Equity investments		8.3	8.3
Financial assets		1.0	1.0
Deferred tax assets	0.1	7.6	7.7
Total non-current assets	**32.7**	**552.5**	**585.2**
Current assets			
Inventories	0.8	5.4	6.2
Trade receivables	6.3	224.7	231.0
Contract work in progress		0.4	0.4
Financial assets		18.3	18.3
Current tax assets	0.1		0.1
Other current assets	7.4	28.6	36.0
Cash and cash equivalents	0.8	24.2	25.0
Total current assets	**15.4**	**301.6**	**317.0**
Total assets	**48.1**	**854.1**	**902.2**

Net assets and liabilities	Joint ventures	Associated companies	Total
Share capital and reserves			
Share capital	14.0	88.9	102.9
Reserves	14.2	252.7	266.9
Profit (loss) for the year	3.6	30.7	34.3
Group net equity	**31.8**	**372.3**	**404.1**
Non-controlling interests		11.8	11.8
Total net equity	**31.8**	**384.1**	**415.9**
Non-current liabilities			
Non-current financial liabilities	3.6	190.0	193.6
Non-current lease liabilities		0.2	0.2
Post-employment and other benefits	0.1	5.4	5.5
Provisions for risks and charges	0.3	39.2	39.5
Deferred tax liabilities		0.5	0.5
Derivative financial instruments			-
Total non-current liabilities	**4.0**	**235.3**	**239.3**
Current liabilities			
Current financial liabilities	3.5	39.5	43.0
Current lease liabilities		0.1	0.1
Trade payables	8.7	137.4	146.1
Current tax liabilities		2.0	2.0
Other current liabilities	0.1	55.7	55.8
Total current liabilities	**12.3**	**234.7**	**247.0**
Total liabilities	**16.3**	**470.0**	**486.3**
Total net assets and liabilities	**48.1**	**854.1**	**902.2**

Income statement	Joint ventures	Associated companies	Total
Revenues	16.5	745.4	761.9
Other operating revenues	6.6	17.6	24.2
Use of raw materials	(1.7)	(506.1)	(507.8)
Service costs	(11.8)	(121.3)	(133.1)
Personnel costs	(0.3)	(24.5)	(24.8)
Amortisation, depreciation and provisions	(3.9)	(47.5)	(51.4)
Other operating costs	(0.2)	(16.0)	(16.2)
Operating revenues	**5.2**	**47.6**	**52.8**
Financial income		2.8	2.8
Financial expenses	(0.1)	(5.6)	(5.7)
Total financial management	**(0.1)**	**(2.8)**	**(2.9)**
Other non-operating revenues (expenses)		0.8	0.8
Earnings before taxes	**5.1**	**45.6**	**50.7**
Taxes for the period	(1.5)	(13.6)	(15.1)
Net profit for the period	**3.6**	**32.0**	**35.6**

19 Current and non-current financial assets

	31 Dec 19	31 Dec 18	Changes
Loan receivables	50.6	65.8	(15.2)
Portfolio securities	2.5	2.5	-
Receivables for construction services	33.7	17.4	16.3
Other financial receivables	48.5	32.7	15.8
Total non-current financial assets	**135.3**	**118.4**	**16.9**
Loan receivables	23.5	8.6	14.9
Portfolio securities	0.1	0.1	-
Other financial receivables	46.5	28.6	17.9
Total current financial assets	**70.1**	**37.3**	**32.8**
Total cash and cash equivalents	**364.0**	**535.5**	**(171.5)**
Total financial assets, cash and cash equivalents	**569.4**	**691.2**	**(121.8)**

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

	31 Dec 19			31 Dec 18		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe SpA	7.7	0.8	8.5	8.5	0.8	9.3
Calenia Energia Spa	11.9	-	11.9	14.6	2.5	17.1
Set Spa	21.4	2.9	24.3	24.3	2.7	27.0
Tamarete Energia Srl	-	2.8	2.8	12.9	2.6	15.5
Other minor	9.6	17.0	26.6	5.5	(0.0)	5.5
Total	**50.6**	**23.5**	**74.1**	**65.8**	**8.6**	**74.4**

Loans to companies representing vehicles through which the Group owns production quotas for electrical generation plants (Set Spa, Tamarete Energia Srl and Calenia Energia Spa) were tested for impairment, the results of which are outlined in note 32 "Impairment test". With regard to the active loan to Tamarete Energia Srl, the impairment test resulted in a writedown for 11.6 million euro.

"Portfolio securities" include, for the non-current part, 2.5 million euro in bonds, funds and insurance policies to guarantee post-closure management of the landfill managed by the subsidiary Asa Scpa, the book value of which is substantially in line with the fair value at the end of the financial period. These securities are measured at fair value through other comprehensive income components.

"Receivables for construction services" from municipalities for the construction of public lighting systems identified in keeping with the financial asset model provided by the IFRIC 12 interpretation, as shown in greater detail in the section describing the evaluation criteria of the item "Loans and receivables" in paragraph 2.02.04 "Evaluation criteria and consolidation principles".

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

- Municipality of Padua, receivables regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 17.9 million euro;
- The Collinare Consortium of Municipalities in the amount of 12.1 million euro represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- Acosea Impianti Srl, regarding a security deposit in the amount of 12.5 million euro;
- Municipality of Riccione for a multi-year repayment plan signed in 2018 involving an overall cash outlay of 1.6 million euro.

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

- public grant receivables to be received from various subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region) in the amount of 13.4 million euro;

- receivables for cash-pooling claimed by the sales companies acquired by the Ascopiave Group at the end of the financial year from the former parent company for a total of 16.2 million euro;
- deposits provided as security for participation in foreign platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity and natural gas, totalling 14 million euro;
- receivables for collections to be received from the Consorzio Stabile Enrgie Locali (Csel) following the award of the public tender for the lighting service (launched by Consip to award the contract to serve public administrations) in the amount of 8 million euro;
- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the commencement of the calls for tender, in the amount of 4.7 million euro.

"Cash and cash equivalents" include almost exclusively bank and postal deposits.

To better understand the financial dynamics taking place during the 2019 financial year, see the financial statement and the comments shown in the Directors' report in paragraph 1.03.04 "Analysis of financial structure".

20 Deferred tax assets and liabilities

	31 Dec 19	31 Dec 18	Changes
Pre-paid tax assets	264.8	243.4	21.4
Offsetting of deferred tax liabilities	(90.5)	(85.3)	(5.2)
Substitute tax credit	0.5	1.1	(0.6)
Total net deferred tax assets	**174.8**	**159.2**	**15.6**
Deferred tax liabilities	245.0	128.4	116.6
Offsetting of deferred tax liabilities	(90.5)	(85.3)	(5.2)
Total net deferred tax liabilities	**154.5**	**43.1**	**111.4**

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

"Deferred tax liabilities" arise from timing differences between reported profit and taxable profit, mainly in relation to greater tax deductions taken in previous years for provisions and amounts of property, plant and equipment not relevant for tax purposes. The increase for the period is mainly due to the business combinations carried out during the year, described in paragraph 2.02.03.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets with the corresponding current tax liabilities.

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

For more details about the composition and dynamics of deferred tax assets and liabilities, see note 12 "Taxes"

21 Derivative financial instruments

Non-current assets and liabilities							
		31 Dec 19			31 Dec 18		
Underlying amounts hedged	**Fair Value Hierarchy**	**Notional**	**Fair value assets**	**Fair value liabilities**	**Notional**	**Fair value assets**	**Fair value liabilities**
Interest rate derivatives							
Loans	2	500.0 mln	18.7	4.2	500.0 mln	26.1	4.5
Loans	2	161.7 mln		23.2	563.3 mln		33.4
Total non-current derivatives			**18.7**	**27.4**		**26.1**	**37.9**
Exchange rate derivatives							
Loans	2	20 mld Jpy	22.5		20 mld Jpy	19.2	
Total non-current derivatives			**41.2**	**27.4**		**45.3**	**37.9**

Current assets and liabilities							
		31 Dec 19			31 Dec 18		
Underlying amounts hedged	**Fair Value Hierarchy**	**Notional**	**Fair value assets**	**Fair value liabilities**	**Notional**	**Fair value assets**	**Fair value liabilities**
Commodity derivatives							
Foreign gas hubs	3	310,300 MWh	1.6		3,359,619 MWh	10.0	
Formulas Electricity	2	12,564,290 MWh	70.5		11,512,401 MWh	86.2	
Foreign gas hubs	3	5,564,835 MWh		25.6	1,095,324 MWh		1.2
Refined oil products/coal	2	1,222 Ton		0.1	1,320 Ton		0.0
Electricity formulas	2	17,230,886 MWH		112.7	7,556,092 MWh		62.2
Total current commodity derivatives			**72.2**	**138.4**		**97.1**	**63.5**
Interest rate derivatives							
Loans	2				500.0 mln	14.8	2.7
Loans	2				2.7 mln		0.1
Total current rate derivatives			**-**	**-**		**14.8**	**2.8**
Total current derivatives			**72.2**	**138.4**		**111.9**	**66.3**

Derivative financial instruments classified under non-current liabilities amounted to 41.2 million euro (45.3 million euro as at 31 December 2018); they refer to interest rate derivatives for 18.7 million euro and to derivatives on exchange rates in connection to loans for 22.5 million euro. Derivative financial instruments classified under non-current assets amounted to 27.4 million euro (37.9 million euro as at 31 December 2018) and referred entirely to interest rate derivatives.
Financial instruments reported as current assets and liabilities represent derivative contracts whose execution is expected to take place within the next financial year. Derivative financial instruments classified under current assets amounted to 72.2 million euro and 138.4 million euro respectively (111.9 and 66.3 million euro as at 31 December 2018); they mainly refer to commodity derivatives. In 2019, interest rate derivatives related to loans and bonds that in the previous year were recorded as current, were repaid.

With regard to derivatives on current and long-term interest rates in the form of Interest Rate Swaps (IRS) as at 31 December 2019, the Group's net exposure was negative by 8.7 million euro, compared with a positive exposure of 0.2 million euro as at 31 December 2018. The decrease in the fair value as compared to the previous year, in view of interest rate curves that were depressed and mainly stable rates over the financial periods, is due to the achievement of the positive differential.

The fair value of derivatives set up to hedge the exchange rate and the fair value of foreign currency loans in the form of Cross Currency Swaps (CCS) is positive in the amount of 22.5 million euro as at 31 December 2019, as compared to an assessment that was positive, amounting to 19.2 million euro, as at 31 December 2018. The positive change in fair value in the amount of 3.3 million euro is due prevalently to the exchange rate, since the Japanese yen gained remarkably on the euro during 2019.

At 31 December 2019, the net fair value of commodity derivatives pertaining trade operations was positive for 66.2 million euro, as compared to a negative fair value of 33.6 million euro at 31 December 2018. The decrease in absolute terms in the fair value of portfolio contracts is mainly due to the increase in the underlying volumes as a result of increased requests for hedges from commercial companies (mainly as a result of the type of fixed price offers) and the volatility of the Pun during the year.

Interest/exchange rate derivatives

Interest rate and foreign exchange derivative instruments held as of 31 December 2019, subscribed in order to hedge loans, can be classed into the following categories:

Hedging interest/exchange rate derivatives Financial operations						
Type	**31 Dec 19**			**31 Dec 18**		
	Notional	**Fair value assets**	**Fair value liabilities**	**Notional**	**Fair value assets**	**Fair value liabilities**
Cash flow hedge	11.9 mln	-	0.4	416.2 mln	-	9.7
Fair value hedge	149.8 mln	22.4	22.8	149.8 mln	19.2	23.7
Non hedge accounting	500 mln	18.7	4.2	1,000 mln	41.0	7.3
Total fair value		**41.1**	**27.4**		**60.1**	**40.6**
Type	**31 Dec 19**			**31 Dec 18**		
	Income	**Expenses**	**Net effect .**	**Income**	**Expenses**	**Net effect .**
Cash flow hedge	0.4	(27.9)	(27.5)	0.2	(0.7)	(0.5)
Fair value hedge	10.0	(9.2)	0.8	20.3	(8.1)	12.2
Non hedge accounting	38.8	(38.8)	(0.0)	37.2	(37.2)	0.0
Total income (expenses)	**49.2**	**(75.9)**	**(26.7)**	**57.7**	**(46.0)**	**11.7**

The negative fair value of derivative financial instruments classified as cash flow hedges amounts to 0.4 million euro (9.7 million euro as at 31 December 2018). The fair value decrease was generated by the redemption of derivatives hedged to cover a future financing operation at maturity, with a total nominal value of 400 million euro, although the operation did not occur according to the scenario assumed by the management. As of 31 December 2019, the breakdown of net charges relating to derivatives classified as cash flow hedges amount to 27.5 million euro (0.5 million as of 31 December 2018). The expenses associated with this class mainly relate to the redemption of the aforementioned derivatives, which resulted in reporting to the income statement the full amount that had been previously reported to the statement of comprehensive income. No significant ineffective portions connected to the residual financial instruments were found in the financial period.
In the 2019 financial year, the hedge relationships between the above derivative contracts and their underlying current or future liabilities resulted in recording net expenses for 8.9 million euro to the statement of comprehensive income (as compared with 8.7 million euro of net income recorded as of 31 December 2018), divided as follows:

Cash flow hedges	31 Dec 19			31 Dec 18		
	Positive components	Negative components	Net effect	Positive components	Negative components	Net effect
Changes to expected cash flows		(18.6)	(18.6)		(9.2)	(9.2)
Reserve transferred to the income statement	27.9	(0.4)	27.5	0.5		0.5
Derivatives effect on statement of comprehensive income cash flow hedge	**27.9**	**(19.0)**	**8.9**	**0.5**	**(9.2)**	**(8.7)**

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 0.4 million euro as compared to a negative fair value of 4.5 million euro, as at 31 December 2018. This positive change in the period is mainly due to the effect of Cross Currency Swaps (CCS) illustrated above.
As at 31 December 2019, the assessment of derivatives classified as fair value hedges generated net earnings for a total of 0.8 million euro (12.2 million euro as at 31 December 2018).
The table below provides a breakdown of financial income and expense associated with derivatives designated as fair value hedges and related underlying liabilities, as adjusted for the income and losses attributable to the hedged risk:

Fair value hedges	31 Dec 19			31 Dec 18		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives	5.2	(1.0)	4.2	15.9	-	15.9
Accrued interest	0.1	(0.0)	0.1	0.1		0.1
Realized cash flows	4.8	(8.2)	(3.4)	4.4	(8.1)	(3.7)
Economic effect fair value hedge derivatives	**10.0**	**(9.2)**	**0.8**	**20.3**	**(8.1)**	**12.2**

Underlying amounts hedged	31 Dec 19			31 Dec 18		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of financial liabilities	-	(5.2)	(5.2)	-	(15.9)	(15.9)

The derivatives on interest rates, identified as non-hedge accounting hedges, have an overall positive fair value of 14.5 million euro (33.7 million euro as at 31 December 2018). The decrease in fair value is mainly due to the termination at maturity of two instruments during the financial period. In relation to this new class of derivatives, originating in full from past restructuring operations, despite being classified as non-hedge accounting pursuant to IFRS 9, have as their main objective to provide coverage from interest rate fluctuations and have no impact on the income statement (mirroring).

As at 31 December 2019 the breakdown of net charges and revenues relating to derivatives classified as non-hedge accounting is as follows:

Non-hedge accounting	31 Dec 19			31 Dec 18		
	Income	Expenses	Net effect	Income	Expenses	Net effect
Assessment of derivatives	2.6	(21.8)	(19.2)	2.0	(21.3)	(19.3)
Accrued interest	1.2	(1.3)	(0.1)	0.1		0.1
Realized cash flows	35.0	(15.7)	19.3	35.1	(15.9)	19.2
Economic effect non-hedge accounting derivatives	**38.8**	**(38.8)**	**(0.0)**	**37.2**	**(37.2)**	**0.0**

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.

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 2019, at like-for-like exchange rates, the potential decrease in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly 14.5 million euro. Likewise, conjecturing an instant shift of +25 basis points in the interest rate curve, there would be a potential increase in fair value of approximately 14.4 million euro.

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

Assuming an instant change of 10% in the euro/yen exchange rate, given the same interest rates, the potential decrease in fair value of the derivative financial instruments in place at 31 December 2019 would amount to approximately 17.6 million euro. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 20.9 million euro. As exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

Commodity derivatives

Commodity derivative instruments held as of 31 December 2019, subscribed in order to hedge mismatches between purchase and sale formulas, are classed into the following categories:

Commodity/exchange derivatives Operations management						
Type	**31 Dec 19**			**31 Dec 18**		
	Fair value assets	**Fair value liabilities**	**Net effect**	**Fair value assets**	**Fair value liabilities**	**Net effect**
Cash flow Hedge	38.2	87.7	(49.5)	37.6	0.8	37.0
Non hedge accounting	34.0	50.7	(16.7)	59.5	62.7	(3.2)
Total fair value	**72.2**	**138.4**	**(66.2)**	**97.1**	**63.5**	**33.8**
Type	**31 Dec 19**			**31 Dec 18**		
	Income	**Expenses**	**Net effect**	**Income**	**Expenses**	**Net effect**
Assessment of derivatives	94.9	(108.9)	(14.0)	79.4	(74.7)	4.7
Realized cash flows	4.6	(35.3)	(30.7)	28.2		28.2
Economic effect of derivatives	**99.5**	**(144.2)**	**(44.7)**	**107.6**	**(74.7)**	**32.9**

Commodity derivatives designated as cash flow hedges refer to planned future operations for the purchase of electricity and gas that are viewed as highly likely. Beginning in 2019, with regard to electricity, in order to achieve every possible synergy and optimize coverage, the Group renewed its strategic approach to operations management and primarily operates with a single commercial portfolio. Specifically, the organisational model adopted and the management systems were reviewed simultaneously making it possible to identify the nature of the operation (hedging vs. trading) and produce the information required for a formal identification of the purpose of the derivative instruments, for a higher number of contracts than in the past. This will therefore make it possible to reduce operations classified as "Non-hedge accounting" although they were implemented for the purpose of hedging.

The hedge relationships between the above derivative contracts and their underlying operations resulted in recording net revenues for 85.7 million euro to the income statement (26.9 million euro as at 31 December 2018), divided as follows:

Hedge accounting commodities	31 Dec 19			31 Dec 18		
	Positive components	Negative components	Net effect	Positive components	Negative components	Net effect
Changes to expected cash flows		(128.0)	(128.0)	40.5		40.5
Reserve transferred to the income statement	42.3		42.3		(13.6)	(13.6)
Derivatives effect on statement of comprehensive income cash flow hedge	**42.3**	**(128.0)**	**(85.7)**	**40.5**	**(13.6)**	**26.9**

The commodity derivatives classified as non-hedge accounting mainly include contracts put in place substantially for hedging purposes, but which, on the basis of the requirements set forth by international accounting standards, cannot be formally classified under hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are reported as operating costs.
Overall, the commodity derivatives, in the 2019 financial year, generated a net income of 44.8 million euro (32.9 million as at 31 December 2018), 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.

Sensitivity Analysis - Commercial transactions
In assuming an instant 10 dollar-per-barrel rise in the Brent price, with no change in the national standard price curve, the potential increase in the fair value of derivative financial instruments held as at 31 December 2019 would amount to approximately 15.3 million euro. On the contrary, an instant fall in the same amount would bring about a potential decrease in the fair value of the instruments of approximately 15.3 million euro.
In assuming an instant +5 Euro/MWh change in the national standard price curve, with no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2019 would amount to approximately 23.4 million euro. On the contrary, an instant change of -5 Euro/MWh would bring about a potential decrease in the fair value of the instruments of approximately 23.4 million euro.
In the organizational model described above, these changes in fair value would mainly affect derivative instruments accounted for as hedges thus the opposite variation would be recorded in the income statement.

22 Inventories

	31 Dec 19	31 Dec 18	Changes
Raw materials and stocks	112.8	95.1	17.7
Materials earmarked for sale and final products	15.9	15.1	0.8
Contract work in progress	47.8	47.1	0.7
Total	**176.5**	**157.3**	**19.2**

"Raw materials and stocks", stated net of an obsolescence provision, mainly comprise gas stocks, for 60.1 million euro (53.6 million euro as at 31 December 2018), spare parts and equipment used for maintenance and running of operating plants and networks, equal to 45.9 million euro (33.8 million euro as at 31 December 2018) and plastic materials earmarked for regeneration in the amount of 7.6 million euro (7.7 million euro as at 31 December 2018). The book value of gas stocks is recoverable on the basis of gas sales made after the end of the financial period and forward sales contracts already signed by the Group at the date of the financial statements. The change in the gas stock values as compared to 31 December 2018, net of the effect of the purchase of "Ascopiave commercial activities" amounting to 1.5 million euro, is mainly due to higher stocked amounts at the end of the period. The change in spare materials and maintenance equipment is mainly due to the increased stocks in the public lighting sector.

"Materials earmarked for sale" mainly consists of:

- GVG system - Steam grid generator and complementary plant components for a total of 9.6 million euro. This machinery, already included in inventories in the previous financial period and earmarked for sale, will be used internally for revamping the second line of the Trieste waste to energy plant;
- plastic products made in the Group's regeneration plants equal to 6 million euro (5.1 million euro as of 31 December 2018).

"Commissioned work in progress" includes long-term contracts for plant engineering construction work, mainly in relation to water and public lighting (respectively in the amount of 22.2 million euro, 15.8 million euro and 6.3 million euro), as well as for design activities aimed at acquiring commissions in the national and international markets (2.1 million euro).

23 Trade receivables

	31 Dec 19	31 Dec 18	Changes
Receivables from customers	1,625.8	1,408.6	217.2
Allowance for bad debts	(399.3)	(342.1)	(57.2)
Receivables from customers for bills and invoices not yet issued	838.8	775.7	63.1
Total	**2,065.3**	**1,842.2**	**223.1**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2019, as well as receivables for revenues coming due during the period, referring to the water sector which will be billed in the following period, in accordance with the billing methods for final customers established by the relevant Authority.

The value of trade receivables reported in the financial statements at 31 December 2019 represents the Group's maximum exposure to credit risk.

Changes in the provisions for bad debts are as follows:

	Opening balance	Provisions	Changes in scope of consolidation	Uses and other movements	Closing balance
2018 financial year	289.2	89.3	0.8	(37.2)	342.1
2019 financial year	342.1	80.5	26.5	(49.8)	399.3

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on future-oriented analyses of the receivables regarding the general body of customers (in relation to the age of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the section "credit risk" and paragraph 2.02.04 "Evaluation criteria and consolidation principles".

The change in the scope of consolidation as at 31 December 2019 reflects the acquisition of "Ascopiave commercial activities" for 19.7 million euro, of "CMV Energia&Impianti Srl" for 6.5 million euro and of Cosea Ambiente Spa for 0.4 million euro.

The following table displays these receivables from clients on the basis of bills issued, organized by degree of past-due:

	31 Dec 19	Inc.%	31 Dec 18	Inc.%	Changes
Not yet due	754.9	46%	646.9	46%	108.0
Due 0-30 days	104.3	6%	91.4	6%	12.9
Due 31-180 days	106.2	7%	129.7	9%	(23.5)
Due 181-360 days	97.0	6%	118.5	8%	(21.5)
Due beyond 360 days	563.4	35%	422.1	30%	141.3
Total	**1,625.8**		**1,408.6**		**217.2**

24 Current tax assets and liabilities

	31 Dec 19	31 Dec 18	Changes
Income tax receivables	24.0	14.8	9.2
IRES refund receivables	18.1	19.5	(1.4)
Total current tax assets	**42.1**	**34.3**	**7.8**
Income tax payables	15.6	6.0	9.6
Substitute tax payables	71.3	-	71.3
Total current tax liabilities	**86.9**	**6.0**	**80.9**

"Income tax receivables" refer to the excess advance IRES and IRAP payments over the tax amount payable.

The "IRES refund receivables" refers to the requests for IRES refund due for the period 2007-2011, following the deductibility of IRAP from IRES related to labour costs and the like under Law Decree 2011/201. The change from the previous financial year, net of the effects of extraordinary operations, is due to refunds received for 2.2 million euro.

"Income tax payables" includes provisions for IRES and IRAP made in relation to profit for the period.

"Substitute tax payables", represent the amounts that will be paid to redeem the controlling shareholdings acquired as part of the Hera-Ascopiave partnership operation, as illustrated in detail in paragraph 1.03.01 of the Directors' report.

25 Other current assets

	31 Dec 19	31 Dec 18	Changes
Energy efficiency bonds and emissions trading	83.1	55.1	28.0
Security deposits to suppliers	42.4	53.2	(10.8)
VAT, excise and additional taxes	92.9	38.7	54.2
Incentives from renewable sources	24.2	29.7	(5.5)
Fund for electricity and environmental services for standardisation and continuity income	26.4	24.0	2.4
Prepaid costs	19.8	18.3	1.5
Advances to suppliers and employees	17.0	12.6	4.4
Other receivables	89.9	49.6	40.3
Total	**395.7**	**281.2**	**114.5**

The breakdown and changes in the main items are described compared with 31 December 2018.

"Energy efficiency bonds and emissions trading", includes:

- white certificates, 65.6 million euro (39.6 million euro as at 31 December 2018);
- green certificates, 9.8 million euro, in line with the previous financial year;
- grey certificates, 7.6 million euro (5.7 million euro as at 31 December 2018).

The value increase is mainly due to the different policies adopted by the Group for redeeming the certificates, taking into account the fact that credit transfer option was used less frequently.
In relation to green certificates, by virtue of the incentive mechanism valid beginning in 2016 for the production of electricity from renewable sources, according to which green certificates are no longer recognized and replaced by a special rate for the sale of the electricity produced, the portfolio of this type of bonds will be cancelled with a negative effect in terms of evaluation, delivery times to GSE or sales on the market.
In relation to grey certificates, the increase in the value of the portfolio is due to the remarkable increase of the market value of this type of certificates as compared with the previous year.

"Security deposits", mainly include:

- Deposits provided as security for participation in foreign platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity and natural gas, totalling 25 million euro;

- deposit paid to the associated company Sinergie Italiane Srl in liquidation, in accordance with the provisions of the natural gas supply contract with the same company, to guarantee the sales that will be made to the Group for 7.6 million euro. This deposit is covered by a security that the Ascopiave Group issued when the partnership agreement was signed;
- security deposits required by Customs amounting to 2.4 million euro.

"VAT, excise and additional taxes", is comprised of tax credits receivables to the treasury for value added tax in the amount of 56.7 million euro and for excise and additional taxes in the amount of 36.2 million euro. The change as compared to 31 December 2018 is attributable to an increase of 26 million euro in receivables for value added tax (30.7 million euro as at 31 December 2018) and a decrease of 28.2 million euro in receivables for excise and additional taxes (8 million euro as at 31 December 2018). These changes should be interpreted together with the same change shown in note 31 "Other current liabilities". In particular, with regard to excise duties and additional taxes, the procedures that govern the financial relations with the tax authorities should be taken into account: as a matter of fact, advance payments made during the year are calculated on the basis of the quantities of gas and electricity billed in the previous year. These methods can generate credit or debit positions with differences that may be significant even between one period and another.

"Incentives from renewable sources" consist of receivables from the GSE for the new incentive mechanism to promote the production of electricity from renewable sources, which replaced the mechanism for recognising green certificates.

For "Fund for electricity and environmental services for standardisation and continuity income“, the increase is mainly due to a higher receivable for components and equalisation of the water cycle and higher receivables of the gas distribution and electricity sector, only partially offset by lower receivables due to the equalization of the electricity sector for the higher protection sale.

"Prepaid costs" are mainly costs for a future period deriving from external work and services in the amount of 4.9 million euro (4.7 million euro as of 31 December 2018), costs incurred for insurance policies, surety, bank fees and charges in the amount of 2.3 million euro (3.8 million as of 31 December 2018).

"Other receivables", the increase is mainly due to the entry of the receivable from Ascopiave Spa, as minority shareholder of EstEnergy Spa, for its portion of the substitute tax, equal to 31.1 million, which will be paid during 2020 to implement a process of tax optimisation strictly related to the acquisition of the energy commercial activities. For further details, reference should be made to paragraph 1.03.01 "Hera-Ascopiave partnership".

26 Share capital and reserves

Compared to 31 December 2018, shareholders' equity increased by 163.3 million euro due to the combination of the following effects:

- overall revenues for the period in the amount of 343.4 million euro;
- distribution of dividends in the amount of 160.5 million euro;
- decrease due to changes in the scope of consolidation, in the amount of 44.7 million euro;
- increase due to operations on treasury shares, in the amount of 31.3 million euro;
- decrease due to the transition to accounting standard IFRS 16, in the amount of 4 million euro;
- decrease due to changes in treasury shares, in the amount of 2.2 million euro.

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

Share capital
The share capital as at 31 December 2019 amounted to 1,465.3 million euro, made up of 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up.
The treasury shares, whose nominal value at 31 December 2019 was 14.1 million euro, and the costs associated with the new share issues, net of the relevant tax effects, are deducted from share capital.

Reserves
This item, amounting to 948 million euro, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 1,016.1 million euro, cumulative losses in the other components of comprehensive income for 71.7 million euro and negative reserves for operations on treasury shares in the amount of 3.6 million euro. These latter items reflect transactions carried out on treasury shares as at 31 December 2019. Changes over the course of the financial year generated an overall capital gain in the amount of 13.5 million euro.

Non-controlling interests
This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. It includes mainly the minority equity interests of the Herambiente Group and the Marche Multiservizi Spa Group. With reference to the Ascopiave Group's equity interest in EstEnergy Spa and any effects on minority interests, please refer to paragraph 1.03.01 "Hera-Ascopiave Partnership".

27 Current and non-current financial liabilities

	31 Dec 19	31 Dec 18	Changes
Bonds and loans	2,882.8	2,651.7	231.1
Minority shareholder' put option	553.3	-	553.3
Payables to acquire controlling shares and potential payments	17.4	17.4	-
Other financial liabilities	2.8	3.3	(0.5)
Total non-current financial liabilities	**3,456.3**	**2,672.4**	**783.9**
Overdrafts and interest expenses	111.5	463.5	(352.0)
Bonds and loans	63.1	70.3	(7.2)
Payables to acquire controlling shares and potential payments	9.9	9.1	0.8
Other financial liabilities	121.0	67.0	54.0
Total current financial liabilities	**305.5**	**609.9**	**(304.4)**
Total financial liabilities	**3,761.8**	**3,282.3**	**479.5**

"Bonds and loans" for the non-current part, increased mainly as a result of the Group subscribing a second bond loan to support environmental sustainability projects. The green bond issuance was carried out as part of a tender offer aimed at partially renegotiating the bond maturing in October 2021 and the green bond maturing in July 2024, both with a face value of 500 million euro. The transaction made it possible to confirm that the average debt duration is homogenous with the duration of the investments and to improvement the average debt rate at which the Group is financed. Due to the way it was managed, this operation led to a change in pre-existing bond payables and was accounted for as such, recording income from renegotiations in the amount of 12.7 million euro (as outline in note 10 "Financial income and expenses"). The expenses associated with the renegotiation, since the financial liability failed to be derecognised, were included in the valuation at depreciated cost of the instrument. More specifically, the purchase offer received in the exchange a total of 210.6 million euro in existing securities (40 million euro from the 2021 bond and 170.6 million euro from the 2024 bond). At the same time, the Group issued the new green bond with a nominal value of 500 million euro, on 5 July 2019,with a coupon of 0.875%, and redemption in 2027, listed on the regulated market of the Luxembourg Stock Exchange, the Irish Stock Exchange and the ExtraMot Pro.
The item also includes the value of the sale option related to Ascopiave Spa's minority shareholding in Hera Comm Spa which, as a result of the contractual provisions, is classified as a loan and valued according to the depreciated cost method. The face value of the initial statement of such debt, as well as the value of its repayment, amounted to 54 million euro.

"Bonds and loans" for the current part, decreased mainly as a result of the redemption of the bond expired 3 December 2019, with a residual face value of 394.6 million euro.

"Minority shareholders' put option", which includes the fair value measurement of the sale options that are granted, with specific contractual arrangements, to minority shareholders on their own shares. As at 31 December 2019, this item refers to the sale option on the non-controlling shares in EstEnergy Spa, equal to 48% of the share capital, held by the Ascopiave Group (see paragraph 1.03.01 "Hera-Ascopiave Partnership"). Fair value of this option is determined on the basis of two separate components:

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

"Payables for the acquisition of controlling interests and potential payments" include the amounts still to be paid to transferor shareholders as part of the business combination transactions concluded in the period or in previous periods, as well as the estimate of the potential payments foreseen by the agreements signed at the time of the acquisition, as of the balance sheet date. As at 31 December 2019, this item refers residual consideration relating to the acquisition of the Aliplast Group carried out in 2017, in the amount of 17.4 million euro.

The item "Other financial liabilities", for the portion due after the current period, includes 2.8 million euro due to the Municipal Pension Fund of the Municipality of Trieste. The current part mainly consists of payables due to:

- collection of receivables factored without recourse still to be transferred to factoring companies at year-end, in the amount of 88.9 million euro;
- collections from customers managed as protected customers, customers for last resort services of the gas sector, amounting to 13.8 million euro;
- RAI licence fee collection for 2.9 million euro;

- payables to the Municipality of Trieste municipal pension for 0.6 million euro.

In "Overdrafts and interest expenses", the significant change compared with the previous financial period is represented by the disbursement of a short-term loan, in the form of hot money, amounting to 40 million euro.

The table below shows the financial liabilities broken down by category as at 31 December 2019, with an indication of the portion expiring within the period, within 5 years and after 5 years:

Type	Residual amount 31 Dec 19	Portion due within the period	Portion due within 5th year	Portion due beyond 5th year
Bonds	2,292.9		770.8	1,522.1
Loans	653.0	63.1	288.3	301.6
Minority shareholder' sale option	553.3			553.3
Payables to acquire controlling shares and potential payments	27.3	9.9	17.4	
Other financial liabilities	123.8	121.0	2.8	
Overdrafts and interest expenses	111.5	111.5		
Total	**3,761.8**	**305.5**	**1,079.3**	**2,377.0**

The main conditions of the bonds outstanding as of 31 December 2019 are as follows:

Bonds	Negotiation	Duration (years)	Maturity	Nominal value (mln)	Coupon	Annual interest rate
Bond	Listed	8	4 Oct 21	249.9 eur	Annual	3.25%
Bond	Listed	10	22 May 23	68.0 eur	Annual	3.375%
Green bond	Listed	10	4 Jul 24	329.3 eur	Annual	2.375%
Bond	Unlisted	15	5 Aug 24	20,000 jpy	Six monthly	2.93%
Bond	Listed	12	22 May 25	15.0 eur	Annual	3.50%
Bond	Listed	10	14 Oct 26	400.0 eur	Annual	0.875%
Bond	Unlisted	15/20	14 May 27/32	102.5 eur	Annual	5.25%
Bond	Listed	8	5 Jul 27	500.0 eur	Annual	0.875%
Bond	Listed	15	29 Jan 28	700.0 eur	Annual	5.20%

As of 31 December 2019 the outstanding bonds, totalling a face value of e 2,514.6 million euro (2,619.7 as at 31 December 2018) and recorded at discounted cost of 2,292.8 million euro, have a fair value of 2,919.6 million euro (2,890.8 as of 31 December 2018) determined by market quotations where available.
There are no covenants on the debt except that, for some loans, which requires the company not to have even one agency lower its rating below "investment grade" (BBB-). As of the balance sheet date this covenant has been complied with.

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. Reference should be made to chapter 1.01.02 "Strategic approach and management policies" of the Directors' Report for the availability and use of committed and uncommitted credit lines.

Sureties and guarantees

	31 Dec 19	31 Dec 18
Bank sureties and guarantees	644.3	911.6
Insurance sureties and guarantees	412.5	408.0
Total	**1,056.8**	**1,319.6**

"Bank sureties and guarantees", the value as at 31 December 2019 comprises the following:

- 644.3 million euro for sureties made to public institutions (the Ministry of the Environment, the Regions, provinces and municipalities) and private entities to guarantee the suitable management of plants for treating waste, for the suitable provision of waste disposal and intermediation services, for reclamation work and for the proper fulfilment of contractual commitments;

- 571.2 million euro for sureties and comfort letters issued to guarantee timely payment for the sourcing of raw materials

"Insurance sureties and guarantees", as at 31 December 2019, refers to sureties issued to public entities (provinces, municipalities and the Ministry of the Environment) and third parties to guarantee the suitable management of public utility and waste disposal services, the proper execution of the work to lay company pipelines across land owned by private individuals, reclamation work, managing waste treatment and disposal systems.

At 31 December 2019, the Hera Group provided the following security interests for certain bank loans. 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 0.5 million euro.

28 Post-employment and other benefits

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

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly solely to settle payments made to eligible retirees. The "Tariff reduction" provision was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

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

	31 Dec 18	Service cost	Financial expenses	Actuarial profit(losses)	Uses and other movements	Changes scope of consolidation	31 Dec 19
Post-employment	115.3	0.8	0.9	3.5	(10.5)	2.0	112.0
Tariff reduction	6.4	-	0.1	1.7	(0.3)	-	7.9
Premungas	4.0	-	-	-	(0.5)	-	3.5
Gas discount	3.8	-	-	0.4	(0.3)	-	3.9
Total	**129.5**	**0.8**	**1.0**	**5.6**	**(11.6)**	**2.0**	**127.3**

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 expenses" are calculated by applying a specific discount rate for each company, determined on the basis of the average financial life of the bond. "Actuarial profit(losses)" reflects the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recorded directly in the comprehensive income statement. The effect for the period, amounting to 5.6 million euro, is due to the decrease of the yield curve as compared to the previous period.

The item "Uses and other movements" mainly includes the amounts paid to employees over the course of the financial period.

The "Changes in the scope of consolidation" mainly reflects the partnership with the Ascopiave Group for 0.7 million euro and the acquisition of Coasea Ambiente Spa for 0.7 million euro and Pistoia Ambiente Srl for 0.2 million euro.

The tables below outline the main assumptions used in the actuarial estimate of employee benefits, subdivided by geographical area:

	Gruppo Hera (Central area)	Gruppo Hera (north-eastern area)
Technical actuarial yearly rate	0.23%	0.15%
Overall increase of salary yearly rate	2.50%	
Yearly frequency of exit from work for reasons other than death	1.57%	1.49%
Yearly average frequency of use severance pay provision	1.79%	1.80%

In interpreting said assumptions, account is taken of the following:

- with regard to the inflation rate, the inflation assumption was inferred by adopting the Extended National Consumer Price index of 1% for the year 2020 and 1.10% for the following years;

- for probabilities of death, ISTAT 2018 tables were consulted;
- in the actuarial valuations, account was taken of the new effective dates for pensions under Law Decree of 6 December 2011, no. 201 entitled "Urgent measures for growth, equity, and the consolidation of public finances", as amended by Law 214 of 22 December 2011, as well as the regulation for adjusting requirements for accessing the pension system in view of increased life expectancies in accordance with Article 12 of Legislative Decree no. 78 of 31 May 2010 as amended by Law 122 of 30 July 2010; .
- for the probability of leaving employment for reasons other than death, an average yearly exit rate of 1.57% was hypothesized, since the analysis differentiated by professional level and sex did not result in statistically significant results;
- to take into account the phenomenon of early leaving, the incidence and amount of average anticipated severance pay were hypothesized. The frequency of advance payments as well as the average percentage of severance pay requested as an advance were drawn from corporate data. The rate of severance pay requested as an advance was hypothesized at 70% of severance pay or the maximum amount set by current regulations;

Lastly, actuarial projections were made on the basis of the Euro Composite AA yield curve as of 31 December 2019.

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 2019, 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 3.5 million euro. Likewise assuming a reduction of this rate of 50 bps, there would be an increase in the present value of the liabilities of about 3.8 million euro.
Assuming a 50 bps increase in the in the rate of inflation compared to that actually applied to value the liabilities at 31 December 2019, 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 2.2 million euro. Likewise assuming a reduction of this rate of 50 bps, there would be a decrease in the present value of the liabilities of about 2.1 million euro.
Changes in the remaining actuarial assumptions would not produce significant effects on the present value of the liabilities of the defined-benefit plans reported in the financial statement.

29 Provisions for risks and charges

	31 Dec 18	Provisions	Financial expenses	Uses and other movements	Changes scope of consol.	31 Dec 19
Provision for restoration of third-party assets	199.9	9.9	7.5	-	-	217.3
Provision for closure and post-closure landfill expenses	147.6	8.2	11.5	(2.3)	18.6	183.6
Provision for legal cases and disputes brought by personnel	16.3	3.4	-	(3.2)	0.1	16.6
Provision for plants dismantling	7.6	-	0.2	-	-	7.8
Provisions for waste disposal	7.0	7.0	-	(6.8)	-	7.2
Other provisions for risks and charges	80.2	10.0	-	(6.9)	6.0	89.3
Total	**458.6**	**38.5**	**19.2**	**(19.2)**	**24.7**	**521.8**

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

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

"Uses and other movements" of the item "Provision for landfill closure and post-closure expenses" decreased by 2.3 million euro, as follows:

- decreases in the amount of 17.2 million euro due to current cash outlays for the management of landfills, 7.4 million euro of which refer to internal costs included in "Other operating revenues";
- increases in the amount of 15.1 million euro generated from landfills activated during the period for 12.2 million euro and changes in the assumptions on future outlays following the revision of the estimates of landfills in cultivation for 2.9 million euro;
- removed from provision fund in the amount of 0.2 million euro were due to changes in the assumptions on future outlays, following the change in estimates on closed landfills.

The "Changes in the scope of consolidation" includes the post closure provision for the landfill located in Serravalle Pistoiese, obtained through the acquisition of control of the company Pistoia Ambiente Srl as at 1 July 2019.

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

"Provision for plants dismantling" includes the amounts allocated for the future dismantling of the WTE plants.

"Provision for waste disposal" reports the estimated costs of disposal of the waste already stored at the Group's plants. The provisions, amounting to 7 million euro, reflect the estimated costs of contributions for the year 2019 not yet processed at the end of the financial period, while the uses, amounting to 6.8 million euro, represent the costs incurred over the period for the processing of waste that was residual as at 31 December 2018.

"Other provisions for risks and charges" comprises provisions made against sundry risks. Below, there is a description of the main items:

- 18.7 million euro related to the potential risk of the amount of the WTE green certificates not being recognised calculated according to the difference between auxiliary services resulting from total self-consumption and services estimated on the basis of the benchmark percentage;
- 11.3 million euro, due to the potential liability related to existing obligations (guarantee on financial exposure given by AcegasApsAmga S.p.A.) in case of abandonment of the operations run by the foreign subsidiary Aresgas (Bulgaria).
- 4.1 million euro, for the risk associated with the enactment of the Decree of the Ministry of Economic Development of 20 November 2012 "New procedures to determine the component of the avoided fuel cost (CEC)", under measure CIP6/92, which introduced new calculation criteria for determining the bonus that are different from those initially expected for the years 2010, 2011 and 2012;
- 7.1 million euro for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill;
- 6.7 million euro for the dispute that arose with the subsidiary Hestambiente Srl in connection with the payment of CIP6 incentives for the Trieste waste to energy plant for the years 2010-2012;
- 3.5 million euro for potential litigations arising from the sale of the gas distribution unit of the Veneto and Friuli Venezia-Giulia regions;
- 3.3 million euro for the risk arising from the Authority's resolution 527/2016, which, in keeping with the findings of the GSE, established that the Fund for Energy and Environmental Services recover the amounts that the Group would have been unduly received for the electricity produced by the Granarolo (Bo) WTE plant.

The "Reserves" for the period include, in particular, 2.2 million euro for the non-recognition of the CIP6 incentives for the waste to energy plant in Trieste, for the years 2010-2012. This provision supplements the reserve allocated in previous years.

"Uses and other movements" of the item "Other provisions for risks and charges" decreased by 6.9 million euro net. As at 31 December 2019, this item includes funds released from provision for 8.1 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.

"Changes in the scope of consolidation" of the item "Other provisions for risks and charges" reflects the effects of the business combinations carried out during the period. In particular, for 5 million euro it refers to a potential liability for tax risks recorded as part of the valuation of the sales activities acquired from the Ascopiave Group. For further details, reference should be made to paragraph 1.03.01 "Hera-Ascopiave partnership" in the Directors' report.

30 Trade payables

	31 Dec 19	31 Dec 18	Changes
Payables to suppliers	626.9	602.0	24.9
Payables to suppliers for invoices not yet received	764.9	758.4	6.5
Total	**1,391.8**	**1,360.4**	**31.4**

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

31 Other current liabilities

	31 Dec 19	31 Dec 18	Changes
Payables for advances to the fund for energy and environmental services:	382.2	274.1	108.1
Plant investment grants	202.5	190.7	11.8
Security deposits from clients	118,0	101.2	16.8
Fund for components and equalization of the electricity and gas and environmental sectors	81.5	76.6	4.9
Payables to social security institutions	51.6	47.0	4.6
Personnel	50.2	48.7	1.5
VAT, excise and additional taxes	31.8	31.5	0.3
Employee withholding	17.6	16.6	1.0
Payables for damage in customs	14.3	13.6	0.7
Anticipated revenues and other expenses	11.8	9.7	2.1
Environmental damage	10.8	13.7	(2.9)
Other payables	75.6	43.5	32.1
Total	**1,047.9**	**866.9**	**181.0**

"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:

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

The change of 108.1 million euro as compared to 31 December 2018 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 2017 and from customers managed under default gas regime for the 2016-2017 thermic year and for adjustments relating to previous periods.

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

- 42.5 million euro in contributions related to the FoNI fund (new water system investment fund);

- 41.9 million euro in contributions related to purification plants (40.7 million euro for the Servola plant built in the Municipality of Trieste, and 1.2 million euro for the Bastia plant built in the province of Forlì-Cesena);
- 23.1 million euro in contributions for investments earmarked for purification and sewer networks;
- 18.1 million euro in contributions to build rolling basins and underwater pipes in the area of Rimini.

The change as compared to 31 December 2018 is mainly due to the grants received for investments in the water sector, net of the company's share for the period.

"Security deposits from customers" reflect the amount paid by customers for gas, water and electricity provision contracts. The increase as compared to 31 December 2018 is mainly due to the change in the scope of consolidation and the acquisition of the gas and electricity sale companies as part of the partnership operation Hera-Ascopiave.

"Fund for components and equalisation of the energy and environmental services", reflects the liabilities for the Fund for energy and environmental services mainly due to the equalization on the gas distribution and measurement, of some system components of the gas and electricity service for the protected market categories and equalization of the electricity service. The change as compared to 31 December 2018 is mainly due to a higher debit for certain components of water and electricity distribution and sales amounting to 15.9 million euro, offset by a lower debt for components of gas distribution and sale as well as by lower debt due to equalization of both the gas and electricity service for a total of 13.3 million euro.

"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.

“Personnel" includes the vacation time accrued and not used, as well as the productivity bonuses accounted for by department, as of 31 December 2019.

"VAT, excise and additional taxes" includes payables for VAT in the amount of 6.6 million euro (0.9 million euro at 31 December 2018), and excise and additional taxes in the amount of 25.2 million euro (30.6 million euro at 31 December 2018). As outlined in note 25, "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 14.3 million euro, includes the value of insurance deductibles that the Group must repay directly to damaged third parties or insurance companies.

The item "Anticipated revenues and other expenses", amounting to 11.8 million euro, comprises portions of revenues already invoiced falling due in the following financial period.

"Environmental damage" represents the payments to be made to municipalities, on the basis of specific agreements, as compensation for activities that impact on the environment for waste delivered to plants in their territory. The amount of these contributions is related to the amount of waste disposed of annually. The change from the previous financial year is mainly due to the different timing of payments.

The item "Other payables" mainly comprises the following:

- payments on account and specific tariff subsidies payable to customers amounting to 11.1 million euro (3.9 million euro as of 31 December 2018) the increase mainly refers to higher advance payments received from customers in the environment business area for 5 million euro;
- requirement to return energy efficiency certificates for 7.6 million euro, comprising almost entirely grey certificates, to the competent authorities (6 million euro as at 31 December 2018);
- dividends owed to minority shareholders, amounting to 2.9 million euro (3.9 million euro as at 31 December 2018).

32 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 2019 - 2023 business plan approved by the Board of Directors of the parent company at its meeting 10 January 2020.

The impairment test was applied to the following CGUs (Cash generating units): gas, 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 2019-2023 Business Plan consistent with those used in previous plans and, on the basis of the final reported values, forecasts were developed that refer to the most authoritative and up external sources available wherever necessary.

Revenues for regulated business areas were developed on the basis of the evolution of the rates deriving from national regulations and/or agreements with the Area Authority. In particular, revenues from energy distribution were forecasted according to the principles of the Authority 570/19 (RTDG) and 654/15 (TIT) resolutions for gas and electricity respectively, and taking into account the respective WACC values, approved through Resolution no. 639/18 for the three year period 2019-2021 in relation to the electric power sector and for the gas distribution and measurement, and were updated for the following years in line with the methodology of resolution no. 583/15 and according to the forecasts of the financial and fiscal parameters integrated into the approved Business Plan. Revenues from energy sales under protected conditions have been estimated on the basis of the respective regulatory AEEGSI reference texts, i.e. the TIV (resolution 301/12) for electricity and TIVG (resolution 64/09) for gas. For integrated water management, the hypothesis used to forecast revenues assumed no change in the volumes distributed and was based on the rates originating from the agreements in effect with ATERSIR 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 planned energy scenario, considering the forecasts provided by a panel of institutional observers.

The development of plants for the treatment and recycling of waste is consistent with the forecasts of the provincial plans in which the Hera Group operates. The investment schedule and the subsequent start of new plants is the result of the best estimate of the managers in charge.

The inertial evolution of the Group's costs in the plan timeframe was developed by formulating hypotheses based on the information available at the time the plan was prepared. Therefore, the most recent levels of inflation recorded in the final balance were taken into account, along with the anticipated trends outlined in the Economic and Financial Planning Document, as well as the forecasts made available by the Bank of Italy and European Commission. In relation to employees and labour costs, instead, the indications included in the various types of employment contracts were considered.
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 data for the 2020 - 2023 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, Free cash flows were considered equal to the value of the Net operating profit for the last year of the plan, in the event that the value of depreciation and provisions remains 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 2024-2039 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 market activities, the cash flow resulting from the application of the perpetuity criterion for the last year (2039) was considered, assuming an average factor growth of 2%;
- for services under contract, the terminal value was established by considering the cash flow resulting from the application of the perpetuity criterion weighted by the percentage of competitive bidding processes that the Group is expected to win at the end of the contract periods (100% for network services, 80% for urban sanitation services) and the redemption value of assets weighted by the proportion of competitive bidding processes which the Group expected not to win. This value was estimated as equal to the current value of the net book value of assets owned and leasehold improvements, less the recovery values, in order to properly represent the non-renewal of the contract and the subsequent sale of the assets to the new operator with a value equal to the remaining book value.

To discount unlevered cash flows, the rate used was the weighted average cost of capital (WACC), which represents the yield expected by the funders and shareholders of the company for the use of equity capital, adjusted for the risk of the specific country in which the asset being valued. The value of the specific country risk to be included in the discount rate is defined on the basis of information provided by external providers.
The cash flows are thus differentiated according to the specific characteristics and consequent risks characterizing business areas as well as the countries in which the Group operates. For Italy, a WACC of 5.64% was used for the environment and 4.33% for other businesses, while for the gas distribution managed in Bulgaria a WACC of 4.35% was used.

The results of the tests were positive. A sensitivity evaluation was also conducted. In this regard, it should be noted that the Group's business model, with its distinct resilience thanks in part to the diversified portfolio of assets under management, has made it possible to achieve constantly improving results over the years with no overall significant changes in the planned hypotheses despite the adverse macroeconomic environment.

In view of this, the sensitivity analysis that was developed focused on the marginality of the individual businesses, hypothesizing a 5% decrease that would result in a reduction in the cash flows developed in the years covered by the plan and subsequent years. In this context, the values obtained are much higher than those recorded in the balance sheets, therefore this analysis 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 S.p.A., Set S.p.A. and Tamarete Energia S.r.l. for the purpose of verifying the recoverability of financial assets, equity investments and receivables recorded for them in the amounts of 13.7 million euro, 50.7 million euro and 2.8 million euro respectively at the end of the valuation process.

The negative trend in the electricity generation market highlighted a few years ago characterized the 2019 financial year as well, although signs of improvement emerged in recent years confirm the expectation of consolidating this recovery in the medium to long term remains valid. The factors that have determined the performance of the electricity generation market during this decade are due to the combination of multiple factors on both demand and supply sides. The main factors affecting current price dynamics are to be found in:

- introduction of significant production capacity in renewable energy in the past few years;
- moderate GDP growth and consumption efficiency (driven by European and national environmental policy objectives) reflected in the low growth in demand for energy;
- European and national policies in relation to CO2 emission reduction targets and targets for renewable energy affecting supply.

On the basis of new scenarios developed, it is believed that the market will evolve towards levels of clean spark spread aligned to the recent historical level, in particular due to:

- new high-efficiency incoming capacity (CCGT) beginning in 2022, which will replace coal-powered plants with a view to phasing out coal by 2025;
- beginning of the end-of-life cycle of the old CCGT plants, which, from the second half of the decade, creates favourable market conditions for highly efficient and flexible retrofits of the old CCGT plants, whose remuneration and return on investment are ensured by the participation in MGP and MSD, additionally ensuring a higher level of suitability of the system in the medium-long term and therefore less room for marginality growth in the absence of such investments;
- resulting unincreased marginality in the MGP market.

That said, future cash flows determined on the basis of the medium/long-term energy scenario the Group considered to be the most likely, formulated on the basis of independent expert assumptions consistent with growth expectations for energy demand, installed power, the demand for combined cycle and the system's expected reserve margin. Especially in the

medium/long term, this scenario differs from that used in the previous year, especially as a result of more analytical information concerning the efficiency levels of the new incoming capacity, which is expected to help maintain the future clean spark spread at lower values. The estimated cash flows were discounted using a 4.35% WACC, calculated in the same way as shown for the cash flow generating units.
The outcome of the test resulted in depreciating the carrying value of the equity investments and related financial assets in Calenia Energia Spa, Set Spa and Tamarete Energia Srl. Specifically, the financial statements include a writedown of the investment in Calenia Energia Spa for 5.2 million euro, a writedown of the investment in Set Spa for 9.1 million euro and an additional adjustment of the value of the loan to Tamarete Energia Srl for 10.9 million euro, recorded under non-current financial assets and 0.8 million euro under current financial assets.

A sensitivity analysis that was developed, hypothesizing a 5% decrease of the marginality deriving form energy generation, producing a reduction in the cash flows developed in the years of activity of the plants. This scenario would produce a further writedown of the carrying amounts of the three corporate vehicles by a total of 4.9 million euro.

33 Investment activities

Investments in companies and business operations
Over the course of the 2019 financial year, the Group gained control of a number of businesses and companies; for further details, reference should be made to paragraph 2.02.03 "Scope of consolidation". The table below details the main cash outlays, fees payables and cash holdings acquired:

31 Dec 19	CMV distribution activities	CMV distribution activities	Cosea Ambiente	Pistoia Ambiente	Ascopiave commercial activities	Total investments
Cash outlays leading to the acquisition of control	(1.8)		(1.5)	(35.0)	-166.3	(204.6)
Fees payables				-8.4		(8.4)
Cash holdings acquired		0.2	0.7		16.4	17.3
Investments in equity holdings, net of liquid assets	**(1.8)**	**0.2**	**(0.8)**	**(43.4)**	**(149.9)**	**(195.7)**

The cash outlay leading to the acquisition of control of "Ascopiave commercial activities" should be read as part of a wider leadership agreement. Specifically, this value comprises several closely related exchanges of cash flows:

- cash outlay for the acquisition of control over sales companies for 616.2 million euro;
- cash inflow from the sale of the equity interest held in EstEnergy Spa for a total of 395.9 million euro (broken down between the portion arising from the acquisition of control of 319.6 million euro and the portion relating to the transfer operation under common control of Hera Comm Nord Est Srl for 76.3 million euro);
- inflow from the sale of Hera Comm Spa shares for 54 million euro.

Divestments in consolidated companies and contingent consideration
The item mainly includes the transfer of the scope of gas distribution concessions included in the operation involving an asset exchange of equal value between the Hera Group and the Ascopiave Group, amounting to 168 million euro.

For further details regarding the operation carried out with the Ascopiave Group, reference should be made to paragraph 1.03.01 "Hera-Ascopiave partnership" in the Directors' report.

34 Investment activities

Changes in liabilities generated by financing activities
The following is a breakdown of information on changes in financial liabilities during the 2019 financial year, differentiating between cash flows and non-cash flows.

Type	31 Dec 19	31 Dec 18	Changes	Non-cash flows				Cash flows
				Acquisitions Divestitures	Income Evaluation expenses	Changes in fair value	Other changes	
Banks, loans and non-current options	3,456.3	2,672.4	783.9	611.3	(13.3)	5.2	(33.6)	214.3
Banks, loans and current options	305.5	609.9	(304.4)	25.5			47.1	(377.0)

Lease liabilities	95.5	13.9	81.6	4.0			96.6	(19.0)
Liabilities generated by financing activities	**3,857.3**	**3,296.2**	**561.1**	**640.8**	**(13.3)**	**5.2**	**110.1**	**(181.7)**

The "Acquisitions divestitures" related to the item "Banks, loans and non-current options" include:

- the fair value of the put option granted to the Ascopiave Group for the non-controlling shares in Estenergy Spa, equal to 553.3 million euro;
- liability due to the repurchase the parent company Hera Comm Srl shares for 54 million euro.

The outcomes listed above are part of the overall framework of the partnership operation with the Ascopiave Group.

"Income Charges from evaluation", includes income related to the partial renegotiation, carried out during the financial period, of two bonds maturing in 2021 and 2024.

"Other changes" relating to the item "Lease liabilities" include the financial liability recorded as at 1 January 2019 in relation to the first application of the IFRS 16 standard, as described in paragraph 2.02.02 "Adoption of IFRS 16".

Finally, it should be noted that non-monetary flows due to exchange rate differences were absent in 2019.

Acquisition of Interests in consolidated companies
The amount refers to the cash outlays related to the purchase of non-controlling shares in the companies Acantho Spa and Marche Multiservizi Spa, as described in section 2.02.03 "Scope of consolidation"

35 Classification of financial assets and liabilities pursuant to IFRS 7

The table below illustrates the composition of the Group's assets, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 21.

31 Dec 19	**Fair value recognised to income statement**	**Depreciated cost**	**Fair value recognised to statement of comprehensive income**	**Total**
Other Equity investments	-	-	7.7	7.7
Non-current financial assets	-	132.8	2.5	135.3
Non-current assets	**-**	**132.8**	**10.2**	**143.0**
Trade receivables	-	2,065.3	-	2,065.3
Current financial assets	-	70.0	0.1	70.1
Other assets	19.3	418.5	-	437.8
Current assets	**19.3**	**2,553.8**	**0.1**	**2,573.2**

31 Dec 18	**Fair value recognised to income statement**	**Depreciated cost**	**Fair value recognised to statement of comprehensive income**	**Total**
Other Equity investments	-	-	13.1	13.1
Non-current financial assets	-	115.9	2.5	118.4
Non-current financial assets	**-**	**115.9**	**15.6**	**131.5**
Trade receivables	-	1,842.2	-	1,842.2
Current financial assets	-	37.2	0.1	37.3
Other assets	20.3	295.2	-	315.5
Current assets	**20.3**	**2,174.6**	**0.1**	**2,195.0**

With respect to "Other equity investments" reference is made to note 18. Please note that "Other equity investments", after the initial assessment, are measured at fair value through other comprehensive income components, in compliance with what set forth by the IFRS 9 accounting standard.
With respect to "Non-current financial assets" reference is made to note 19.
With respect to "Current assets" reference is made to notes 19, 23, 24 and 25.

The table below illustrates the composition of the Group's liabilities, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 21.

31 Dec 19	Fair value recognised to income statement	Fair value hedges	Depreciated cost	Total
Non-current financial liabilities	-	149.6	3,306.7	3,456.3
Non-current lease liabilities	-	-	76.1	76.1
Non-current liabilities	**-**	**149.6**	**3,382.8**	**3,532.4**
Trade payables	-	-	1,391.8	1,391.8
Current financial liabilities	-	-	305.5	305.5
Current lease liabilities	-	-	19.4	19.4
Other liabilities	7.6	-	1,127.2	1,134.8
Current liabilities	**7.6**	**-**	**2,843.9**	**2,851.5**

31 Dec 18	Fair value recognised to income statement	Fair value hedges	Depreciated cost	Total
Non-current financial liabilities	-	144.4	2,528.0	2,672.4
Non-current lease liabilities	-	-	12.2	12.2
Non-current liabilities	**-**	**144.4**	**2,540.2**	**2,684.6**
Trade payables	-	-	1,360.4	1,360.4
Current financial liabilities	-	-	609.9	609.9
Current lease liabilities	-	-	1.7	1.7
Other liabilities	6.0	-	866.9	872.9
Current liabilities	**6.0**	**-**	**2,838.9**	**2,844.9**

With respect to "Non-current liabilities" reference is made to note 15 and 27.
With respect to "Current liabilities" reference is made to notes 15, 24, 27, 30 and 31.

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.

At 31 December 2019, the Hera Group was organised into the following business lines:

- **Gas**: includes the costs of distributing and selling methane gas 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.

The following are assets and liabilities by business line for the 2018 and 2019 financial years:

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

31 Dec 18	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets (tangible and intangible)	1,500.6	555.6	1,874.6	1,207.2	120.6	5,258.6
Goodwill	93.8	42.1	43.0	197.6	4.8	381.3
Equity investments	62.1	42.6	18.7	25.7	-	149.1
Not attributed fixed assets						116.1
Net fixed assets	**1,656.5**	**640.3**	**1,936.3**	**1,430.5**	**125.4**	**5,905.1**
Attributed net working capital	7.6	168.3	(154.9)	34.8	(2.3)	53.5
Non attributed net working capital						61.9
Net working capital	**7.6**	**168.3**	**(154.9)**	**34.8**	**(2.3)**	**115.4**
Other provisions	(159.1)	(24.6)	(141.4)	(258.4)	(4.7)	(588.2)
Net invested capital	**1,505.0**	**784.0**	**1,640.0**	**1,206.9**	**118.4**	**5,432.3**

The following are the main result measures by business line for the 2018 and 2019 financial years:

2019	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	2,878.8	2,443.0	875.6	1,122.4	107.4	16.5	7,443.7
Infra-cycle revenues	83.5	143.6	5.5	57.2	40.5	38.8	369.1
Total direct revenues	**2,962.3**	**2,586.6**	**881.1**	**1,179.5**	**147.9**	**55.3**	**7,812.8**
Indirect revenues	9.6	3.8	30.8	11.0	0.1	(55.3)	-
Total revenues	**2,971.9**	**2,590.4**	**911.9**	**1,190.5**	**148.1**	**-**	**7,812.8**
EBITDA	**341.6**	**178.5**	**265.3**	**264.2**	**35.5**	**-**	**1,085.1**
Direct amortisations and provisions	138.2	53.6	126.1	144.5	20.3	59.9	542.6
Indirect amortisations and provisions	6.2	2.8	28.7	21.7	0.4	(59.9)	-
Total amort. and prov.	**144.4**	**56.5**	**154.8**	**166.2**	**20.7**	**-**	**542.6**
Operating revenues	**197.2**	**122.0**	**110.5**	**98.0**	**14.8**	**-**	**542.5**

2018	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	2,275.0	2,308.2	840.7	1,062.9	109.9	29.7	6,626.4
Infra-cycle revenues	82.2	147.2	5.3	50.7	37.0	33.7	356.1
Total direct revenues	**2,357.3**	**2,455.4**	**845.9**	**1,113.6**	**146.9**	**63.4**	**6,982.5**
Indirect revenues	13.8	6.7	32.7	10.1	0.2	(63.4)	-
Total revenues	**2,371.0**	**2,462.1**	**878.6**	**1,123.7**	**147.1**	**-**	**6,982.5**
EBITDA	**316.5**	**183.5**	**249.7**	**252.0**	**29.3**	**-**	**1,031.1**
Direct amortisations and provisions	128.8	65.9	121.0	135.6	17.2	52.5	521.0
Indirect amortisations and provisions	6.0	1.1	25.0	19.9	0.4	(52.5)	-
Total amort. and prov.	**134.8**	**67.0**	**146.0**	**155.6**	**17.7**	**-**	**521.0**
Operating revenues	**181.7**	**116.5**	**103.8**	**96.5**	**11.7**	**-**	**510.1**

2.03
Net financial indebtedness

2.03.01
Net financial indebtedness

		31 Dec 19	31 Dec 18
a	**Cash and cash equivalents**	**364.0**	**535.5**
b	**Other current financial receivables**	**70.1**	**37.3**
	Current bank payables	(111.5)	(70.3)
	Current portion of bank indebtedness	(63.1)	(451.5)
	Other current financial payables	(130.9)	(76.1)
	Current lease liabilities	(19.4)	(1.7)
c	**Current financial indebtedness**	**(324.9)**	**(599.6)**
d=a+b+c	**Current net financial indebtedness**	**109.2**	**(26.8)**
	Non-current bank payables and bonds issued	(2,869.1)	(2,644.3)
	Other non-current financial payables	(573.5)	(20.7)
	Non-current lease liabilities	(76.1)	(12.2)
e	**Non-current financial indebtedness**	**(3,518.7)**	**(2,677.2)**
f=d+e	**Net financial position - CONSOB Communication no. 15519/2006**	**(3,409.5)**	**(2,704.0)**
g	**Non-current financial receivables**	**135.3**	**118.4**
h=f+g	**Net financial indebtedness**	**(3,274.2)**	**(2,585.6)**

2.03.02

Net financial indebtedness according to the Consob notice DEM/6064293 of 2006

		31 Dec 19					31 Dec 18				
			A	B	C	D		A	B	C	D
a	**Cash and cash equivalents**	**364.0**	**-**	**-**	**-**	**-**	**535.5**				
	of which related parties										
b	Other current financial receivables	70.1					37.3				
	of which related parties		-	5.7	2.9	1.4		0.1	5.3	2.7	3.9
	Current bank payables	(111.5)	-	-	-	-	(70.3)	-	-	-	-
	Current portion of bank indebtedness	(63.1)	-	-	-	-	(451.5)	-	(0.8)	-	-
	Other current financial payables	(130.9)	-	-	(1.1)	-	(76.1)	-	-	(0.4)	-
	Current lease liabilities	(19.4)	-	-	(1.4)	(0.1)	(1.7)	-	-	-	-
c	**Current financial indebtedness**	**(324.9)**					**(599.6)**				
	of which related parties		**-**	**-**	**(2.5)**	**(0.1)**		**-**	**(0.8)**	**(0.4)**	**-**
d=a+b+c	**Current net financial indebtedness**	**109.2**					**(26.8)**				
	of which related parties		**-**	**5.7**	**0.4**	**1.3**		**0.1**	**4.5**	**2.3**	**3.9**
	Non-current bank payables and bonds issued	(2,869.1)	-	-	-	-	(2,644.3)	-	-	-	-
	Other non-current financial payables	(573.5)	-	-	(2.8)	-	(20.7)	-	-	(3.3)	-
	Non-current lease liabilities	(76.1)	-	-	(2.8)	(0.3)	(12.2)	-	-	-	-
e	**Non-current financial indebtedness**	**(3,518.7)**					**(2,677.2)**				
	of which related parties		**-**	**-**	**(5.6)**	**(0.3)**		**-**	**-**	**(3.3)**	**-**
f=d+e	**Net financial position - CONSOB Communication no. 15519/2006**	**(3,409.5)**					**(2,704.0)**				
	of which related parties		**-**	**5.7**	**(5.2)**	**1.0**		**0.1**	**4.5**	**(1.0)**	**3.9**
g	**Non-current financial receivables**	**135.3**					**118.4**				
	of which related parties		**-**	**23.2**	**18.0**	**39.9**		**-**	**38.9**	**18.3**	**26.9**
h=f+g	**Net financial indebtedness**	**(3,274.2)**					**(2,585.6)**				
	of which related parties		**-**	**28.9**	**12.8**	**40.9**		**0.1**	**43.4**	**17.3**	**30.8**

Caption of column headings for related parties:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04
Financial statement formats as per Consob resolution 15519/2006

2.04.01
Income statement as per Consob resolution 15519/ 2006

	notes	2019	of which related parties						2018	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	6,912.8	-	57.7	299.2	17.1	374.0	5.4%	6,134.4	-	79.7	298.4	14.0	392.1	6.4%
Other operating revenues	2	530.8	-	0.2	8.0	0.2	8.4	1.6%	492.0	-	0.2	13.8	0.5	14.5	2.9%
Use of raw materials and consumables	3	(3,458.2)	-	(11.9)	-	(46.9)	(58.8)	1.7%	(2,984.1)	-	(28.4)	-	(46.3)	(74.7)	2.5%
Service costs	4	(2,318.2)	-	(15.0)	(22.7)	(33.3)	(71.0)	3.1%	(2,040.5)	-	(14.0)	(27.4)	(32.8)	(74.2)	3.6%
Personnel costs	5	(560.4)	-	-	-	(1.4)	(1.4)	0.2%	(551.4)	-	-	-	(1.1)	(1.1)	0.2%
Other operating costs	6	(59.3)	-	0.1	(2.0)	(0.7)	(2.6)	4.4%	(62.5)	-	-	(1.4)	(0.9)	(2.3)	3.7%
Capitalized costs	7	37.6	-	-	-	-	-		43.2	-	-	-	-	-	
Amortisation, depreciation and provisions	8	(542.6)	-	-	-	-	-		(521.0)	-	-	-	-	-	
Operating revenues		**542.5**	**-**	**31.1**	**282.5**	**(65.0)**	**248.6**		**510.1**	**-**	**37.5**	**283.4**	**(66.6)**	**254.3**	
Share of profits (losses) pertaining to associated companies	9	13.4	-	13.4	-	-	13.4	100.0%	14.9	-	14.9	-	-	14.9	100.0%
Financial income	10	108.2	-	2.2	-	0.4	2.6	2.4%	96.9	-	2.4	-	0.4	2.8	2.9%
Financial expenses	10	(247.6)	-	(21.8)	(0.6)	(5.3)	(27.8)	11.2%	(203.5)	(0.2)	(6.3)	(0.1)	-	(6.6)	3.2%
Financial operations		**(126.0)**	**-**	**(6.2)**	**(0.6)**	**(4.9)**	**(11.8)**		**(91.7)**	**(0.2)**	**11.0**	**(0.1)**	**0.4**	**11.1**	
Other non-operating revenues (expenses)	11	111.6	-	-	-	-	-		-	-	-	-	-	-	
Earnings before taxes		**528.1**	**-**	**24.9**	**281.9**	**(69.9)**	**236.8**		**418.4**	**(0.2)**	**48.5**	**283.3**	**(66.2)**	**265.4**	
Taxes	12	(126.1)	-	-	-	-	-		(121.8)	-	-	-	-	-	
Net profit for the period		**402.0**	**-**	**24.9**	**281.9**	**(69.9)**	**236.8**		**296.6**	**(0.2)**	**48.5**	**283.3**	**(66.2)**	**265.4**	
Attributable to:															
Shareholders of the parent company		385.7							281.9						
Minority shareholders		16.3							14.7						
Earnings per share	**13**														
basic		**0.262**							**0.192**						
diluted		**0.262**							**0.192**						

Caption of column headings for related parties:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04.02

Statement of financial position as per Consob resolution 15519/ 2006

	notes	31 Dec 19	of which related parties						31 Dec 18	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	14.32	1,992.7	-	-	-	-	-		2,003.7	-	-	-	-	-	
Rights of use	15.32	96.9	-	-	-	-	-		-	-	-	-	-	-	
Intangible assets	16.32	3,780.2	-	-	-	-	-		3,254.9	-	-	-	-	-	
Goodwill	17.32	812.9	-	-	-	-	-		381.3	-	-	-	-	-	
Equity investments	18.32	143.5	0.1	137.0	-	2.0	139.1	96.9%	149.1	0.2	137.2	-	7.2	144.6	97.0%
Non-current financial assets	19.35	135.3	-	23.2	18.0	39.9	81.1	59.9%	118.4	-	38.9	18.3	26.9	84.1	71.0%
Deferred tax assets	20	174.8	-	-	-	-	-		159.2	-	-	-	-	-	
Derivative financial instruments	21	41.1	-	-	-	-	-		45.3	-	-	-	-	-	
Total non-current assets		**7,177.4**	**0.1**	**160.2**	**18.0**	**41.9**	**220.2**		**6,111.9**	**0.2**	**176.1**	**18.3**	**34.1**	**228.7**	
Current assets															
Inventories	22	176.5	-	-	-	-	-		157.3	-	-	-	-	-	
Trade receivables	23.35	2,065.3	-	7.2	60.7	16.9	84.8	4.1%	1,842.2	0.1	21.8	66.6	17.4	105.9	5.7%
Current financial assets	19.35	70.1	-	5.7	2.9	1.4	10.0	14.3%	37.3	0.1	5.3	2.7	3.9	12.0	32.2%
Current tax assets	24.35	42.1	-	-	-	-	-		34.3	-	-	-	-	-	
Other current assets	25.35	395.7	-	1.2	(0.3)	5.1	6.0	1.5%	281.2	-	0.8	1.0	17.6	19.4	6.9%
Derivative financial instruments	21	72.2	-	-	-	-	-		111.9	-	-	-	-	-	
Cash and cash equivalents	19.33	364.0	-	-	-	-	-		535.5	-	-	-	-	-	
Total current assets		**3,185.9**	**-**	**14.1**	**63.3**	**23.4**	**100.8**		**2,999.7**	**0.2**	**27.9**	**70.3**	**38.9**	**137.3**	
TOTAL ASSETS		**10,363.3**	**0.1**	**174.3**	**81.3**	**65.3**	**321.0**		**9,111.6**	**0.4**	**204.0**	**88.6**	**73.0**	**366.0**	

Caption of column headings for related parties:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

	notes	31 Dec 19	of which related parties						31 Dec 18	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	26														
Share capital		1,474.8	-	-	-	-	-		1,465.3	-	-	-	-	-	
Reserves		948.0	-	-	-	-	-		913.5	-	-	-	-	-	
Profit (losses) for the period		385.7	-	-	-	-	-		281.9	-	-	-	-	-	
Group net equity		**2,808.5**	**-**	**-**	**-**	**-**	**-**		**2,660.7**	**-**	**-**	**-**	**-**	**-**	
Non-controlling interests		201.5	-	-	-	-	-		186.0	-	-	-	-	-	
Total net equity		**3,010.0**	**-**	**-**	**-**	**-**	**-**		**2,846.7**	**-**	**-**	**-**	**-**	**-**	
Non-current liabilities															
Non-current financial liabilities	27.35	3,456.3	-	-	2.8	-	2.8	0.1%	2,684.6	-	-	3.3	-	3.3	0.1%
Non-current lease liabilities	15.35	76.1	-	-	2.8	0.3	3.1	4.1%	-	-	-	-	-	-	
Post-employment and other benefits	28	127.3	-	-	-	-	-		129.5	-	-	-	-	-	
Provisions for risks and charges	29	521.8	-	-	-	-	-		458.6	-	-	-	-	-	
Deferred tax liabilities	20	154.5	-	-	-	-	-		43.1	-	-	-	-	-	
Derivative financial instruments	21	27.4	-	-	-	-	-		37.9	-	-	-	-	-	
Total non-current liabilities		**4,363.4**	**-**	**-**	**5.6**	**0.3**	**5.9**		**3,353.7**	**-**	**-**	**3.3**	**-**	**3.3**	
Current liabilities															
Current financial liabilities	27.35	305.5	-	-	1.1	-	1.1	0.4%	611.6	-	0.8	0.4	-	1.2	0.2%
Current lease liabilities	15.35	19.4	-	-	1.4	0.1	1.5	7.6%	-	-	-	-	-	-	
Trade payables	30.35	1,391.8	-	12.5	17.6	25.1	55.2	4.0%	1,360.4	0.3	10.9	18.1	25.0	54.3	4.0%
Current tax liabilities	24.35	86.9	-	-	-	-	-		6.0	-	-	-	-	-	
Other current liabilities	31.35	1,047.9	-	0.4	2.7	0.1	3.2	0.3%	866.9	-	2.3	6.5	0.2	9.0	1.0%
Derivative financial instruments	21	138.4	-	-	-	-	-		66.3	-	-	-	-	-	
Total current liabilities		**2,989.9**	**-**	**12.9**	**22.8**	**25.3**	**61.0**		**2,911.2**	**0.3**	**14.0**	**25.0**	**25.2**	**64.5**	
TOTAL LIABILITIES		**7,353.3**	**-**	**12.9**	**28.4**	**25.6**	**66.9**		**6,264.9**	**0.3**	**14.0**	**28.3**	**25.2**	**67.8**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**10,363.3**	**-**	**12.9**	**28.4**	**25.6**	**66.9**		**9,111.6**	**0.3**	**14.0**	**28.3**	**25.2**	**67.8**	

Caption of column headings for related parties:
A Non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04.03 Financial statement as per Consob resolution 15519/2006

	31 Dec 19	of which correlated parts
Earnings before taxes	**528.1**	
Adjustments to reconcile net profit to the cashflow from operating activities		
Amortization and impairment of assets	433.7	
Allocation to provisions	108.9	
Effects of valuation using the equity method	(13.4)	
Other non-operating revenues	(111.6)	
Financial (income) expenses	139.4	
(Capital gains) losses and other non-monetary elements (including valuation of commodity derivatives)	7.0	
Change in provision for risks and charges	(28.5)	
Change in provision for employee benefits	(12.2)	
Total cash flow before changes in net working capital	**1,051.4**	
(Increase) decrease in inventories	(17.9)	
(Increase) decrease in trade receivables	(162.5)	7.7
Increase (decrease) in trade payables	(65.0)	0.8
Increase/decrease in other current assets/liabilities	103.6	7.7
Changes in working capital	**(141.8)**	
Dividends collected	13.3	13.3
Interest income and other financial income collected	44.9	2.6
Interest expenses and other financial charges paid	(115.0)	(1.1)
Taxes paid	(123.1)	
Cash flow from operating activities (a)	**729.7**	
Investments in property, plant and equipment	(164.2)	
Investments in intangible assets	(369.0)	
Investments in companies and business units net of cash and cash equivalents	(195.7)	(19.6)
Sale price of property, plant and equipment	4.7	0.2
Divestments in consolidated companies and contingent consideration	168.2	0.2
(Increase) decrease in other investment activities	(31.1)	(6.5)
Cash flow from (for) investing activities (b)	**(587.1)**	
New issue of long-term financial liabilities	315.0	
Repayments of non-current financial liabilities	(100.7)	
Repayments and other net changes in financial payables	(377.0)	(0.6)
Lease finance payments	(19.0)	(2.5)
Proceeds from the sale of shares without loss of control	-	
Acquisition of Interests in consolidated companies	(2.2)	
Dividends paid out to Hera shareholders and non-controlling interests	(161.5)	(59.0)
Changes in treasury shares	31.3	
Other minor changes	-	
Cash flow from (for) financing activities (c)	**(314.1)**	
Increase (decrease) in cash and cash equivalents (a+b+c)	**(171.5)**	
Cash and cash equivalents at the beginning of the period	535.5	
Cash and cash equivalents at the end of the period	364.0	

2.04.04
List of related parts

The values reported in the table as at 31 December 2019 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries

Black Sea Comp.Compr.Gas Ltd

Group B- Affiliated and jointly controlled companies:

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

Group C - Related parties with significant influence

Municipality of Bologna
Municipality of Casalecchio di Reno
Municipality of Cesena
Municipality of Ferrara
Municipality of Imola
Municipality of Modena
Municipality of Padua
Municipality of Ravenna
Municipality of Rimini
Municipality of Trieste
Con.Ami
Holding Ferrara Servizi Srl
Ravenna Holding Spa
Rimini Holding Spa

Group D - Other related parties

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

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

2.04.05
Commentary notes to the relations with related parts

Service management

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

Water sector

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

Environment sector

The municipal waste service managed by Hera in the area it serves is provided on the basis of agreements with local authorities and comprises the exclusive management of the collection, transportation, sweeping and cleaning of streets, preparations for waste recovery or disposal, etc. Agreements with local authorities regulate the economic aspects of the contract as well as the methods used to organize and manage these services and the quantity and quality of the services provided. The payments due to the operator for the services rendered, including municipal waste disposal/treatment/recovery activities have been defined annually on the basis of the national rate method (Presidential Decree 158/1999), as supplemented by the regional regulation as far as waste disposal is concerned (Regional resolution 467/2015), as well as by the TARES and later TARI/ TCP regulation, beginning in 2013 (accurate fee). The 2019 amounts approved by local authorities were invoiced to individual municipalities or citizens, in which case the precise fee is applied.
To run treatment plants for municipal waste, the Hera Group is required to obtain provincial authorizations; furthermore, for 2019, the subsidiary Herambiente signed with Atersir the service contract established by article 16 of Regional Law 23 of Emilia Romagna, dated 2011, for the disposal of unsorted waste.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (so-called Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report on operations. Inrete Distribution Energy Spa, an Hera Group company that took over natural gas and electricity distribution from Hera SpA, takes advantage of longer residual terms established for operators that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions issued by the agency in charge of this sector (ARERA). The area in which the Hera Group company Inrete Distribuzione Energia Spa provides gas distribution services is divided into rate zones in which a uniform distribution rate is applied to different categories of customers. The main tariff regulations in force at the time of approval of these consolidated annual financial statements are Resolutions 859/2017/R/Gas of 18 December 2018 (Update of tariffs for gas distribution and metering services, for the year 2019), which replaced the 774/2016/R/Gas in force for 2018 and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2019, as per article 40 of the RTDG and 775/2016/R/Gas of 22 December 2016 (Intra-period updating of the tariff regulation for gas distribution and metering services) for the three-year period 2017-2019. RTDG approval for the 2017-2019 three-year period) that served to approve the new version of the regulations governing tariffs for natural gas distribution and metering services for the regulatory period 2014-2019 (RTDG), following the changes regarding recognized operating costs, determining the component of the tariff to cover the cost of metrological checks, accounting for the system costs of metering and management at a distance and concentrators and defining the standard costs of electronic measurement units for the 2017-2019 three-year period. Beginning 1 January 2014, in fact, the new Regulation governing gas distribution and metering service rates for the regulation period 2014-2019 (RTDG 2014-2019) went into effect, approved with resolution 367/2014/R/gas as subsequently modified and supplemented. Under the provisions of article 28 of the RTDG 2014-2019, the obligatory natural gas distribution and metering rates are differentiated into six rate areas:

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

The value of the components referred to in paragraph 27.3, sections c), d), e), f), g) and h) of the RTDG 2014-2019 is established by the Authority and subject to quarterly updating.
Consistent with the provisions of article 40, paragraph 9 of the RTDG, the fixed components of the mandatory rate for distribution and metering services have been divided into three bands based on the class of their size group.
With regard to electricity, the contracts (lasting thirty years and renewable pursuant to the current regulations) govern power distribution activities comprising, inter alia, the management of distribution networks and the operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development projects, and metering. The contract may be suspended or terminated, on the judgement of the sector Authority, if defaults and violations occur on the part of the concessionary company that seriously affect the performance of the distribution and metering of electricity. The concessionary company is obliged to apply the rates set by current regulations and resolutions adopted by the sector Authority. The rate regulations in effect at the time the annual financial statements attached to this report are approved is that of the Authority's resolution 654/2015/R/Eel of 23 December 2015 (Rate regulations for electricity transmission, distribution and metering, for the regulatory period 2016-2023), which replaced the previous Authority resolution Arg/elt no. 199/2011 and subsequent amendments and additions (Official directives for the provision of electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions on economic conditions for the provision of connection services), in force until 31 December 2015.
The mandatory rate for distribution services covers the costs of transporting electricity along distribution networks. The rate has a trinomial structure and is expressed in hundredths of a euro per sampling point per year (fixed component), euro cents per KW per year (power component) and euro cents per kWh consumed (energy component).
The mandatory tariff for the distribution service is updated annually by the Sector Authority (ARERA) by means of a suitable measure, and on 18 December 2018 Resolution 671/2018/R/Eel was approved to update, for the year 2019, the mandatory tariffs for electricity distribution and metering services for non-domestic customers and the economic conditions for the provision of the connection service to the electricity networks. The resolution also provides for the extension, until 31 December 2019, of the deadline for establishing new tariff regulation criteria for withdrawing and issuing power and reactive energy at high-voltage and extra-high voltage in the points of withdrawal, and the extension until 31 December 2019 of the reduction of the charges to domestic customers who wish to change the level of committed power specified in their contracts, provided for by Article 8a of the ICT. On 18 December 2018, the relevant Authority, approved resolution 673/2018/R/Eel to update the tariffs for 2019 for providing network services (transmission, distribution and metering) for electricity for domestic customers.

2.05
Equity investments

2.05.01
List of consolidated companies

Subsidiaries

Registered name	Registered office	Share capital (euro)*	Percentage held		Total interest
			direct	indirect	
Parent company: Hera Spa	Bologna	1,489,538,745			
Acantho Spa	Imola (BO)	23,573,079	80.64%		80.64%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasApsAmga Servizi Energetici Spa	Udine	11,168,284		100.00%	100.00%
Alimpet Srl	Borgolavezzaro (NO)	50,000		75.00%	75.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sarl	La Wantzenau (France)	25,000		75.00%	75.00%
Aliplast Iberia SL	Calle Castilla -Leon (Spain)	815,000		75.00%	75.00%
Aliplast Polska Spoo	Zgierz (Poland)	1,200,000 PLN		75.00%	75.00%
Amgas Blu Srl	Foggia	10,000		100.00%	100.00%
Aresenergy Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
AresGas Ead	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
Asa Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Ascopiave Energie Spa	Pieve di Soligo (TV)	250,000		100.00%	100.00%
Ascotrade Spa	Pieve di Soligo (TV)	1,000,000		89.00%	89.00%
A Tutta Rete Srl	Cento (FE)	100,000		100.00%	100.00%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Blue Meta Spa	Pieve di Soligo (TV)	606,123		100.00%	100.00%
Cosea Ambiente Spa	Castel di Casio (BO)	477,526	100.00%		100.00%
EstEnergy Spa	Trieste	266,061,261	1.00%	99.00%	100.00%
Etra Energia Srl	Cittadella (PD)	100,000		51.00%	51.00%
Feronia Srl	Finale Emilia (MO)	100,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Herambiente Spa	Bologna	271,648,000	75.00%		75.00%
Herambiente Servizi Industriali Srl	Bologna	1,748,472		75.00%	75.00%
Hera Comm Spa	Imola (BO)	53,595,899	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		84.00%	84.00%
Hera Comm Nord Est Srl	Trieste	1,000,000		100.00%	100.00%
Hera Luce Srl	Cesena	1,000,000		100.00%	100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		57.89%	57.89%
Heratech Srl	Bologna	2,000,000	100.00%		100.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Inrete Distribuzione Energia Spa	Bologna	10,091,815	100.00%		100.00%

Marche Multiservizi Spa	Pesaro	16,388,535	46.70%		46.70%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		46.70%	46.70%
Pistoia Ambiente Srl	Serravalle Pistoiese (PT)	1,000,000		75.00%	75.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Scarl	Padua	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%

(*) where not otherwise specified

Jointly controlled companies

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

Associated companies

Registered name	Registered office	Share capital (euro)	Percentage held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
ASM SET Srl	Rovigo	200,000		49.00%	49.00%
Q.tHermo Srl	Florence	10,000		39.50%	39.50%
Set Spa	Milan	120,000	39.00%		39.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Sinergie Italiane Srl in liquidation	Milan	1,000,000		31.00%	31.00%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

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

2.05.02

Key figures in the financial statements of subsidiaries and associated companies

Summary of key figures of the financial statements of subsidiaries pursuant to Article. 2429, last paragraph, of the Civil Code.

thous. euro	Acantho Spa	AcegasApsAmga SpA	AcegasApsAmga Servizi Energetici Spa	Alimpet Srl	Aliplast Spa	Aliplast France Recyclage Sarl	Aliplast Iberia Sl	Aliplast Polska SP O.O	Amgas Blu Srl	AresGas Ead
ASSETS										
Fixed assets	60,695	971,790	87,362	12,022	29,531	1,403	658	496	5	13
Circulating assets	31,291	176,912	47,186	8,768	42,144	1,780	688	479	9,035	192
Total assets	**91,986**	**1,148,702**	**134,548**	**20,790**	**71,675**	**3,183**	**1,346**	**975**	**9,040**	**205**
LIABILITIES										
Share capital	23,574	284,677	11,168	50	5,000	25	815	282	10	25
Reserves	4,572	234,820	26,683	2,394	18,308	658	40	310	255	(63)
Net Profit /(loss)	5,634	66,213	386	2,501	8,003	(347)	(24)	75	1,179	(83)
Provisions	47	30,648	-	4	413				27	-
Severance pay provision	587	16,369	1,675	395	450				79	-
Payables	57,572	515,975	94,636	15,446	39,501	2,847	515	308	7,490	326
Total liabilities	**91,986**	**1,148,702**	**134,548**	**20,790**	**71,675**	**3,183**	**1,346**	**975**	**9,040**	**205**
INCOME STATEMENT										
Production value	67,401	408,691	69,277	27,337	90,638	5,487	1,660	2,400.0	21,486	149
Production costs	(58,864)	(354,444)	(68,493)	(23,863)	(80,418)	(5,834)	(1,683)	(2,324.0)	(19,826)	(222)
Financial income/ (expense)	(919)	(6,575)	(392)	(486)	778		(1)	(1.0)	16	(10)
Extraordinary income/ (expense)		30,183	-							-
Taxes for the period	(1,984)	(11,642)	(6)	(487)	(2,995)				(497)	-
Net Profit /(loss)	**5,634**	**66,213**	**386**	**2,501**	**8,003**	**(347)**	**(24)**	**75**	**1,179**	**(83)**

As the companies AcegasApsAmga Spa and AcegasApsAmga Servizi Energetici Spa apply the international accounting standards, the values stated comply with them.

thous. euro	Aresenergy Eood	Asa Scpa	Ascopiave Energie Srl	Ascopiave Energie Srl	Ascotrade Spa	A Tutta Rete Srl	Black Sea Gas Company Eood	Blue Meta Spa	Cosea Ambiente Srl	EstEnergy Spa
ASSETS										
Fixed assets	13	3,066	117	117	13,664	14,666	1,325	51	3,605	635,486
Circulating assets	192	17,151	40,425	40,425	92,436	3,375	2,517	29,141	3,699	57,669
Total assets	**205**	**20,216**	**40,542**	**40,542**	**106,100**	**18,041**	**3,842**	**29,192**	**7,304**	**693,155**
LIABILITIES										
Share capital	25	1,820	250	250	1,000	100	3	606	478	266,061
Reserves	(63)	622	7,433	7,433	12,801	3,123	664	4,236	939	378,938
Net Profit /(loss)	(83)		5,994	5,994	14,522	81	852	5,895	56	9,148
Provisions	-	16,233	407	407	353	183	-	72	135	2
Severance pay provision	-	162	641	640	536	137	-	509	805	61
Payables	326	1,378	25,817	25,818	76,888	14,417	2,323	17,874	4,891	38,945
Total liabilities	**205**	**20,216**	**40,542**	**40,542**	**106,100**	**18,041**	**3,842**	**29,192**	**7,304**	**693,155**
INCOME STATEMENT										
Production value	149	5,293	137,578	137,578	343,257	7,540	6,609	71,021	11,734	133,143
Production costs	(222)	(5,458)	(129,177)	(129,177)	(322,976)	(7,137)	(5,613)	(63,414)	(11,606)	(120,349)
Financial income/ (expense)	(10)	174	61	61	88	(280)	(50)	52	(30)	106
Taxes for the period	-	(9)	(2,468)	(2,468)	(5,847)	(42)	(94)	(1,764)	(42)	(3,752)
Net Profit /(loss)	**(83)**	**-**	**5,994**	**5,994**	**14,522**	**81**	**852**	**5,895**	**56**	**9,148**

The companies Energia Base Trieste Srl, Frullo Energia Ambiente Srl, Herambiente Spa. Herambiente Servizi Industriali Srl and Hera Comm Srl apply the international accounting standards, therefore, the values stated comply with them.

thous. euro	Etra Energia Srl	Feronia Srl	Frullo Energia Ambiente Srl	Herambiente Spa	Herambiente Servizi Industriali Srl	Hera Comm	Hera Comm Marche Srl	Hera Comm Nord Est	Hera Luce Srl	Hera Servizi Energia Srl
ASSETS										
Fixed assets	1	5,341	59,375	1,094,604	46,024	518,770	33,105	19,558	73,650	12,532
Circulating assets	4,270	761	14,384	203,010	57,772	1,210,438	34,496	58,551	57,044	21,045
Total assets	**4,271**	**6,102**	**73,759**	**1,297,613**	**103,796**	**1,729,208**	**67,601**	**78,109**	**130,694**	**33,577**
LIABILITIES										
Share capital	100	100	17,139	271,600	1,748	53,596	1,977	1,000	1,000	1,110
Reserves	1,082	366	24,367	39,333	10,021	114,365	7,658	19,014	40,503	10,096
Net Profit /(loss)	512	(99)	5,417	11,232	1,444	247,864	2,114	2,260	6,331	726
Provisions		4,595	8,677	117,981	4,483	4,466	5	3	17	1,544
Severance pay provision	58		1,922	8,716	3,089	4,715	552	719	1,389	507
Payables	2,519	1,140	16,236	848,752	83,010	1,304,202	55,295	55,113	81,454	19,594
Total liabilities	**4,271**	**6,102**	**73,759**	**1,297,613**	**103,796**	**1,729,208**	**67,601**	**78,109**	**130,694**	**33,577**
INCOME STATEMENT										
Production value	9,497	188	27,208	420,609	134,750	3,194,585	105,376	73,578	74,356	27,254
Production costs	(8,792)	(374)	(19,538)	(390,550)	(132,037)	(3,084,266)	(103,002)	(70,444)	(66,111)	(26,398)
Financial income/ (expense)	10	62	(117)	(18,366)	(809)	183,561	(270)	18	622	186
Taxes for the period	(203)	25	(2,136)	(461)	(461)	(46,016)	10	(892)	(2,536)	(316)
Net Profit /(loss)	**512**	**(99)**	**5,417**	**11,232**	**1,444**	**247,864**	**2,114**	**2,260**	**6,331**	**726**

The companies Hera Comm Marche Srl, Hera Luce Srl, HERAtech Srl, Hera Trading Srl, HestAmbiente Srl and Inrete Distribuzione Energia Spa apply the international accounting standards, therefore, the values stated comply with them.

thous. euro	Heratech Srl	Hera Trading Srl	HestAmbiente Srl	Inrete Distribuzione Energia Spa	Marche Multiservizi Spa	Marche Multiservizi Falconara Srl	Pistoia Ambiente Srl	Sviluppo Ambiente Toscana Srl	Tri-Generazione Srl	Uniflotte Srl
ASSETS										
Fixed assets	144	14,763	81,499	1,130,223	206,975	3,018	9,860	1,400	1,647	97,305
Circulating assets	52,037	580,484	25,861	205,305	84,170	3,165	6,068	80	2,937	27,183
Total assets	**52,181**	**595,247**	**107,360**	**1,335,528**	**291,145**	**6,183**	**15,928**	**1,480**	**4,584**	**124,488**
LIABILITIES										
Share capital	1,981	22,600	1,010	9,901	16,389	100	1,000	10	100	2,254
Reserves	2,053	(11,892)	16,155	520,053	93,072	328	(2,358)	610	289	18,026
Net Profit /(loss)	1,298	28,490	3,611	37,449	12,417	485	2,606	(549)	-	5,908
Provisions	13		7,278	109,723	39,087	63	10,607		-	69
Severance pay provision	7,354	663	1,082	11,258	6,118	1,040	242		-	2,451
Payables	39,482	555,386	78,224	647,144	124,062	4,167	3,831	1,409	4,195	95,780
Total liabilities	**52,181**	**595,247**	**107,360**	**1,335,528**	**291,145**	**6,183**	**15,928**	**1,480**	**4,584**	**124,488**
INCOME STATEMENT										
Production value	116,338	3,063,499	54,640	381,950	128,635	8,277	6,479	(19)	2,170	64,630
Production costs	(114,352)	(3,021,374)	(48,096)	(313,044)	(110,708)	(7,579)	(2,381)	(66)	(1,986)	(55,454)
Financial income/ (expense)	(30)	(474)	(2,697)	(18,694)	(190)	(11)	(395)	(464)	(175)	(2,386)
Taxes for the period	(658)	(13,161)	(236)	(12,763)	(5,320)	(202)	(1,097)		(9)	(882)
Net Profit /(loss)	**1,298**	**28,490**	**3,611**	**37,449**	**12,417**	**485**	**2,606**	**(549)**	**-**	**5,908**

The companies Tri-Generazione Srl and Uniflotte Srl apply the international accounting standards, therefore, the values stated comply with them.

Summary of key figures of the financial statements of joint ventures pursuant to Article. 2429, last paragraph, of the Civil Code.

thous. euro	Enomondo Srl
ASSETS	
Fixed assets	32,586
Circulating assets	15,479
Total assets	**48,065**
LIABILITIES	
Share capital	14,000
Reserves	14,246
Net Profit /(loss)	3,585
Provisions	276
Severance pay provision	58
Payables	15,900
Total liabilities	**48,065**
INCOME STATEMENT	
Production value	23,129
Production costs	(17,956)
Financial income/ (expense)	(128)
Taxes for the period	(1,460)
Net Profit /(loss)	**3,585**

The company EstEnergy Spa applies the international accounting standards, therefore, the values stated comply with them.

Summary of key figures of the financial statements of associated companies pursuant to Article. 2429, last paragraph, of the Civil code.

thous. euro	Aimag Spa	ASM Servizi Energetici e Tecnologici Srl	Q.tHermo Srl	Set Spa	Sgr Servizi Spa	Sinergie Italiane Srl in liquidation
ASSETS						
Fixed assets	234,253	12	3,346	132,422	1,383	3,437
Circulating assets	77,407	10,048	895	23,607	92,633	35,133
Total assets	**311,660**	**10,060**	**4,241**	**156,029**	**94,016**	**38,570**
LIABILITIES						
Share capital	78,028	200	10	120	5,982	1,000
Reserves	52,576	69	3,896	70,983	34,022	(7,520)
Net Profit /(loss)	13,481	2,138	(105)	455	11,300	3,467
Provisions	26,525	100			67	4,312
Severance pay provision	2,996	310		261	1,169	6
Payables	138,054	7,243	440	84,210	41,476	37,305
Total liabilities	**311,660**	**10,060**	**4,241**	**156,029**	**94,016**	**38,570**
INCOME STATEMENT						
Production value	96,217	29,170		108,012	171,430	200,946
Production costs	(89,643)	(26,195)	(105)	(103,709)	(155,543)	(198,114)
Financial income/ (expense)	9,010	14		(2,724)	82	1,901
Extraordinary income/ (expense)				(365)		
Taxes for the period	(2,103)	(851)		(759)	(4,669)	(1,266)
Net Profit /(loss)	**13,481**	**2,138**	**(105)**	**455**	**11,300**	**3,467**

2.06
Information required by Law 124 of 4 August 2017 Art. 1 paragraphs 125-129 and following amendments

Law. 124/2017, in Article 1 paragraphs 125 to 129, provides for a number of measures aimed at ensuring transparency in the system of public funding that is part of a European as well as national regulatory framework: for this purpose, see Legislative decree no. 33/2013 reorganization of the discipline concerning the rights of civic access and publicity obligations, transparency and dissemination of information by public administrations.
Law decree no. 34/2019 (growth decree) converted into Law 58/2019 of 28 June 2019, in Article 35 introduces a reformulation of the rules contained in Article 1, paragraphs 125-129 of Law no. 124/2017.
The main criteria adopted by the Group, in accordance with current regulation, are listed below.
Grants, subsidies, benefits, allowances or aid, in cash or in kind, not with a general purpose and without consideration, remuneration or compensation aim, received between 1 January and 31 December 2019 must be reported in supplementary notes according to the cash method. In contrast, aid with amounts lower than 10 thousand euro, consideration, including remunerated assignments, bonuses, tax aid, disbursements from public bodies of other States, or supranational bodies (for example, the European Commission) were excluded.

The following table shows the cases present within the Group:

Grants for current expenses

Issuing entity	Description	Amount received
Corepla consortium	Collection and recycling of plastic packaging	11,543,872
Comieco consortium	Collection and recycling of paper and cardboard	10,211,137
Coreve consortium	Collection and recycling of glass packaging	1,171,958
Atersir	Regional fund of Emilia Romagna for Pay as you throw tariff	1,106,961
Emilia Romagna Region	Urgent action plan to counter the water supply crisis	796,251
Rilegno consortium	Collection and recycling of wood packaging	207,355
Ricrea consortium	Collection and recycling of steel packaging	117,972
Ato 2017 - Atersir 2013	Construction of collection centres	60,094
Eco-Ricicli Veritas Srl	Conai grants for supply chain consortia	18,078

Plant investment grants

Issuing entity	Description	Amount received
Municipality of Rimini	Construction of the Ausa lamination basin and submarine pipelines	8,833,987
Authority for water and waste services - Friuli-Venezia Giulia region	Regional funds for purification plant of Servola, municipality of Trieste	2,463,025
Optimal territorial area meeting - northern Marche - Marche Region - Ministry of the Environment	Upgrading the purifier of Borghera in the municipality of Pesaro	1,158,855
Optimal territorial area meeting - northern Marche - Marche Region - Ministry of the Environment	Sewer intercept. Pesaro historic centre	1,136,128
Emilia Romagna Region	Drainage work on water networks	1,094,612
Csea	Work on supply system of water networks	760,000
Regional civil protection agency of Emilia-Romagna	Drainage work and upgrading of water networks	461,053
Optimal territorial area meeting - northern Marche -	Upgrading the purifier of Borghera in the municipality of Pesaro	452,840

Marche Region - Ministry of the Environment		
Province of Rimini	Upgrading of sewerage system	242,142
Veneto Region	Project to extend the sewerage networks in the municipalities served by the Codevigo purification plant	173,546
Csea	Interconnection of the water supply in the Metauro, Foglia and Conca MUFC valleys	160,000
Optimal territorial area meeting - Bacchiglione	Extension of sewerage system in via Ospitale, municipality of Brugine (PD)	135,000
Emilia Romagna Region	Costruction of small recycling areas	118,467
Emilia Romagna Region	Upgrading remote control systems	31,255
Sassuolo Gestioni Patrimoniali Srl	Upgrading of water networks	27,273
Municipality of Cento	Maintenance of sewerage systems	12,690

Training subsidies

Issuing entity	**Description**	**Amount received**
Executive provisions	Training	15,000

2.07
Outline of Article149 duodecies of the Consob Issuer's regulation

thous. euro	2019
Services provided to certify the financial statements	755
Provision of other services for the issue of an attestation by the independent auditor company	366
Provision of other services by the independent auditor	-
Total	**1,121**

2.08
Declaration on the consolidated financial statement pursuant to Art. 154-bis of Legislative Decree 58/98

1 - I sottoscritti Stefano Venier, in qualità di Amministratore Delegato e Luca Moroni, in qualità di Dirigente Preposto alla redazione dei documenti contabili societari di Hera Spa, attestano, tenuto anche conto di quanto previsto dall'articolo 154-bis, commi 3 e 4, del Decreto Legislativo 58 del 24 febbraio 1998:

- l'adeguatezza in relazione alle caratteristiche dell'impresa e
- l'effettiva applicazione

delle procedure amministrative e contabili per la formazione del bilancio consolidato nel corso dell'esercizio 2019.

2 - Si attesta, inoltre, che:

2.1 - il bilancio consolidato:

a. è redatto in conformità ai principi contabili internazionali applicabili riconosciuti nella Comunità Europea ai sensi del Regolamento (CE) 1606/2002 del Parlamento Europeo e del Consiglio, del 19 luglio 2002;
b. corrisponde alle risultanze dei libri e delle scritture contabili;
c. è idoneo a fornire una rappresentazione veritiera e corretta della situazione patrimoniale, economica e finanziaria dell'emittente e dell'insieme delle imprese incluse nel consolidamento.

2.2 - La relazione sulla gestione comprende un'analisi attendibile dell'andamento e del risultato della gestione, nonché della situazione dell'emittente e dell'insieme delle imprese incluse nel consolidamento, unitamente alla descrizione dei principali rischi e incertezze cui sono esposti.

L'Amministratore Delegato

Stefano Venier

Il Dirigente Preposto alla redazione dei documenti contabili societari

Luca Moroni

Bologna, 25 marzo 2020

2.09
Report by the independent auditor

Deloitte.

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Hera S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Hera group (Group), which comprise the statement of financial position as of December 31st, 2019, the income statement, statement of comprehensive income, statement of changes in net equity, cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31st, 2019, 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.

Accounting treatment of the "Hera-Ascopiave Partnership" business combination	
Description of key audit matter	As explained in greater detail in the note entitled "Hera-Ascopiave Partnership", on December 19th, 2019 the Hera Group (also the "Group") and the Ascopiave Group completed a transaction that involved an exchange of assets of equivalent value in the energy and gas distribution businesses worth a total of Euro 607 million (the "Transaction").

Deloitte.

2

In the energy sector, a single operator was created for their respective businesses in the Veneto, Friuli-Venezia Giulia and Lombardy regions through EstEnergy S.p.A., previously jointly controlled by both groups. The Hera Group took over control of it by changing the governance agreements, at the same time recording a capital gain of Euro 81 million in accordance with IFRS 3 for a "business combination achieved in stages". Because of the Transaction, the commercial activities of both the Ascopiave Group (carried out through its subsidiaries) and the Hera Group (carried out through the subsidiary Hera Comm NordEst S.r.l.) joined EstEnergy S.p.A. As a result of the previously mentioned exchange of assets, the share capital of EstEnergy S.p.A. is held 52% by the Hera Group and 48% by Ascopiave S.p.A. Moreover, Ascopiave S.p.A. was granted an irrevocable put option to sell its non-controlling interest in EstEnergy S.p.A. which can be exercised once a year on all or part of the shareholding, at its own discretion, within and not later than December 31th, 2026. In consideration of this option, the Group did not show the minority portion of equity attributable to Ascopiave S.p.A. in the statement of consolidated financial position, i.e. recognizing the equity investment in EstEnergy S.p.A. as wholly owned. Therefore, the put option was recorded as a payable and measured by Hera Group management ("Management") on the basis of IAS 32 and IFRS 9, using the future scenario that it is deemed most likely on the basis of the information available to date. The payable was recorded at fair value for an amount of Euro 553 million, including both a portion of the value of the put option at the date it would be exercised and an estimate of the dividends that should be distributed by EstEnergy S.p.A. to the Ascopiave Group during the period of the put option. This occurs because, under the terms of the contract, they are to be deemed part of the overall consideration payable to the other party.

As regards the gas distribution business, Ascopiave S.p.A. acquired from the Hera Group, for Euro 168 million, the entire share capital of AP Reti Gas Nord Est S.r.l., to which a series of concessions in the Veneto and Friuli-Venezia Giulia regions had previously been transferred. The value of the net assets sold amounted to Euro 134 million and the sale generated a capital gain of Euro 30 million, classified under "Other non-operating revenues".

Lastly, the Hera Group sold 3% of Hera Comm S.p.A. to Ascopiave S.p.A. for Euro 54 million. This last transaction, by virtue of the contractual structure used and the obligations of the counterparties (e.g. Ascopiave S.p.A.'s put option), did not give rise to the recognition of a non-controlling interest in equity attributable to Ascopiave S.p.A., but it was represented as a fixed rate loan measured at amortised cost.

The additional effects generated by the Transaction and, in particular, determining the overall acquisition cost for the Group, estimating the fair value of the identifiable assets, liabilities and contingent liabilities of the entities acquired at the acquisition date and the fair value of intangible assets previously not recognised in the financial statements, as well as calculating goodwill, are all explained in the note previously mentioned.

Deloitte.

	Given the complexity of the Transaction, the contractual agreements and the accounting effects of it, and considering the importance of the assessments that Management had to make in the process of allocating the overall price paid to the other party, which they did with the support of experts, and estimating the fair value of the payable relating to the put option, we considered the business combination to be a key aspect of the audit of the consolidated financial statements of the Hera Group.
Audit procedures performed	The audit procedures that we carried out on the key aspect, namely the accounting treatment of the "Hera-Ascopiave Partnership" business combination, included, among others, the following: • a discussion with Management to understand the structure of the Transaction and its objectives; • an analysis of the contractual agreements signed between the parties; • a discussion with Management on how they applied the purchase method for the accounting recognition of the business combination, while also gaining an understanding of the process and significant controls put in place by the Hera Group in relation to the accounting treatment of this Transaction; • checking the implementation of these significant controls identified as part of the process; • checking the consistency of the accounting treatment adopted by the Group with the accounting standards applicable in this case, with the support of our specialists in the application of IFRS; • a review of the approach used to determine the cost of the acquisition, including the treatment of the options provided for in the contractual agreements; • an analysis of the methods used to identify the assets, liabilities and contingent liabilities involved in the Transaction, Management's estimate of the related fair values and the methods used to determine the value of goodwill, also by examining the report prepared by the professionals appointed by Management to support the key decisions made as part of the purchase price allocation process. This analysis was carried out with the involvement of our network's specialists in company valuation; • checking the accuracy of the accounting records; • a review of the adequacy and compliance of the information provided by the Company on the business combination with IFRS 3.

Deloitte.

Revenue recognition – revenue earned but not yet billed	
Description of the key audit matter	As disclosed in the notes to the consolidated financial statements in the paragraph addressing *"Accounting policies and consolidation principles - Revenue and cost recognition"*, revenue from electricity, gas and water sales is recognised and accounted for when the service is rendered and includes an accrual for revenue earned but not yet billed at the reporting date. As disclosed in Note 1, this accrual, which as of December 31st, 2019 amounted to Euro 358 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, 2019 in view of: *i)* the discretionary component inherent in the estimated nature of the accrual; *ii)* the materiality of its total amount; *iii)* the high number of the Group's users; *iv)* the complexity of calculation algorithms adopted by the Group for the determination of the accrual, which made it necessary to have the support of IT specialists to perform the related audit procedures.
Audit procedures performed	The audit procedures that we carried out on the accrual for revenue earned but not yet billed at the reporting date included, among others, the following: • analysis of the IT procedures adopted by the Group for the determination of the accrual for revenue earned but not yet billed and of the related calculation algorithms, with the support of our IT specialists; • identification and understanding of the key controls implemented by the Group to monitor the risk of an incorrect accrual and testing of the effectiveness thereof. This work was performed with the support of our IT specialists; • testing on a sample basis to verify the completeness and accuracy of the main data used by management to determine the accrual; • testing, based on a sample of users, of the process for the estimation of quantities consumed and the application of the correct reference tariffs; • a comparative analysis of the key parameters pertaining to users and consumption used for the determination of the above accrual; • verification of the correct determination of the guaranteed revenue using the regulated reference tariff; • review of the adequacy and compliance of disclosure provided on the recognition of revenue earned but not yet billed at the reporting date with the applicable accounting standards.

Recognition and measurement of derivative financial instruments

Description of the key audit matter

On account of the business in which it operates and of its financial structure, the Group holds derivatives to hedge its exposure to the risk of fluctuations in interest rates, in exchange rates and in natural gas and electricity prices. As disclosed in the paragraph in the notes to the consolidated financial statements addressing *"Accounting policies and consolidation principles - Derivative financial instruments "*, the Group enters into transactions, which, if they satisfy the requirements laid down by International Financial Reporting Standards to qualify for hedge accounting, are designated as hedging instruments and are classified as fair value hedges or as cash flow hedges; alternatively, they are classified as held for trading.

The determination of the fair value of derivatives is performed by the Group using models developed internally that include an estimation component. Moreover, the recognition methods vary based on the nature of the derivative. Lastly, the impact of the fair value measurement of derivatives is material to the results and financial position. Specifically, as disclosed in detail in Note 21 to the consolidated financial statements, the following are recognised in the consolidated financial statements for the year ended December 31st, 2019: i) in the statement of financial position, assets and liabilities arising from the measurement of derivatives of Euro 113 million and Euro 166 million, respectively, and cash flow hedge reserve recognized in equity for a negative amount of Euro 38 million; ii) in the income statement, net operating income and net financial costs arising from the measurement of derivatives of Euro 14 million and Euro 15 million, respectively, as well as net operating income and net financial income realised during the year with reference to derivatives of Euro 31 million and Euro 12 million, respectively.
With reference to the derivatives on commodities designated in hedge accounting, management has carried out specific sensitivity analyses to estimate any impacts that may arise in the future following the health emergency caused by COVID-19, which management is considering a subsequent event that does not have to be reflected in the numbers of the consolidated financial statements at 31 December 2019.

For the above mentioned reasons, we have considered the recognition and fair value measurement of derivatives to be a key matter for the audit of the Group's consolidated financial statements for the year ended on December 31st, 2019.

Audit procedures performed

The audit procedures that we carried out on the recognition and measurement of derivatives included, among others, the following:

- identification and understanding of the key internal controls implemented by the Group, as well as testing to check compliance with internal policy for the determination of the fair value of derivative financial instruments, for the designation of hedging instruments, for the measurement of their prospective effectiveness and for the determination of the ineffectiveness of the hedging relationship.

Deloitte.

- 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 of some derivative financial instrument, with the support of financial instrument pricing specialists;
- verification, on a sample basis, of the formal documentation for the designation and verification of the measurement of effectiveness, as well as verification of the accuracy of the effectiveness test;
- verification of the sensitivity analyses carried out by Management to estimate any impacts which may arise in the future following the health emergency caused by COVID-19;
- review of the adequacy and compliance of the disclosures provided in the explanatory notes with the applicable accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Deloitte.

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.

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.

Deloitte.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Hera S.p.A. has appointed us on April 23, 2014 as auditors of the Company for the years from December 31st, 2015 to December 31st, 2023.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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, 2019, 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, 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Hera Group as of December 31st, 2019 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Hera S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

Deloitte.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by other auditor.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
April 7, 2020

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

Hera Spa
Registered Office: Viale C. Berti Pichat 2/4 - 40127 Bologna
phone: +39 051.28.71.11 fax: +39 051.28.75.25

www.gruppohera.it

Share capital Euro 1.489.538.745 fully paid up
Tax code 04245520376 - VAT and Bologna Business Reg. no. 03819031208