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

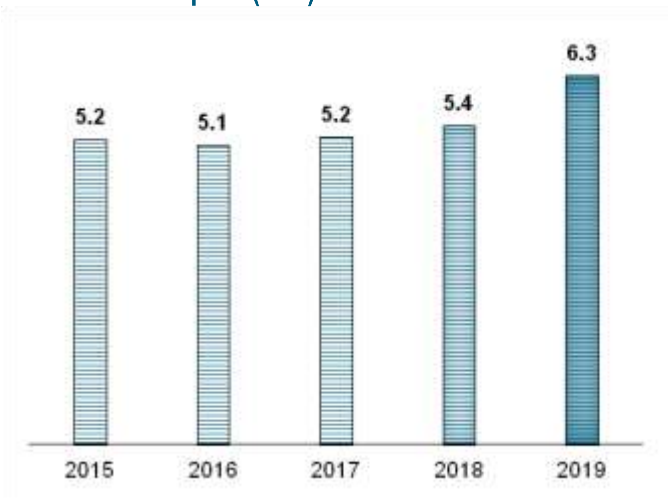
Net invested capital (Nic) amounted to 6,284.2 million euro, with a 15.7% increase over the 5,432.3 million euro seen at the end of 2018.

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€)

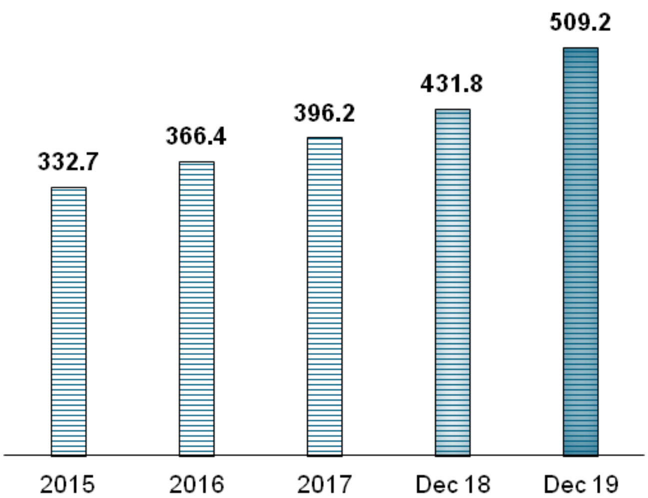


6.3
billion euro net invested capital

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.

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

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

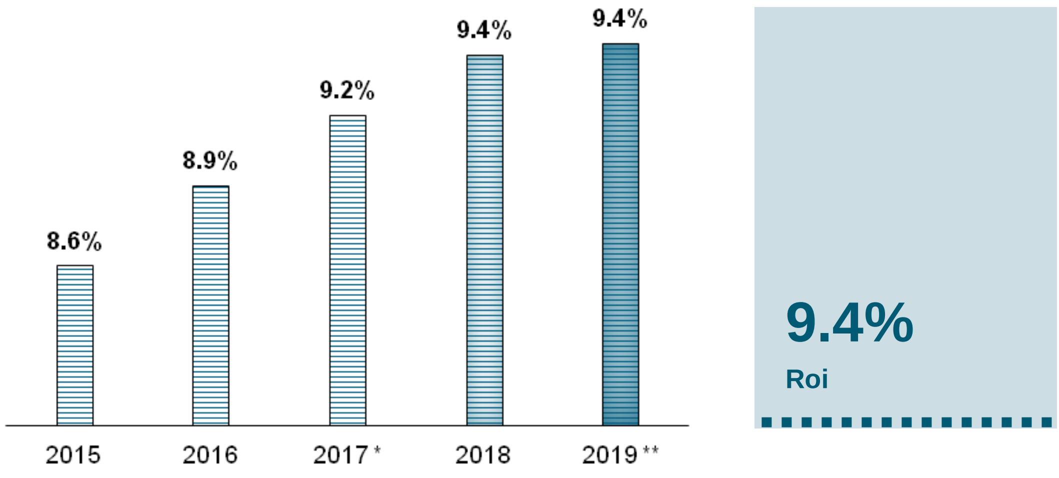
In 2019, provisions rose to 649.1 million euro, increasing over the figure seen at the end of the previous year. This result is mainly a consequence of period-specific provisions and an increase in post-mortem landfill provision adjustments and reinstatements of third party goods, due to the application 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 (%)

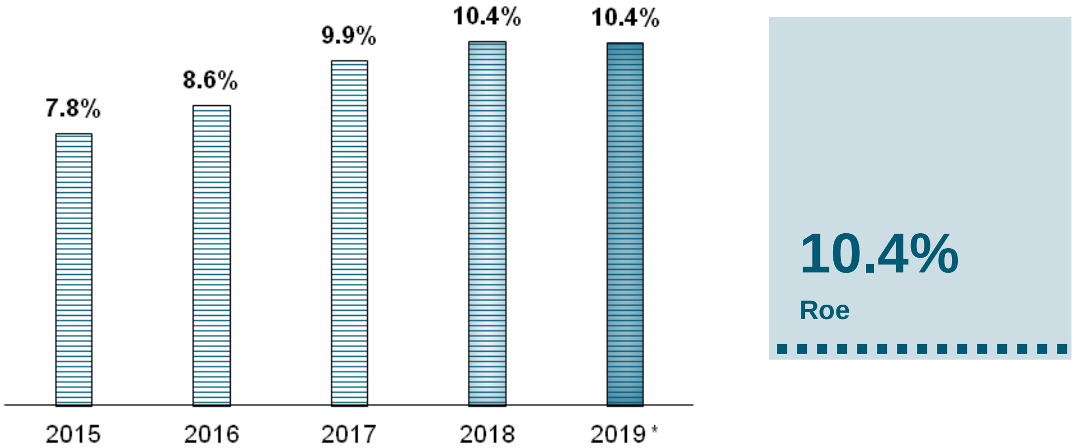


*adj. for non-recurring entries

**adj. for non-recurring entries and Ascopiave transaction

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

Adjusted Roe (%)



*adj. for non-recurring entries and Ascopiave transaction

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**