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.