

## Operating and financial results

Constant growth  
in all indicators

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

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

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

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

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

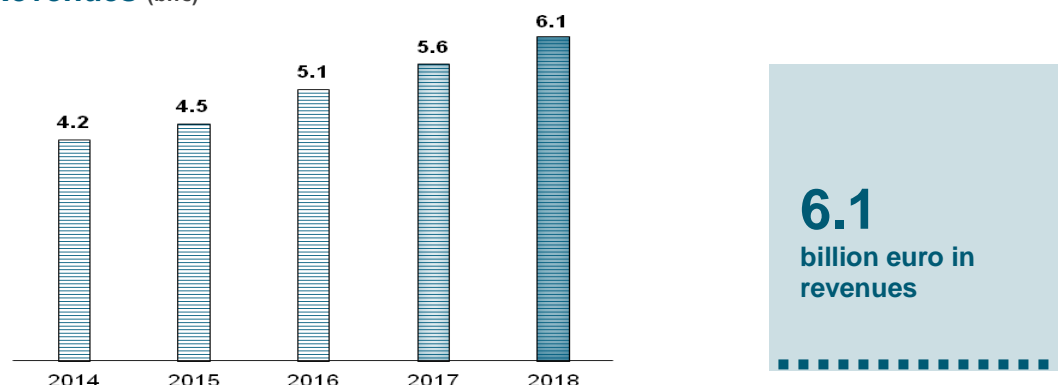
The following table shows operating results at 31 December 2018 and 2017:

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

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

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

## Revenues (bn€)



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

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

**Increase in costs for raw materials linked to higher revenues**

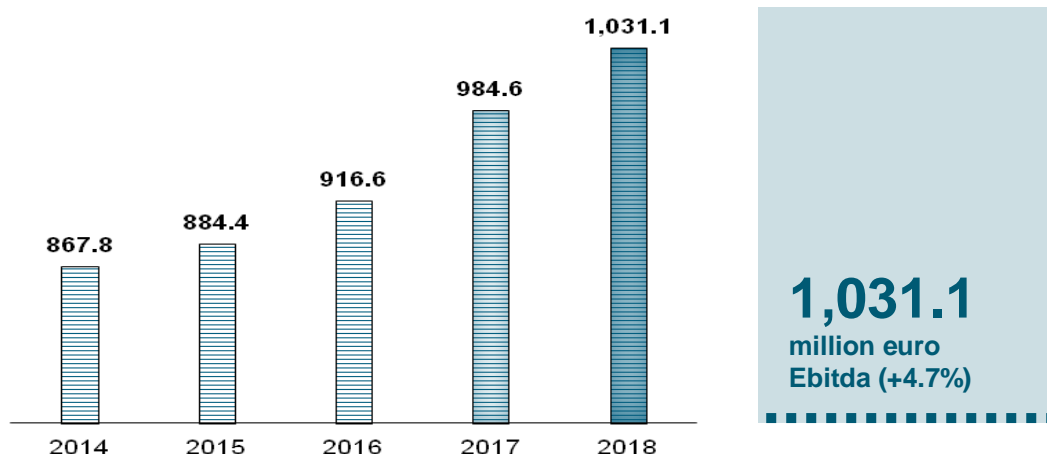
Other operating expenses grew by 66.2 million euro overall (88.3 million euro in higher service costs and 22.1 million euro in lower other operating expenses). This includes higher costs for system charges and volumes transmitted amounting to roughly 50 million euro, higher costs for commissions and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

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

**Personnel costs stable**

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

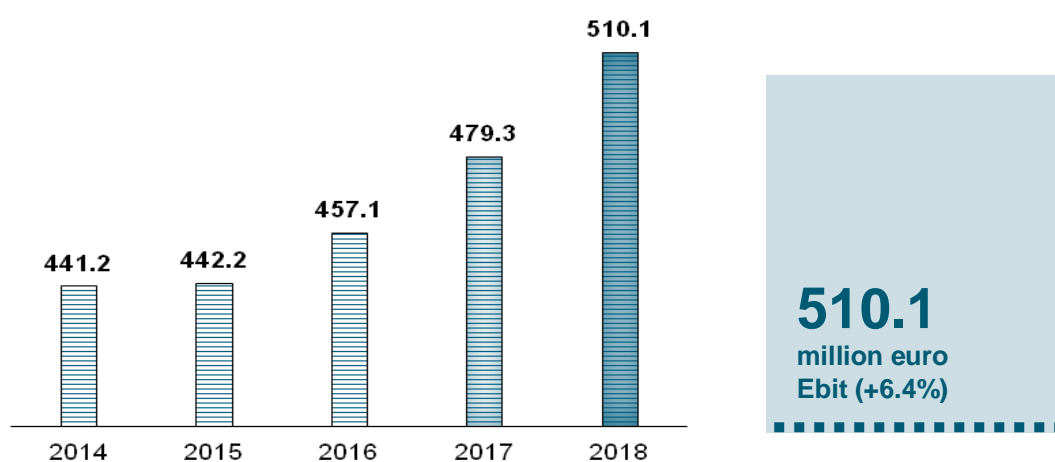
Ebitda reached 1.03 billion euro, up 46.5 million euro or 4.7% over 2017. This increase in Ebitda came from the good performance seen in almost all business areas. The gas area was mainly responsible for this growth, thanks to a result that rose by 14.8 million euro, due to higher volumes sold and higher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

**Ebitda** (mn€)

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

**Higher operating  
amortisation**

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

**Ebit** (mn€)

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

**Good  
performances in  
financial  
operations**

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

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

**Tax rate falls**

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

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

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

**+11.2%**  
**Net profit**

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

### Net profit post minorities (mn€)

