2015
Consolidated Financial Statements

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LETTER FROM THE CHAIRMAN TO THE SHAREHOLDERS

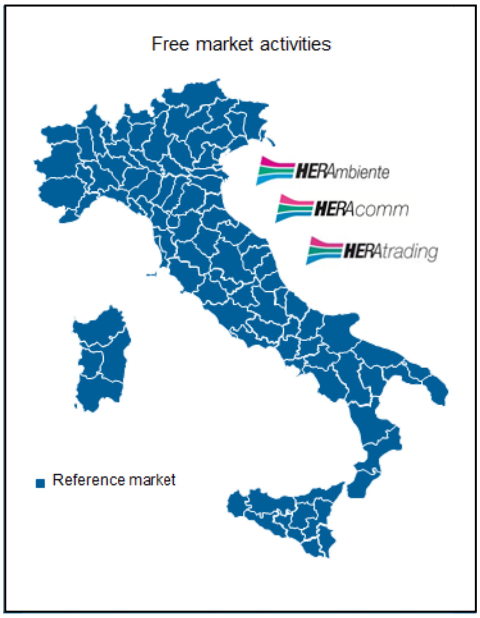
GOVERNANCE AND CONTROL BODIES

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice President	Giovanni Basile
Director	Mara Bernardini
Director	Forte Clò
Director	Giorgia Gagliardi
Director	Massimo Giusti
Director	Riccardo Illy
Director	Stefano Manara
Director	Luca Mandrioli
Director	Danilo Manfredi
Director	Cesare Pillon
Director	Tiziana Primori
Director	Bruno Tani
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing Auditor	Antonio Gaiani
Standing Auditor	Marianna Girolomini
Control and Risk Committee	
Chairman	Giovanni Basile
Member	Massimo Giusti
Member	Stefano Manara
Member	Danilo Manfredi
Remuneration Committee	
Chairman	Giovanni Basile
Member	Mara Bernardini
Member	Luca Mandrioli
Member	Cesare Pillon
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice President	Giovanni Basile
Member	Stefano Venier
Member	Riccardo Illy
Ethics Committee	
Chairman	Massimo Giusti
Member	Mario Viviani
Member	Filippo Maria Bocchi
Independent auditing firm	
	Deloitte &Touche

CORPORATE STRUCTURE

Parent company Hera SpA: effective operations management

The structure of the Hera Group (the Group) developed out of a complex rationalization process that began in 2002 with the incorporation of the 11 companies out of whom it was first created. The Group has since evolved, adapting over time to legislative changes and unbundling its activities into separate companies. The Group principally operates in the Waste Management, Energy and Water sectors and consists of Hera Spa, Herambiente Spa, HeraComm Srl, Hera Trading Srl, Marche Multiservizi and AcegasApsAmga Spa. The top of its corporate structure is occupied by parent company **Hera Spa**, an industrial holding company in charge of governance, coordination and financial management for all Group companies, in addition to being responsible for consolidating their operations.



Herambiente: leading the environmental sector

Herambiente Spa, 75% of which is owned by Hera Spa and 25% by Eiser Infrastructural Fund and APG, was established in 2009 as a waste-disposal spin-off, ensuring coordinated plant management across the nation. Herambiente Spa in turn established Herambiente Servizi Industriali (Hasi Srl), a company that is targeted to an industrial customer base.

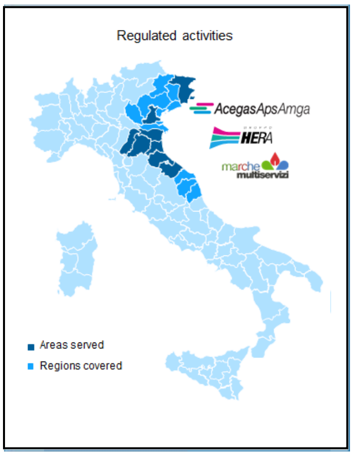
Hera Comm: 2.2 mln energy customers

HeraComm Srl, 100% controlled by Hera Spa, with 2.2 million customers, represents the Group on national energy markets.

HeraTrading: purchasing energy commodities

HeraTrading Srl, 100% controlled by Hera Spa, deals with trading and procurement of wholesale energy commodities through a flexible rationale of supply on the international markets.

Over the years, the Group's expansion through external lines has resulted in the integration of over a dozen other multi-utility companies. In order to produce synergies, exploit scale economies and convey know-how, these operations have been achieved by mergers through incorporation into the holding company .



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

Hera Spa

Herambiente S.p.A.	75%
*Hestambiente	70%
Fea Srl	51%
Herambiente Servizi Industriali Srl	100%
Enomondo Srl	50%
Asa Scpa	51%
Feronia Srl	70%
Waste Recycling Spa	100%

Hera Comm Srl	100%
So.Sel. Spa	26%
Adriatica Acque Srl	22,32%
SGR Servizi Spa	29,61%
Hera Comm Marche Srl	57,38%
Hera Servizi Energia Srl	57,89%
Estense Global Service Scarl	23%
Amga Energia & Servizi Srl	100%
Amga Calore & Impianti Srl	100%

AcegasApsAmga Spa	100%
Hera Trading Srl	100%
Marche Multiservizi Spa	49,59%

Other partially owned companies

INRETE Distribuzione Energia Spa	100%	Hera Luce Srl	100%
**Sviluppo Ambiente Toscana	95%	Uniflotte Srl	97%
Aimag Spa	25%	Galsi Spa	11,77%
Medea Spa	100%	Sei Spa	20%
Set Spa	39%	Tamarete Energia Srl	40%
Acantho Spa	77,36%	Energo Doo	34%
Calenia Energia Spa	15%	S2A Scarl	23,81%
Ghirlandina Solare Srl	33%	Aloe Spa	10%

* Over 30% held by AcegasApsAmga Spa.

** In addition to 5% held by Herambiente. Sviluppo Ambiente Toscana Srl in turn holds 40% of Q.tHermo Srl.

The companies partially owned by AcegasApsAmga Spa are: Black Sea Company for Gas Compressed Ltd, Centro Idrico di Novoledo Srl, Adria Link Srl, Acegas Aps Service Srl, La Dolomiti Ambiente Spa, Insigna Srl, Estenergy Spa, Sinergie Spa e Rilagas EAD. Shares held in SIGAS doo by AcegasApsAmga are expected to be divested in 2016, and a merger is expected between Black Sea Technology Company AD and Rilagas EAD.

The following operations are also expected:

- merger of Fucino Gas Srl into Hera Comm Marche Srl;
- merger of Biogas 2015 Srl into HerAmbiente Spa;
- liquidation of ESIL Scarl.

MISSION

"Hera's goal is to be 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 by respecting the local environment".

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

CHAPTER 1

REPORT ON OPERATIONS

1.01 OVERVIEW OF GROUP MANAGEMENT AND PERFORMANCE IN 2015

(million euros)	Dec 2015		Dec 2014		Abs. Change	% Change
Revenues	**4,487.0**		4,189.1		+297.9	+7.1%
EBITDA	**884.4**	19.7%	867.8	20.7%	+16.6	+1.9%
Operating profit	**442.2**	9.9%	441.2	10.5%	+1.0	+0.2%
Net profit adjusted	**202.6**	4.5%	181.2	4.3%	+21.4	+11.8%
Net profit	**194.4**	4.3%	182.4	4.4%	+12.0	+6.6%

For better comparison, certain non-recurring items have been reclassified below adjusted net profit.

1.01.01 OPERATING RESULTS AND INVESTMENTS

Constant and balanced growth in results

The Hera Group, at the end of the year under review, showed growth in all economic indicators: EBITDA rose by 1.9%, operating profits by 0.2% and net profits by 6.6%. These results are all the more significant considering that they were achieved in an increasingly challenging scenario, as defined by numerous economic, regulatory and competitive factors. Within this context, the Hera Group proved able to confirm its standing as one of the sector's main operators thanks to its consolidated multi-business strategy, which guarantees a balanced range of economic and financial actions.

In 2015, development objectives were pursued through both organic growth, extracting synergies with activities in corporate rationalisation, and external lines, the latter involving in particular the waste treatment business. The following corporate operations allowed the Group to maintain its sector leadership and to consolidate its presence in the collection and disposal market:

- Effective as of 1 July 2015, the waste disposal activities carried out at two WTE plants for the municipalities of Padua and Trieste were transferred from AcegasApsAmga to Herambiente, giving birth to the company Hestambiente. Herambiente controls 70% of the latter, and the remainder is controlled by AcegasApsAmga.

- Herambiente acquired the following companies over the course of 2015: Akron, of which it became the sole shareholder during the first semester of 2015, Romagna Compost, of which it became the sole shareholder during the second semester of 2015, and Herambiente Recuperi. All acquisitions were backdated to 1 January 2015.

- As of 1 November 2015, Biogas 2015 became part of the Group's corporate structure. This company's activities involve energy recovery and energy production from waste recycling, and it is also responsible for constructing, installing and managing the plants involved.

- As of 1 December 2015, Herambiente acquired control of a few branches of Geo Nova Spa. In particular, the dangerous and non-dangerous waste storage plant in San Vito al Tagliamento (near Pordenone) and the active landfills for non-dangerous waste in Loria (near Treviso) e Sommacampagna (near Verona) were taken over. For 2015, the acquired company branches are included in the Group's economic results only as regards the month of December.

- On 23 December 2015 Herambiente acquired 100% of shareholding in Waste Recycling Spa, whose activities involve the treatment and recovery of special waste in the province of Pisa, and that in turn holds shares in Rew Trasporti Srl and Neweco Srl. For the 2015 financial year these companies participate in the process of Group consolidation only as regards their assets.

- On 29 December 2015 Hera Spa sold 90% of Hera Energie Rinnovabili, later renamed Aloe Spa, to third parties. It therefore no longer falls within the Group's consolidated scope, and its contribution to the 2015 statements is only economical.

This consolidated income statement reflects the application of accounting principle IFRIC12 "Service concession arrangements". The effect of applying this principle, which leaves the results unchanged, is that investments made in goods granted under concession, only including network services, are acknowledged in the income statement.
The table below shows the economic results for the years ended 31 December 2015 and 2014:

Constant and growing increments

Income statement (€/mln)	**Dec 2015**	**% Inc.**	**Dec 2014**	**% Inc.**	**Abs. change**	**% Change**
Revenues	4,487.0		4,189.1		+297.9	+7.1%
Other operating revenues	330.8	7.4%	324.5	7.7%	+6.3	+1.9%
Raw materials	(2,256.6)	-50.3%	(1,965.5)	-46.9%	+291.1	+14.8%
Service costs	(1,132.1)	-25.2%	(1,143.6)	-27.3%	-11.5	-1.0%
Other operating costs	(62.3)	-1.4%	(57.1)	-1.4%	+5.2	+9.1%
Personnel costs	(510.8)	-11.4%	(496.9)	-11.9%	+13.9	+2.8%
Capitalised costs	28.5	0.6%	17.3	0.4%	+11.2	+64.8%
EBITDA	**884.4**	**19.7%**	**867.8**	**20.7%**	**+16.6**	**+1.9%**
Amort. & Prov.	(442.2)	-9.9%	(426.6)	-10.2%	+15.6	+3.7%
Operating profit	**442.2**	**9.9%**	**441.2**	**10.5%**	**+1.0**	**+0.2%**
Financial operations	(126.0)	-2.8%	(138.0)	-3.3%	-12.0	-8.7%
Pre-tax profit	**316.1**	**7.0%**	**303.2**	**7.2%**	**+12.9**	**+4.3%**
Taxes	(113.5)	-2.5%	(122.0)	-2.9%	-8.5	-7.0%
Net profit adjusted	**202.6**	**4.5%**	**181.2**	**4.3%**	**+21.4**	**+11.8%**
Non-recurring financial charge	(8.2)	-0.2%	(8.1)	-0.2%	+0.1	+0.0%
Non-recurring tax income	-		9.3	0.2%	-9.3	-100.0%
Net profit of the year	**194.4**	**4.3%**	**182.4**	**4.4%**	**+12.0**	**+6.6%**
Attributable to:						
Shareholders of the Parent Compan	**180.5**	**4.0%**	**164.8**	**3.9%**	**+15.7**	**+9.5%**
Non-controlling interests	13.9	0.3%	17.6	0.4%	-3.8	-21.3%

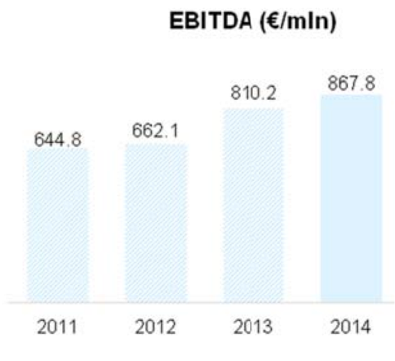
For better comparison, certain non-recurring items have been reclassified below adjusted net profit.

€ 4.5 billion in revenues

Revenues amounted to € 4,487.0 million in 2015, up € 297.9 million (7.1%) compared to the € 4,189.1 million seen in 2014. This growth is due to various factors: (i) gas, heat management and district heating services recorded an increase in volumes sold for roughly € 120 million on account of the colder weather compared to the same period in 2014; (ii) trading activities, involving both gas and electricity, showed an increase of roughly € 250 million due both to favourable market conditions over the summer months, allowing foreign exchange to increase, and greater activity in controlled thermoelectric plants; (iii) the growth in volumes of electricity sold for roughly € 38 million is linked to the trend in electricity demand and a rise in commercial activity. This increase was contained by the lower price of raw materials, in both the gas and the electricity areas, lower regulated distribution revenues, and lower revenues from the waste treatment area, owing to a drop in the amount of waste treated and a reduction in revenue from electricity production.
For further details, see the analyses of the single business areas.

Note, lastly, a reclassification between 2014 and 2015, for roughly € 10 million, of a number of entries in the chart of accounts from "other revenues and income" to "revenues" following the complete integration of AcegasApsAmga into the Group's IT systems.
Other operating revenues thus increased by € 6.3 million, due to € 15 million in higher revenues resulting from the application of IFRIC 12, contained however by the € 10 million reclassification mentioned above.

Costs of raw and other materials rose by € 291.1 million (14.8%) compared to 2014; as with revenues, this change is mainly due to the higher volumes of gas and electricity sold and more substantial trading activities, in spite of the lower cost of raw materials mentioned above.
Other operating costs dropped by € 6.3 million overall (lower costs for services, coming to € 11.5 million, and higher operating expenses, coming to € 5.2 million), thanks to lower costs for outsourcing contracts.
Personnel costs rose by € 13.9 million (2.8%), from € 496.9 million in 2014 to € 510.8 million in 2015. This increase is mainly linked to changes in the scope of consolidation, for € 7.1 million, caused by the merger of Udine into the Group, and salary raises established by the national labour agreement, coming to 2.3%.
Capitalised costs rose by € 11.2 million (64.8%) compared to 2014, due above all to the larger amount of operations carried out by Group companies.



EBITDA went from € 867.8 million in 2014 to € 884.4 million in 2015, recording a growth of € 16.6 million (1.9%). This result was obtained thanks to the contribution of the Gas area, which increased by € 19.8 million, and

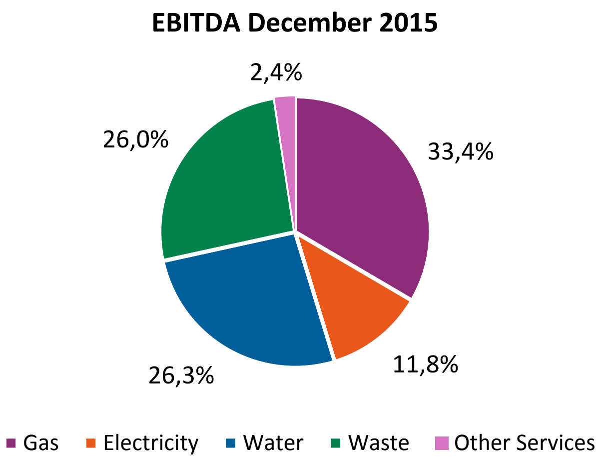
1.02 ANALYSIS BY BUSINESS AREA

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

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

Contribution coming from the various areas to Group EBITDA highlights a balanced mix, coherent with the Group's multi-business strategy.

Energy areas play a significant role, totalling roughly 45% of EBITDA

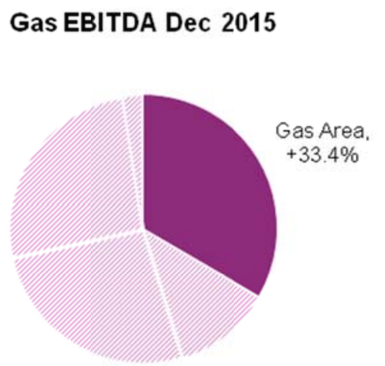


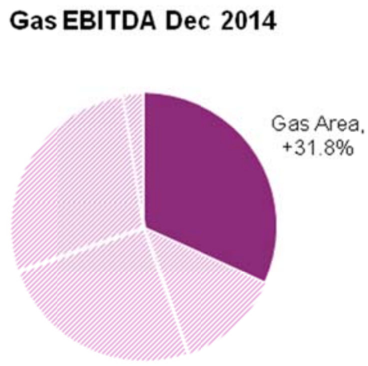
The following analyses of each single business area take into account all increased revenues and costs, with no impact on EBITDA, related to the application of IFRIC 12, as shown in the Group's consolidated income statement. The business areas affected by IFRIC 12 are: natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

1.02.01 GAS

All gas area performance indicators were up in 2015 with respect to the previous year, thanks to the higher volumes sold.

+1.6% increase in the Gas Area's contribution to Group EBITDA





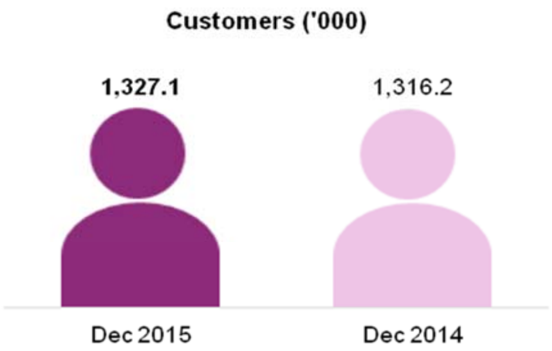
The following table shows the changes occurred in terms of EBITDA:

Gas Area EBITDA grows by 7.2%

(€/mln)
Area EBITDA
Group EBITDA
Percentage weight

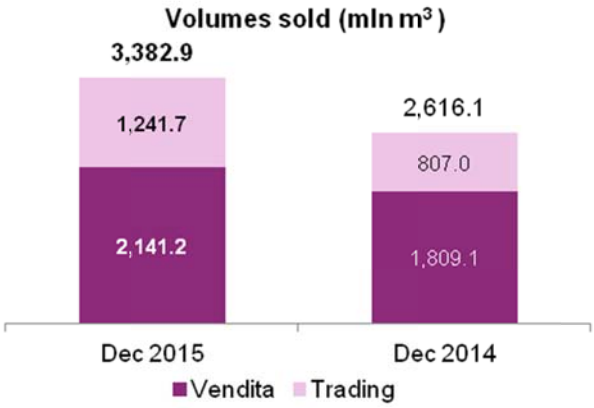
1.3 million gas customers

The overall number of gas customers rose by 0.8% over 2014, due to the commercial and customer loyalty initiatives set in place to contrast competition, as well as a wider customer base, in central Italy in particular, thanks to the acquisition of Alento Gas in May 2015.



Growth in volumes sold: +29.3%

Volumes of gas sold increased by 766.8 million m³ (+29,3%), going from 2,616.1 million m³ in 2014 to 3,382.9 in 2015. The main factors behind this performance are the higher amount of volumes sold (332.1 million m³) owing to both the colder temperatures in the winter of 2015 compared to 2014, the warmest of the last 30 years, the organic growth obtained through achieving a wider customer base, and a rise in trading volumes amounting to 434.7 million m³ (+12.8% of total volumes), due to both higher consumption and an increase in sales to the thermoelectric sector.



The following table summarises the income statement for the gas area:

Gas: increase in overall earnings

Income statement (€/mln)	Dec 2015	% Inc.	Dec 2014	% Inc.	Abs. change	% Change
Revenues	**1,618.7**		1,481.0		+137.7	+9.3%
Operating costs	**(1,205.5)**	-74.5%	(1,087.6)	-73.4%	+117.9	+10.8%
Personnel costs	**(128.5)**	-7.9%	(121.8)	-8.2%	+6.7	+5.5%
Capitalised costs	**11.1**	0.7%	4.5	0.3%	+6.6	+147.9%
EBITDA	**295.8**	18.3%	276.0	18.6%	+19.8	+7.2%

Gas revenues at € 1,618.7 million

Revenues went from € 1,481.0 million in 2014 to € 1,618.7 million in 2015, with a € 137.7 million increase (9.3%), principally owing to: (i) a rise in trading activities for roughly € 68 million, thanks to both the favourable summer market, which allowed foreign exchanges to increase, and higher consumption in thermoelectric plants; (ii) growth in volumes of natural gas sold, for roughly € 112 million, and heat sold by the district heating service, for roughly € 8 million, due to the colder temperatures seen compared to the same period in 2014; (iii) higher revenues in regulated services for € 3.7 million, mostly due to the increase in the scope of consolidation caused by the acquisition of Amga Udine during the previous year, beginning on 1 July 2014. This increase is partially compensated by lesser revenues due to a drop in the cost of raw materials.

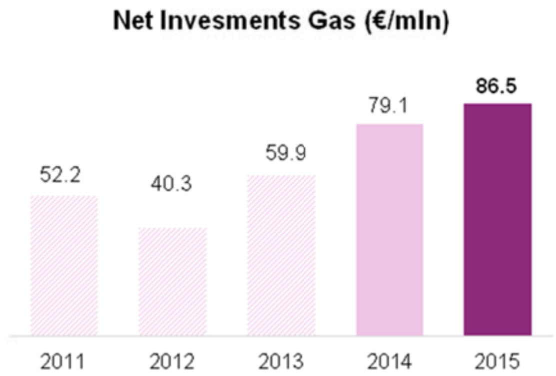
Operating costs rose by € 117.9 million, going from € 1,087.6 million in 2014 to € 1,205.5 million in 2015. This trend is linked to the increase in volumes sold, in spite of the lower prices mentioned above.

Gas EBITDA: € 295.8 million

EBITDA rose by € 19.8 million (7.2%), going from € 276.0 million in 2014 to € 295.8 million in 2015, thanks to the larger volumes sold in gas and heat, as mentioned above.

Net investments in the Gas Areas: € 86.5 million

In 2015, investments in the gas area came to € 86.5 million, recording an increase of € 7.4 million compared to the previous year. In gas distribution, the rise is mainly due to the Group's wider operating area thanks to AcegasApsAmga for Udine (2.0 million) and BSTC (0.4 million), in addition to a regulatory upgrading ex legislative decree 631/13 involving a massive meter replacement, which also concerned lower-class devices (G4-G6), as well as higher extraordinary maintenance on networks and plants, for an overall increase of € 5.6 million.



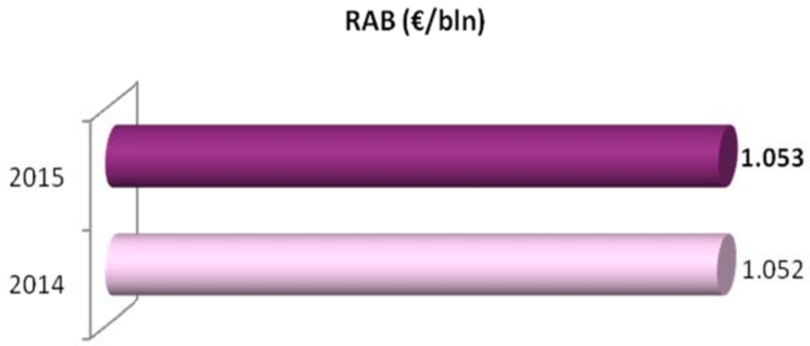
In the 2015 financial year as well, the effect of the overall economic situation continued to be felt, bringing about a further slowdown compared to the previous year in requests for new connections.

Investments grew by € 2.0 million in remote heating as well, an increase which is mainly due to a revamping done on the Barca cogeneration plant in Bologna and interventions on the Forlì University Campus plant.

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

Investments grow

Gas (€/mln)	Dec 2015	Dec 2014	Abs. change	% Change
Networks and plants	67.9	62.3	+5.6	+9.0%
RH/Heat management	19.5	17.5	+2.0	+11.4%
Total Gas Gross	**87.4**	79.8	+7.6	+9.5%
Capital contributions	0.9	0.6	+0.3	+50.0%
Total Gas Net	**86.5**	79.1	+7.4	+9.4%



RAB at € 1.053 billion in 2015

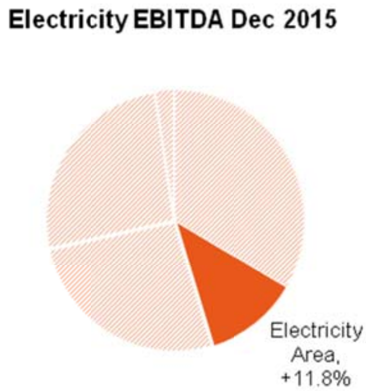
RAB (Regulatory Asset Base), which fixes the value of assets recognised by the AEEGSI for return on invested capital, remained stable compared to 2014.

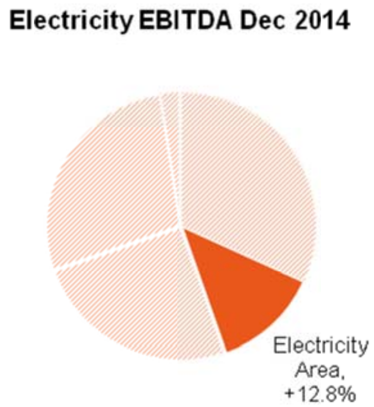
1.02.02 ELECTRICITY

Electricity: drop in EBITDA

The 2015 financial year did not benefit from any non-recurring equalisation, unlike 2014, and for this reason the electricity area's contribution to Group EBITDA decreased, both in absolute terms and as a percentage.

Contribution to Group EBITDA: -1.0%





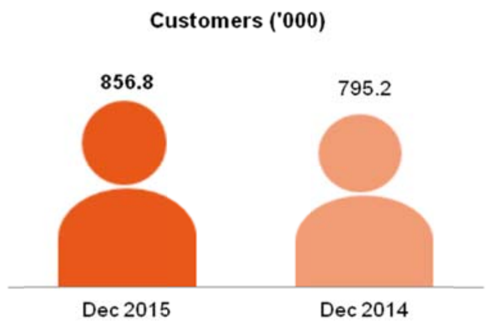
The following table shows the changes occurred in terms of EBITDA:

Electricity area EBITDA falls by 6.1%

(€/mln)	Dec 2015	Dec 2014	Abs. Change	% Change
Area EBITDA	**104.7**	**111.4**	**-6.7**	**-6.1%**
Group EBITDA	**884.4**	867.8	+16.6	+1.9%
Percentage weight	11.8%	12.8%	-1.0 p.p.	

856.8 thousand electricity customers

The number of electricity customers recorded an increase of 7.7% (+ 61.6 thousand), mainly due to growth in the free market, which came to 14.3%, now totalling 66% of customers. This confirms the trend of growth seen in recent years, owing above all to a reinforcement of commercial activities, implemented during 2015 as well.



Volumes sold rise by 5.4%

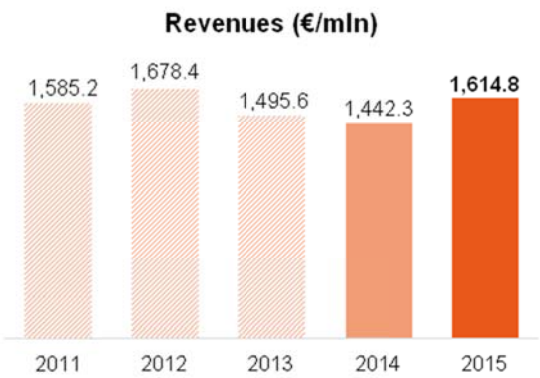
Volumes of electricity went from 9,136.4 GWh in 2014 to 9,626.0 GWh in 2015, with an overall increase of 5.4%. The rise in volumes sold was mainly caused by a reinforcement of commercial activities and an increase in consumption, in line with the trend in national electricity demand, which at 31 December 2015 increased by +1.5% compared to the previous year.

The following table summarises the income statement for the electricity area:

Electricity: decrease due to non-recurring entries in 2014

Income statement (€/mln)	Dec 2015	% Inc.	Dec 2014	% Inc.	Abs. change	% Change
Revenues	**1,614.8**		1,442.3		+172.5	+12.0%
Operating costs	**(1,471.5)**	-91.1%	(1,296.5)	-89.9%	+175.0	+13.5%
Personnel costs	**(46.7)**	-2.9%	(41.3)	-2.9%	+5.4	+13.1%
Capitalised costs	**8.0**	0.5%	7.0	0.5%	+1.0	+14.4%
EBITDA	**104.7**	6.5%	111.4	7.7%	-6.7	-6.1%

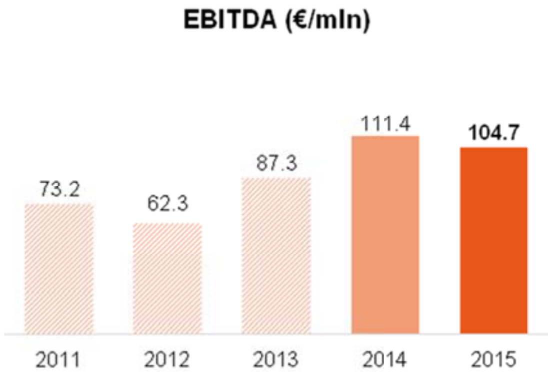
Electricity revenues for € 1,614.8 million



Revenues increased by € 172.5 million (12.0%), going from € 1,442.3 million in 2014 to € 1,614.8 million in 2015. The main reasons for this growth are: (i) higher volumes sold for roughly € 38 million due to both an increase in demand for electricity and greater commercial activity; (ii) a larger amount of trading, for roughly € 184 million due to the favourable summer market that allowed foreign exchanges to increase; (iii) greater revenue from electricity production in thermoelectric plants due to both the increase in national demand and lesser usage of hydroelectric plants due to lesser rainfall in 2015. This increase in revenues was contained by the lower price of raw materials and the lesser regulated revenues in distribution services for € 9.9 million, owing above all to the non-recurring specific company equalisation in Gorizia in 2014, which came to € 9.2 million.

The rise in operating costs (+13.5%) is linked to higher costs of purchasing raw materials for trading, greater volumes sold, and higher costs of electricity production in plants.

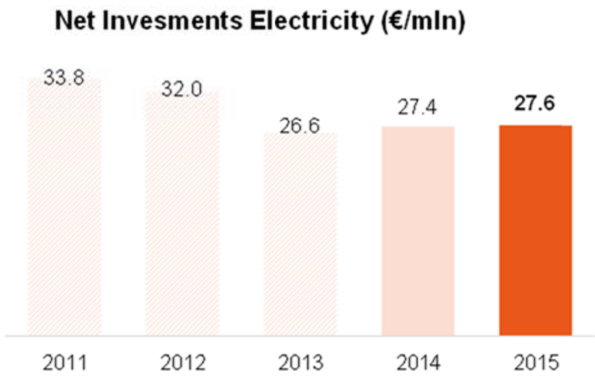
Electricity EBITDA at € 104.7 million



At the end of 2015, EBITDA decreased by € 6.7 million (6.1%), going from € 111.4 million in 2014 to € 104.7 million in 2015, only on account of the lower non-recurring revenues with respect to 2014, as mentioned above, in regulated distribution services. The lesser EBITDA derived from dispatching services (MSD) is in fact more than compensated for by higher volumes and earnings for sales activities towards customers, including those benefiting from last resort services.

Net investments in the Electricity Area: € 27.6 million

Investments in the electricity area amounted to € 27.6 million, with an increase of € 0.2 million compared to the € 27.4 seen in the previous year. The interventions implemented mainly concerned non-routine maintenance of plants and distribution networks in the areas surrounding Modena, Imola, Trieste and Gorizia.

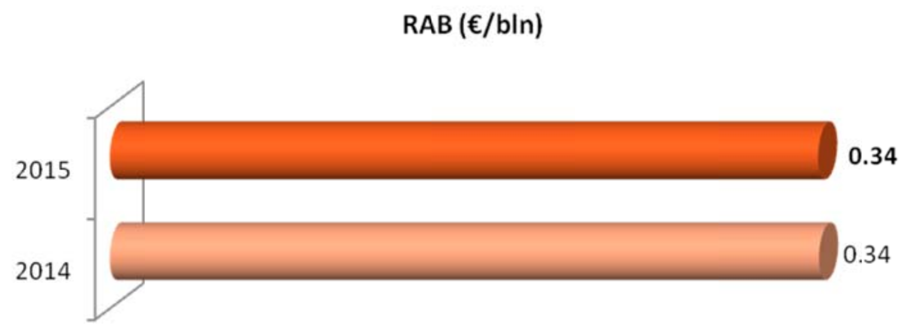


Compared to the previous year, a higher amount of non-routine maintenance was done on networks and plants, compensated by the lesser interventions on the Cogen plant in Imola as an effect of the work done during the previous year. In this area as well, connections showed a slight drop with respect to the previous year.
As regards industrial cogeneration for Energy Service activities, interventions rose by € 0.4 million compared to 2014.

The details of operating investments in the Electricity Area are as follows:

Eletricity (€/mln)	Dec 2015	Dec 2014	Abs. change	% change
Networks and plants	24.4	24.8	-0.4	-1.6%
Industrial cogeneration	3.1	2.7	+0.4	+14.8%
Total Electricty Gross	**27.6**	27.5	+0.1	+0.4%
Capital contributions	0.0	0.1	(0.1)	(100.0%)
Total Electricity Net	**27.6**	27.4	+0.2	+0.7%

2015 RAB: € 0.34 billion



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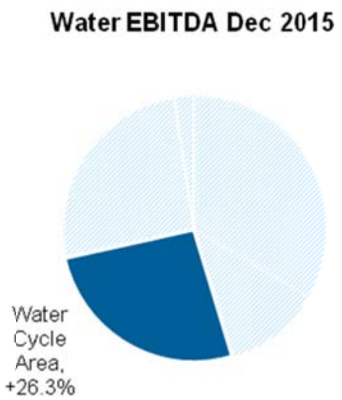
RAB (Regulatory Asset Base), that defines the value of assets recognised by the AEEGSI for return on invested capital, is in line with the figures seen in 2014.

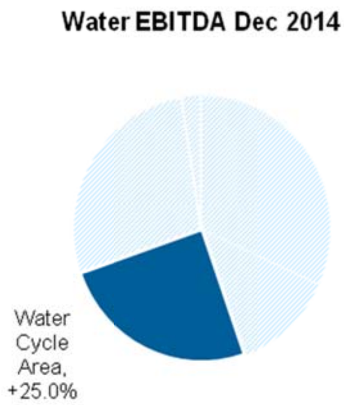
1.02.03 INTEGRATED WATER CYCLE

Integrated Water Cycle: sustained growth

In 2015, the integrated water cycle area recorded growth over 2014, both as a contribution to Group EBITDA and in absolute terms. 2015 is the second year in which the water tariff method defined by the AEEGSI (with resolution number 643/2014) for the two-year period 2014-2015.

Contribution to Group EBITDA: +1.3%





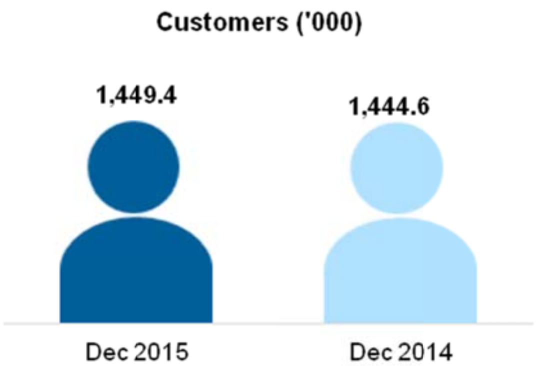
Water Cycle Area EBITDA rises by 7.1%

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

(€/mln)	**Dec 2015**	Dec 2014	Abs. change	% Change
Area EBITDA	**232.5**	217.1	+15.4	+7.1%
Group EBITDA	**884.4**	867.8	+16.6	+1.9%
Percentage weight	26.3%	25.0%	+1.3 p.p.	

Water Cycle customers: 1.4 million

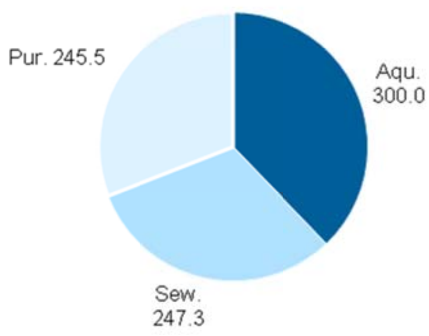
The number of water customers settled at 1.4 million, increasing by 4.8 thousand (+0.3%) and confirming the trend towards organic growth seen across the Group's reference areas. 58% of the rise concerned areas in the Emilia Romagna region managed by Hera Spa, 36% referred to areas served by AcegasApsAmga and the remainder was seen in areas served by the Marche Multiservizi Group.



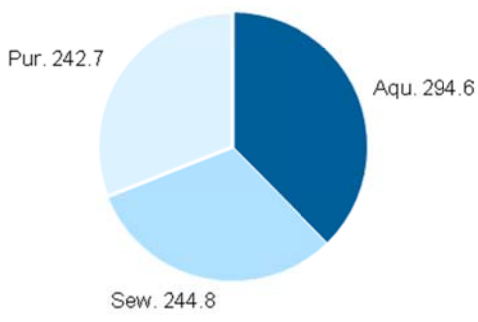
The main metrics for this sector are shown below:

300.0 million m³ managed in the aqueduct

Quantity managed Dec 2015 (mln m³)



Quantity managed Dec 2014 (mln m³)

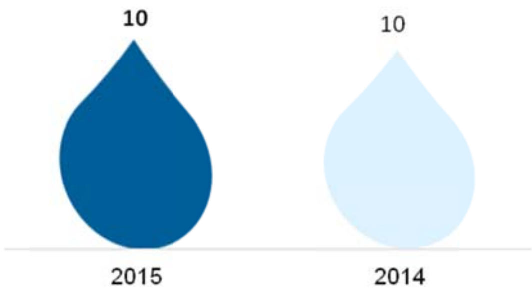


Volumes dispensed through the aqueduct increased by 1.8% compared to 2014; this growth can largely be traced to an increase in consumption, both industrial and residential, and the lesser rainfall seen in 2015 compared o the previous year. Volumes dispensed, in line with AEEGSI resolution 643/2013, are an indicator of activities in the geographical areas in which the Group operates and are subject to equalisation pursuant to regulations that call for a regulated revenue to be recognised independently of the volumes distributed.

Non-billed water in line with the past

Non-billed water – which indicates the effectiveness and efficiency of the distribution system, reflecting leaks and administrative losses of the aqueduct – was in line with 2014.

Non billed water (m³/km/dd)



The 2015 data is provisional, pending definitive metre readings.

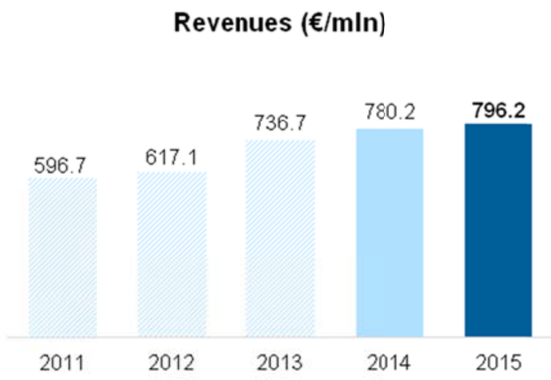
The table below summarizes the income statement for the water area.

Integrated Water Cycle: EBITDA increases

Income statement (€/mln)	Dec 2015	% Inc.	Dec 2014	% Inc.	Abs. change	% Change
Revenues	**796.2**	-	780.2	-	+16.0	+2.1%
Operating costs	**(415.5)**	-52.2%	(422.7)	-54.2%	(7.2)	(1.7%)
Personnel costs	**(151.2)**	-19.0%	(142.7)	-18.3%	+8.5	+6.0%
Capitalised costs	**3.0**	0.4%	2.4	0.3%	+0.6	+25.4%
EBITDA	**232.5**	29.2%	217.1	27.8%	+15.4	+7.1%

Revenues for the Integrated Water Cycle at € 796.2 million

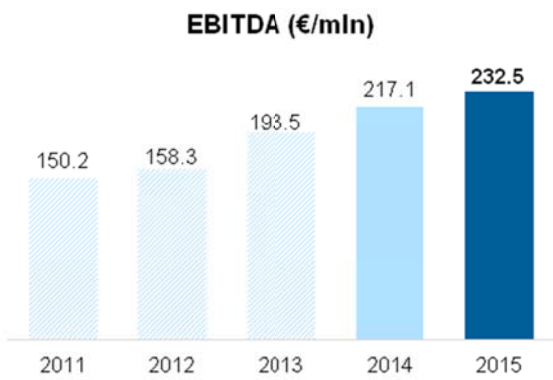
Revenues increased by € 16.0 million (2.1%), going from € 780.2 million in 2014 to € 796.2 million in 2015. The reasons for this include greater distribution revenues for € 16.7 million, as a consequence of the application of the new integrated water cycle tariffs provided for by the responsible Authority for 2015, and compensations recorded for previous years. The € 12.2 million increase due to the application of accounting principle IFRIC 12 was more than compensated by € 14.4 million in lesser revenues for subcontracted works.



Operating costs decreased by € 7.2 million (1.7%), mainly due to € 13.4 million in lesser subcontracted works, linked to the current state of a few important contracts, the most substantial of which is the Rimini Seawater Protection Plan. This decrease is partially compensated by the higher costs derived from the application of accounting principle IFRIC12 for € 8.7 million.

EBITDA rises to € 232.5 million

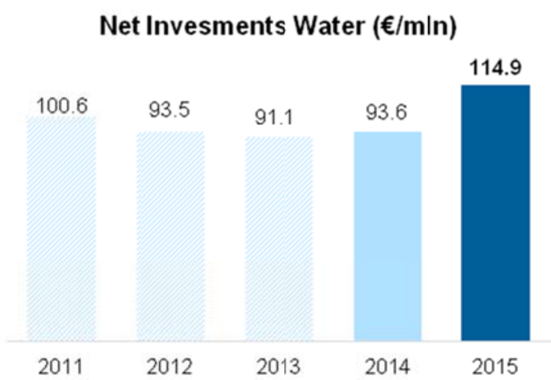
EBITDA rose by € 15.4 million (7.1%), going from € 217.1 million in 2014 to € 232.5 million in 2015, due to revenue and cost optimisations.



Investments in the Water Cycle Area: € 114.9 million

Net investments in the integrated water cycle area amounted to € 114.9 million, showing an increase of € 21.3 million over the previous year. Including capital grants, investments in this area came to € 127.2 million.

Interventions in the water cycle mainly concern extensions, reclamations and network and plant upgrading, in addition to regulatory upgrading, which concerned above all purification and sewerage.



Investments totalled € 59.1 million in the aqueduct, € 34.3 million in sewerage and € 33.8 million in purification.

Among the more significant works, note: in the aqueduct, water system interconnections and networks and plant upgrading, including a particularly complex and substantial upgrading of water networks in the historical centre of Bologna; in sewerage, adaptation of discharges according to legislative decree 152/2006 and progress made in works for the Rimini Seawater Protection Plan, including the creation of the first portion of the Ausa balancing tank, the first portion of the Dorsale sud, the Hospital area collection tank and the first portion of the first allotment of the Northern Area separate sewerage networks; in purification, plant upgrading in Ponte Rizzoli, Cesenatico and Cattolica, reinforcement of the water lines of the Bagnacavallo purifier, revamping the oxygen production plant of the Idar purifier in Bologna, in addition to beginning works on the Servola purifier in Trieste and the Cà Nordio purifier in Padua.

Requests for new water and sewerage connections decreased compared to the previous year in the water service as well.

Capital grants amounted to € 12.2 million, of which € 2.3 million due to the tariff component of the New Investments Fund (FoNI) and dropped by € 8.9 million compared to 2014.

I contributi in conto capitale ammontano a € 12,2 milioni di euro, di cui € 2,3 milioni di euro dovuti alla componente della tariffa per il fondo nuovi investimenti (FoNI) e sono in diminuzione rispetto al 2014 per € 8,9 milioni di euro.

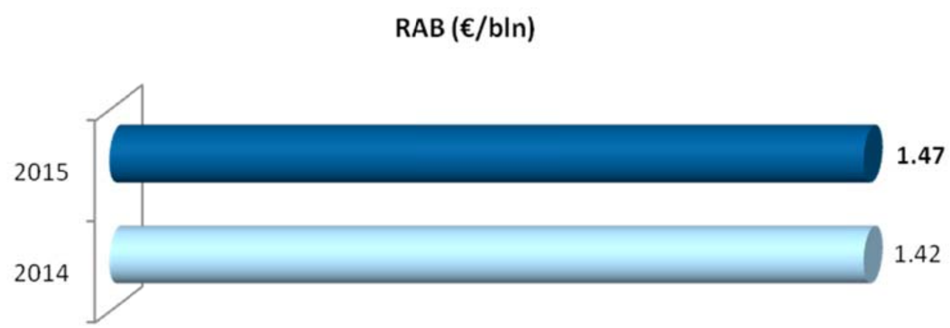
A sharp increase in net investments: + € 21.3 million

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

Water Cycle Area (€/mln)	**Dec 2015**	Dec 2014	Abs. change	% Change
Aqueduct	59.1	59.8	-0.7	-1.2%
Purification	33.8	24.1	+9.7	+40.2%
Sewarage	34.3	30.8	+3.5	+11.4%
Total Water Cycle Gross	**127.2**	114.8	+12.4	+10.8%
Capital grants	12.2	21.1	-8.9	-42.2%
of which FoNI (New Investment Fund)	*2.3*	*10.5*	-8.2	-78.1%
Total Water Cycle Net	**114.9**	93.6	+21.3	+22.8%

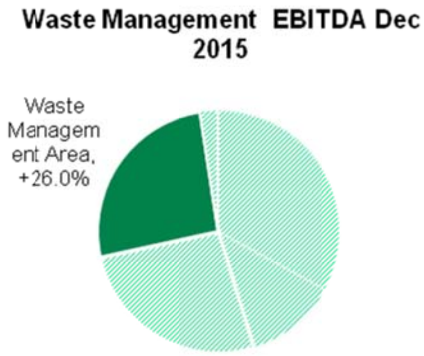
RAB (Regulatory Asset Base), which defines the value of assets recognised by the AEEGSI in calculating return on invested capital, showed a slight increase compared to 2014.

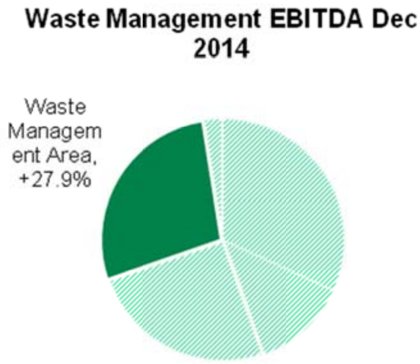
RAB at € 1.47 billion



1.02.04 WASTE MANAGEMENT

In 2015 the waste management area accounted for 26.0% of Group EBITDA. The decrease with respect to 2014 is principally due to the unavailability of a few plants and a decrease in energy prices, including Cip6 and CEC.





The table below shows the changes occurred in EBITDA:

Waste Management Area: reduction in

(€/mln)	Dec 2015	Dec 2014	Abs. change	% Change
Area EBITDA	**230.0**	**241.8**	**-11.8**	**-4.9%**
Group EBITDA	**884.4**	867.8	+16.6	+1.9%
Percentage weight	26.0%	27.9%	-1.9 p.p.	

The table below provides an analysis of the volumes commercialized and treated by the Group in 2014:

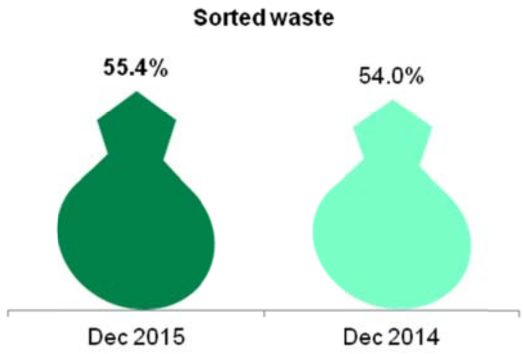
Urban waste: +0.2%

Quantitative data (thousand tonnes)	Dec 2015	Dec 2014	Abs. change	% Change
Urban waste	2,040.7	2,036.9	+3.8	+0.2%
Market waste	2,002.1	2,098.7	-96.6	-4.6%
Waste marketed	**4,042.8**	**4,135.6**	**-92.8**	**-2.2%**
Plant by-products	2,182.9	2,290.2	-107.3	-4.7%
Waste treated by type	**6,225.7**	**6,425.8**	**-200.1**	**-3.1%**

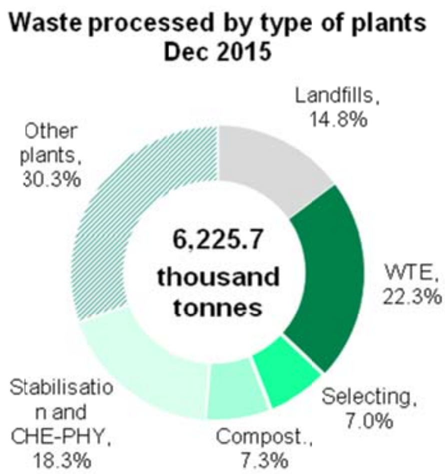
Volumes of urban waste increased by 0.2%, while market waste showed a decrease of 4.6%, already recorded in the previous quarters of the year, as a consequence of the depletion of some storage spaces in landfills. Sub-products decreased thanks to weather conditions, i.e. lesser rainfall, that caused lower leachate from landfills and production sites.

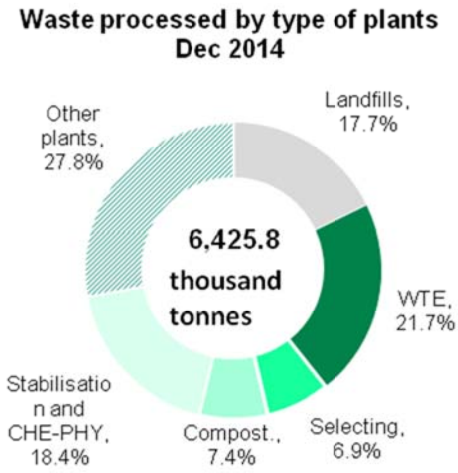
+1.4% in sorted waste

Sorted urban waste showed further progress, going from 54.0% to 55.4%. This high percentage of recovery brings greater environmental benefits and higher flexibility in the performance of treatment plants. This result can mainly be attributed to the fully operational status of the new selection and recovery plant in Bologna and the efficiency enhancement projects implemented in recently acquired areas of the Triveneto region, in which a calibrated process integration project allowed sorted waste to rise by over 2.9% (from 44.8% to 47.7%).



Sharp decrease in use of landfills





Quantitative data (thousand tonnes)	**Dec 2015**	Dec 2014	Abs. Change	% Change
Landfills	918.5	1,137.3	-218.8	-19.2%
Waste-to-energy plants	1,390.3	1,393.9	-3.6	-0.3%
Selecting plant and other	432.7	445.6	-12.9	-2.9%
Composting and stabilisation plants	455.3	478.3	-23.0	-4.8%
Stabilisation and chemical-physical plants	1,141.6	1,182.3	-40.7	-3.4%
Other plants	1,887.2	1,788.4	+98.8	+5.5%
Waste treated by plant	**6,225.7**	**6,425.8**	**-200.1**	**-3.1%**

The Hera Group operates in the entire waste cycle, with 86 urban and special waste treatment and disposal plants, most importantly including 10 WTE plants, 11 composters/digesters and 6 selecting plants.

The waste area's asset management has furthermore responded to the need to deal with market volumes and new customers pertaining to the company HASI, without significantly modifying its choice to resort to disposal in landfills an ever lesser extent, thus remaining in line with the indications provided by European Authorities, as foreseen by the business plan.

As of 1 July 2015, significant corporate and organisational modifications have been introduced within the waste management area. Among these, the acquisition of the entire share capital of Akron, controlled by Herambiente with 57.5%; before this acquisition, the company dealt with selecting materials in the area of sorted waste, with a chain of plants dedicated to this purpose. Later, a transfer towards Herambiente of the disposal activities carried out for the cities of Padua and Trieste was implemented, creating the company Hestambiente, in order to move towards greater integration and efficiency with a full control of WTE plants across the entire Group. Furthermore, mergers occurred with Romagna Compost and Herambiente Recuperi, as well as the acquisition of Biogas2015 and branches containing a few plants of Geo Nova and of the Waste Recycling Group. The latter three operations will be fully effective in 2016.

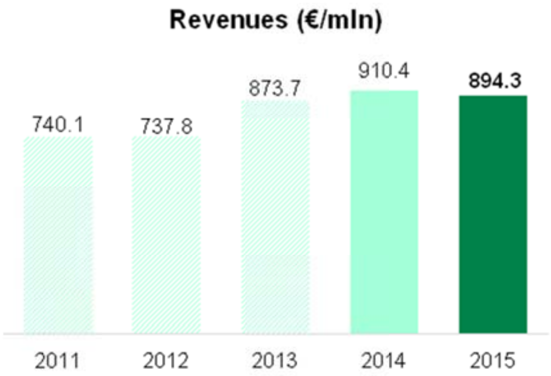
The table below summarises the income statement for the waste management area:

Waste management: decrease in EBITDA

Income statement (€/mln)	Dec 2015	% Inc.	Dec 2014	% Inc.	Abs. change	% Change
Revenues	**894.3**		910.4		-16.1	-1.8%
Operating costs	**(502.8)**	-56.2%	(499.3)	-54.8%	+3.5	+0.7%
Personnel costs	**(166.0)**	-18.6%	(171.8)	-18.9%	-5.8	-3.4%
Capitalised costs	**4.5**	0.5%	2.4	0.3%	+2.1	+87.8%
EBITDA	**230.0**	25.7%	241.8	26.6%	-11.8	-4.9%

Waste management revenues for € 894.3 million

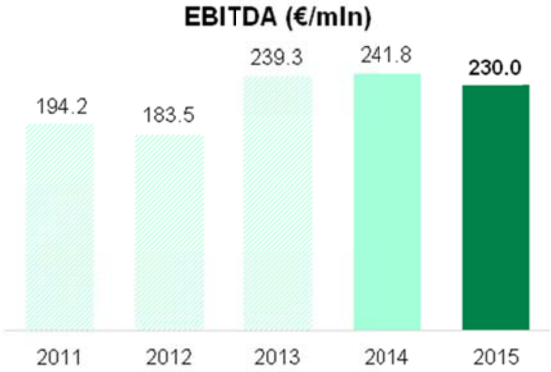
Revenues fell by 1.8%, going from € 910.4 million in 2014 to € 894.3 million in 2015. This change can be traced to the lesser volumes of waste disposed of, lesser revenues for electricity production partially resulting from a decrease in the unit price of CIP6/CEC, in spite of an increase in unit price of green certificates and the average price of special waste.



Operating costs in the area grew by € 3.5 million (0.7%), as a consequence of the sale of certificates dating to previous years and still present in stock, whose value has been included in the statements as lesser cost.

Waste management EBITDA at € 230.0 million

The change in EBITDA confirms what has been mentioned above, showing a decrease of 4.9%, going from € 241.8 million in 2014 to € 230.0 million in 2015.



Net investments in the waste management area come to € 34.6 million

Net investments in the waste management area concern plant maintenance and reinforcement, amounting to € 34.6 million, with a decrease of € 13.2 million compared to 2014.

The composting/digester sub-sector recorded an increase over the previous year of € 1.0 million, mainly due to interventions concerning the composters in Rimini and Ozzano, partially attenuated by lesser investments in the Voltana and Cesena plants, on account of the works carried out in 2014.

Reduced investments in landfills (€ 7.3 million) are due to lesser maintenance interventions on the Ravenna and Sant'Agata plants, the beginning of post-management in the Pago and Zocca plants and a reduction in storage in the Feronia landfill. In the area served by Marche Multiservizi, reduced investments in the landfill sub-sector were caused by the implementation in 2014 of an enlargement of the Cà Asprete di Tavullia landfill (Apulia). The foremost interventions in 2015 concerned the Tre Monti landfill, with a new biogas motor, and the Ravenna plant, where works were begun on the 9th sector, in addition to planning for the 5th Pago and Baricella allotment.

In the WTE sub-sector investments remained for the most part in line with the previous year. This is the result of more extensive works on the Padova and Trieste plants, compensated by a reduction in non-recurring maintenance on plants in the remaining geographical areas served by the Group, to which more substantial interventions were dedicated in 2014, including plants in Rimini, Modena, Pozzilli and Ravenna.

In the Special Waste Plant sub-sector, higher investments compared to the previous year were due to an increase in maintenance on the Ravenna plants, in particular the sludge dehydration and TAPO (Organic Process Water Treatment) plant. These more substantial investments were partially compensated by the completion of the installation of the new filter press in 2014 on the I.T.F.I. (Industrial Sludge Treatment Plant) in Bologna.

In collection systems, note the completion of Hergo Ambiente, the innovative IT system that provides integrated management of all Hera Group Waste Management Services activities, managing a network of interconnected people and devices to govern project design, planning, operational programs, signal management, on-field activities, final cost calculation and report management. Once again regarding collection systems, the installation of underground waste containers in Bologna continued. The capital grants refer to the latter (€ 0.6 million).

In selection and transhipment plants, the € 4.2 million decrease is due to works concluded in 2014 on the selection plant in Bologna and a transhipment plant in Cervia.

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

Waste Management (€/mln)	**Dec 2015**	Dec 2014	Abs. change	% Change
Composting/Digestors	3.2	2.2	+1.0	+45.5%
Landfills	6.2	13.5	-7.3	-54.1%
WTE	9.1	9.3	-0.2	-2.2%
RS Plants	2.5	2.3	+0.2	+8.7%
Ecological areas and gathering equipment	10.3	12.5	-2.2	-17.6%
Transhipment, selection and other plants	3.9	8.1	-4.2	-51.9%
Total Waste Management Gross	**35.2**	47.9	-12.7	-26.5%
Capital contributions	0.6	0.1	+0.5	+500.0%
Total Waste Management Net	**34.6**	47.8	-13.2	-27.6%

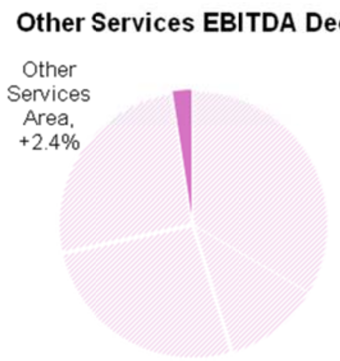
1.02.05 OTHER SERVICES

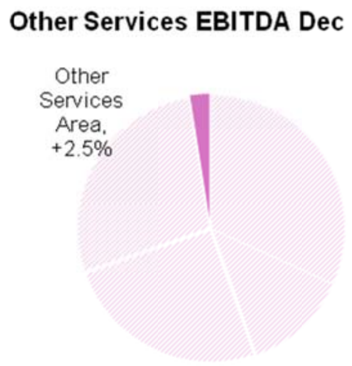
The other services area brings together all minor services managed by the Group, including public lighting, telecommunications and cemetery services.

Other Services: slight decrease in EBITDA

In 2015, results in the other services area showed a slight decrease, coming to 0.5%, compared to the previous year: EBITDA in fact went from € 21.5 million in 2014 to € 21.4 million in 2015.

Slight drop in contribution to total EBITDA





The changes occurred in EBITDA are as follows:

Other Services EBITDA drops by € 0.1

(€/mln)	Dec 2015	Dec 2014	Abs. change	% Change
Area EBITDA	**21.4**	**21.5**	**-0.1**	**-0.5%**
Group EBITDA	**884.4**	867.8	+16.6	+1.9%
Percentage weight	2.4%	2.5%	-0.1 p.p.	

The area's main indicators refer to public lighting, and are as follows:

523.7 thousand lighting points

Quantative data	Dec 2015	Dec 2014	Abs. change	% Change
Public lighting				
Lighting points (thousands)	**523.7**	508.2	+15.5	+3.0%
Municipalities served	**157.0**	153.0	+4.0	+2.6%

The quantitative data concerning public lighting indicates an increase of 15.5 thousand lighting points and 4 municipalities served. This growth is due to new contracts awarded through tenders, including most notably: the acquisition of roughly 8 thousand lighting points in the Municipality of Rho, roughly 2 thousand lighting points in the Municipality of Corbetta and 1 thousand lighting points in the Municipality of Palazzago. In the Lazio region as well, growth was seen for roughly 4 thousand lighting points in the Municipalities of Ferentino, San Cesareo and Fumone. Both 2014 and 2015 take into account the 29 thousand lighting points in the Municipality of Rimini maintained by Hera Luce through an indirect commission given to it by the company that serves the Municipality in question.

A summary of the income statement for the other services area is provided in the table below.

Other Services: revenues increase

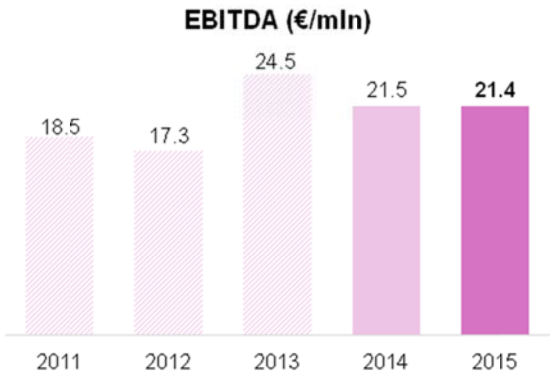
Income statement (€/mln)	Dec 2015	% Inc.	Dec 2014	% Inc.	Abs. change	% Change
Revenues	**126.2**		124.4		+1.8	+1.4%
Operating costs	**(88.3)**	-70.0%	(84.6)	-68.0%	+3.7	+4.4%
Personnel costs	**(18.4)**	-14.6%	(19.4)	-15.6%	-1.0	-5.2%
Capitalised costs	**1.9**	1.5%	1.1	0.9%	+0.8	+72.0%
EBITDA	**21.4**	16.9%	21.5	17.3%	-0.1	-0.5%

Revenues for Other Services at € 126.2 million

Revenues in this area grew by € 1.8 million thanks to both positive results in public tenders and greater revenues in telecommunications due to an increase in services offered.

EBITDA falls by € 0.1 million

EBITDA dropped by € 0.1 million due to lesser earnings in the North-East for € 1.7 million, a result of rationalisation operations concerning the public lighting business, in order to make the most of new market challenges and come into line with the trend seen with acquisitions in Emilia Romagna, which grew by € 0.5 million over the previous year. Also note the good performance of the telecommunications business and cemetery services, that showed a 6.9% increase over the previous year.

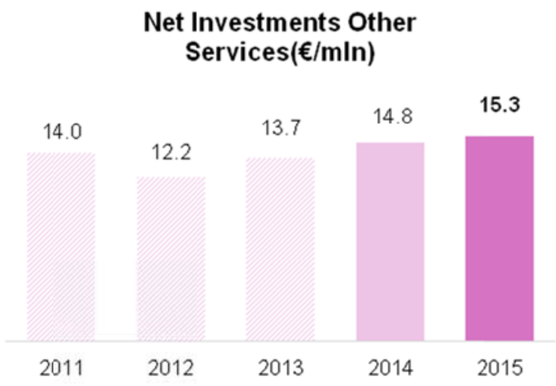


Net investments for € 15.3 million

Investments in the other services area totalled € 15.3 million, increasing by € 0.5 million compared to 2014.

In telecommunications, investments for € 9.3 million were made in networks and in Tlc and Idc (Internet Data Center) services.

In the public lighting service, investments for € 6.0 million regarded maintenance, energy efficiency enhancement and lamppost modernisation.



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

Other Services (€/mln)	**Dec 2015**	Dec 2014	Abs. change	% Change
TLC	9.3	9.2	+0.1	+1.1%
Public Lighting and Street Lights	6.0	5.6	+0.4	+7.1%
Total Other Services Gross	**15.3**	14.8	+0.5	+3.4%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Other Services Net	**15.3**	14.8	+0.5	+3.4%

1.03 SIGNIFICANT EVENTS OCCURRED DURING THE YEAR

January

Hera Energie Srl

Effective 1 January 2015, Energie Srl - a company engaged in the provision of energy services and heath management, of which Hera Comm Srl held 51% - merged into Sinergia Srl, a company providing integrated energy services, of which Hera Comm Srl held 62.77%.

Following this merger, Sinergia Srl changed its name to Hera Servizi Energia Srl and is now 57.89%-held by Hera Comm.

March

Service Imola Srl

On 30 March 2015 Hera Spa sold its 40% equity interest in Service Imola Srl, a company engaged in private postal services.

April

Akron Spa – Herambiente Spa

On 20 April 2015, following exercise of the put option that private-sector investors had in Akron Spa, a company involved in waste management services, Hera Spa purchased a 42.50% equity interest in this company. Eventually, on 19 May 2015, Herambiente Srl acquired Hera Spa's equity interest in Akron Spa, thus becoming sole shareholder of the company. Effective 1 July 2015, Akron Spa merged with and into Herambiente Spa.

Alento Gas Srl

On 29 April 2015, Hera Comm Marche completed the acquisition of Alento Gas Srl, a company engaged in gas sales with 12,500 customers in the Abruzzo region. This transaction was carried out following the final award of the contract by the Municipality of Francavilla al Mare (Chieti).

The merger by incorporation of Alento Gas Srl into Hera Comm Marche Srl therefore took effect beginning 30 September 2015.

June

HestAmbiente Srl

On 8 June 2015 AcegasApsAmga Spa established a wholly-owned subsidiary, HestAmbiente Srl, which will engage in energy recovery from waste. Subsequently, effective 1 July 2015, AcegasApsAmga contributed into HestAmbiente Srl the business operation related to the WTE plants of Padua and Trieste, to complete a capital increase.

On 29 June 2015, but still effective 1 July 2015, Herambiente Spa acquired 70% of HestAmbiente from AcegasApsAmga, following a capital increase from €271,148,000 to €271,648,000 resolved by the shareholders' meeting held 15 June 2015.

July

Akhea Consortium

On 22 July 2015 it was resolved that the Akhea Consortium, of which Herambiente Spa was the sole shareholder (100%) following the merger of Akron Spa into Herambiente Spa that took place 1 July 2015, would be dissolved.

INRETE Distribuzione Energia Spa

On 29 July 2015 Hera Spa constituted the company INRETE Distribuzione Energia Spa with the purpose of distributing electricity and natural gas.

Hera Spa will therefore confer on this company the distribution activities for the electricity and gas sectors.

Galsi Spa

On 30 July 2015, Hera Trading Srl transferred its 11.76% equity interest in Galsi Spa to Hera Spa.

Naturambiente Srl – MMS Ecologica Srl /Marche Multiservizi Spa

Effective 31 July 2015, Naturambiente Srl and MMS Ecologica Srl – two companies engaged in waste collection, sweeping, shipping, storage, disposal and/or recovery – merged with and into Marche Multiservizi Spa.

H.E.P.T. Co Ltd (Cina)

In data 13 agosto 2015 Hera Spa ha sottoscritto pro quota l'aumento di capitale di H.E.P.T. Co Ltd, società avente ad oggetto la progettazione, realizzazione, commissioning e training services per impianti di incenerimento/Wte

August

Insigna Srl

With effect beginning 1 August 2015, following the partial division of Sinergie Spa, the shares held by Sinergie Spa in Insigna Srl, a company with operations in the public lighting sector, were assigned to AcegasApsAmga Spa, which from that moment on therefore holds the entirety of its share capital.

September

Romagna Compost Srl

On 16 September 2015 Herambiente Spa, which holds a 60% stake in Romagna Compost Srl, a company operating in the environmental sector, acquired the shares held by minority shareholders to become the sole shareholder of the company.

Effective beginning 31 December 2015, Romagna Compost Srl was merged into Herambiente Spa.

S2A Scarl

On 16 September 2015, Hera Spa and the former private shareholders of Romagna Compost Srl constituted S2A Scarl, a company operating in the environmental sustainability sector in which Hera Spa holds 23.81% of the share capital.

Marche Multiservizi Spa

On 24 September 2015 Hera acquired 337,106 and 94,390 shares in Marche Multiservizi Spa from the City of Pesaro and the City of Tavullia, respectively. Following these operations, Hera Spa's holding in Marche Multiservizi Spa increased from 46.39% to 49.59%.

October

Biogas 2015 Srl

On 29 October 2015 Herambiente Spa acquired the entirety of the share capital of Biogas 2015 Srl, a company focused on the study and analysis of issues relating to industrial and civil emissions and waste, energy recovery, energy production and waste recycling, as well as the construction, installation and management of the associated plants.

November

Calorpiù Italia Scarl

With effect beginning 2 November 2015 as a result of its removal from the register of companies, the procedure to liquidate Calorpiù Italia Scarl, a company operating in the thermal management sector, of which Hera Comm Srl's stake amounts to 51% of share capital, was completed.

December

Energia Italiana Spa

On 10 December 2015 Hera Spa sold its 11% stake in Energia Italiana Spa, a company involved in the production, purchasing and sales of electricity.

Ghirlandina Solare Srl

On 17 December 2015, as part of a larger operation that involved Hera Energie Rinnovabili Spa, this latter company transferred to Hera SpA its holdings in Ghirlandina Solare Srl, a company focused on the design, construction, operation and maintenance of ground-mounted photovoltaic systems, corresponding to 33% of the share capital.

Elettrogorizia Spa

On 21 December 2015 the stake held by AcegasApsAmga Elettrogorizia Spa, a company operating in the electricity and heat sectors in which AcegasApsAmga Spa's stake amounted to 50%, was sold.

Waste Recycling Spa

On 23 December 2015 Herambiente Spa acquired the entirety of the share capital of Waste Recycling Spa, a company operating in the hazardous and non-hazardous waste collection and treatment sector.

Hera Energie Rinnovabili Spa

On 29 December 2015, Hera Spa transferred to Agave Srl 90% of the share capital of Hera Energie Rinnovabili Spa, a company active in the generation of electricity from renewable sources.

At the same time, the name of the company was changed to Aloe Spa.

Geo Nova Spa

On 29 December 2015, Herambiente Spa acquired the business unit Geo Nova Spa focused on non-hazardous waste disposal activities at the Sommacampagna and Loria landfills located in Veneto as well as the storage of hazardous and non-hazardous waste at the San Vito al Tagliamento plant in the Friuli Venezia Giulia Region.

Trieste Onoranze e Trasporti Funebri Srl

On 30 December 2015 the interest held by AcegasApsAmga Spa in Trieste Onoranze e Trasporti Funebr Srl, a company operating in the sector of funeral services and transportation in which AcegasApsAmga Spa held the entirety of the share capital, was sold.

Reti Gas FVG Srl

With effect beginning 30 December 2015, as a result of its removal from the register of companies, the procedure was completed to liquidate Reti Gas FVG Srl, a company active in the gas distribution sector in which AcegasApsAmga held the entirety of the share capital.

Herambiente Recuperi Srl

With effect beginning 31 December 2015, Herambiente Recuperi Srl, a company operating in the environmental sector, was merged into Herambiente Spa, which held the entirety of its share capital.

Significant events that occurred after the reporting period

Approval of the business plan

On 11 January 2016, the Hera SpA Board of Directors approved the Group's 2015-2019 business plan. It should be noted that the economic/financial projections of this plan incorporate the impacts on tariff revenues resulting from AEEGSI resolutions made at the end of 2015 that determine the remuneration on capital invested in the areas of electricity distribution, gas distribution and integrated water cycle services, to be applied as of 1 January 2016.

Acquisition of a gas sales company

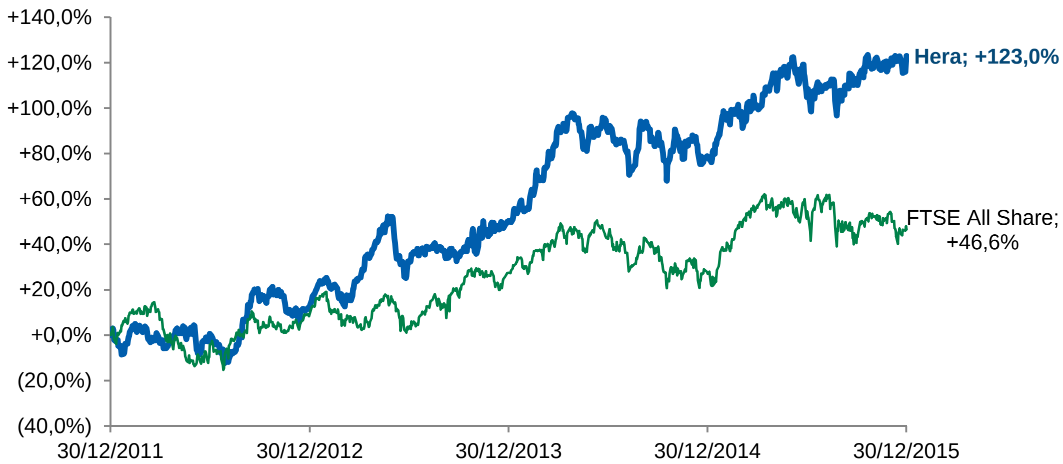
On 10 March 2016 in the City of Giulianova, a public session was held to present the binding offers submitted on 7 March 2016, and Hera Comm provisionally won the call for tenders to acquire 100% of Julia Servizi Più, a gas and electricity sales company held at 100% by the City of Giulianova (TE). Julia Servizi Più, which reported revenues of over 7.3 million Euros in 2014, has approximately 14,700 customers located throughout the municipality and the province of Teramo. The hammer price, amounting to 5.4 million Euros, was established on the basis of both the economic situation and financial situation of Julia Servizi Più as well as its net equity reserves. Through the acquisition of Julia Servizi Più, the Hera Group has consolidated its presence in Abruzzo.

1.04 SHARE PERFORMANCE AND INVESTOR RELATIONS

Hera stock performance in 2015: +25.2%

In 2015 the Italian market benefitted from a renewed interest shown by foreign institutional investors, in the wake of improvements in the country's macroeconomic conditions and the quantitative easing introduced by the ECB to offset deflationary tendencies in the euro zone. Phases of stock market volatility did however appear during the year, caused by fears of a slowdown in the world economy, regarding emerging countries in particular, and the Federal Reserve's decision to raise interest rates. Within this context, for the fourth consecutive year, Hera stock recorded a positive performance, superior to that of the Italian stock exchange, maintaining a degree of volatility and risk half the average amount for listed shares. Hera share prices in fact showed a progress of +25.2% in 2015, compared to the +15.4% del FTSE All Share, going from € 1.952 at the end of 2014 to € 2.444.

Performance of Hera stock vs. FTSE All Share over the last four years



Dividends paid: € 0.09

In line with the indications set out in the business plan, last 22 June Hera paid a dividend of 9 cents per share, for the thirteenth time, in a series of uninterrupted and positive growth since it was first listed.

Total shareholders' return: +171.7%

The joint effect of continuous payments to shareholders via dividend distribution and a rise in the price of the stock allowed its cumulative total shareholders' return to remain consistently positive, even during the most difficult moments of the financial crisis, and to settle, at the end of the period in question, at +171.7%.

During 2015, the number of analysts covering Hera stock was enlarged with an 'initial coverage' by MainFirst, who can now be counted alongside Banca Akros, Banca IMI, Equita Sim, Fidentiis, Goldman Sachs, Intermonte, Kepler Cheuvreux and Mediobanca.

Target price: € 2.67

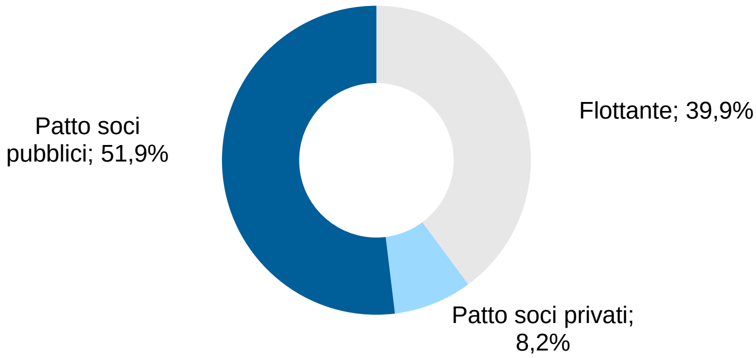
Supported by the economic results presented by the Group, analysts formulated evaluations that improved over the course of the year, with the average target price going from € 2.51 to € 2.67 at the end of the period in question. At year-end, Hera could boast six "Buy/Outperform" ratings, three "Hold/Neutral" ratings and no negative ratings.

The Shareholders' Meeting held on 28 April 2015 made a number of changes in Hera's Articles of Association: an amendment of article 7 eliminated the need for public shareholders to possess at least 51% of share capital, and an amendment of article 6 introduced increased voting rights, established in Italy by law decree 91/2014 (so-called "growth decree"). Increased voting rights allow a maximum of two votes to be attributed to each share held by a single shareholder for at least 24 months. This is a way of rewarding shareholders who demonstrate, through the stability of their own investment, greater interest in the Group's long-term growth and in their own active participation in appointing shareholder representatives. To fully safeguard minority interests, increased voting rights will be applied in a reduced version with respect to the legislative provisions. The increase will in fact exclusively concern appointing and/or dismissing members of the Board of Directors and the Board of Auditors, modifications of the limit set to share possession, and amendments of the article itself that establishes increased voting rights. Other changes to the articles of association call for the Board of Directors to be enlarged by one member, appointed by private shareholders, and a lower minimum amount of shares required to present lists for auditor nominations. These changes give minority shareholders a higher degree of representation and participation in Group governance.

At 31 December, the shareholder base was balanced, as always, with 51.9% of shares held by 118 public shareholders across the geographical areas served, regulated by a Syndicate Agreement that was signed on 26 June 2015 and will be effective for the next three years.

Shareholder base at 31/12/2015

51.9% of share capital held by public shareholders



In light of the amendments made to the articles of association by the Shareholders' Meeting, this Agreement introduced a few changes with respect to the past: decreasing percentages of minimum share possession were defined over the period in question, which in any case guarantee that public shareholders will maintain their current control. The Agreement furthermore calls for public shareholders to commit to decrease their amount of share capital in a coordinated and transparent manner, in order to cut down on any abnormal tendencies in stock prices. As proof of the effectiveness of this mechanism, the Accelerated Book Building operation was successfully completed on 26 October 2015, in which 16 Municipality shareholders sold 20 million Hera shares, corresponding to 1.3% of the total, to approximately thirty Italian and foreign institutional investors, in a rapid and transparent process. Thanks to a demand that reached over twice the amount offered, placement price was set at € 2.34, i.e. with one of the lowest discounts seen among similar operations in Italy in the last four years, coming to 2.6% of the previous day's closing. The transfer had no impact on the share's price, which returned to its previous value in a single stock exchange session.
Since 2006 Hera has had a share buyback program in place, which was renewed by the Shareholders' Meeting held on 28 April 2015 for 18 further months, up to an overall amount of € 150 million. This plan's objective is to finance the acquisition of smaller

companies and smooth out any unusual price fluctuations vis-à-vis those of the other main Italian companies. At year-end 2015, Hera held 14.9 million treasury shares.

In the period under exam, Hera continued to communicate with the financial world by participating in the most important conferences held in Italy, in order to expand and diversify its shareholder base with national and foreign investors.

1.05 REFERENCE SCENARIO AND GROUP STRATEGY

The reference scenario and the context as regards competition

Italy's primary public utility service sector is fragmented still today into a large number of local public enterprises. At present, with the expiry of grants for gas distribution, waste gathering and street sweeping services, and the introduction of new grants defined on a larger geographical basis (province-wide), a period of competitive tenders is approaching that will cause serious difficulties for many small enterprises and lead to a reduction in the number of operators (of which there are currently over 200 in the gas distribution sector, and over 450 in waste gathering and sweeping services). A very high number of small to medium enterprises also currently operates in the free market waste treatment and energy sales services sectors, who now find themselves operating in rather difficult conditions, thanks to a progressive rise in competition coming from larger companies.

The Hera Group model on the market

In this context, the Hera Group is able to propose a model for development that can meet upcoming changes thanks to its ability to make the most of scale economies, and bring together and develop the excellent proficiency that marks local enterprises. The "Hera model" was in fact conceived as a widely diversified ownership framework, regulated by a simple governance, which provided the basis for an industrial and managerial approach to transforming a multitude of "local" enterprises into a single, integrated system, aimed at reaching a higher degree of efficiency and service quality. The results were pursued with a view to economic, social and environmental sustainability, by sharing the economies and synergies derived from a close relation with the localities in question and an active collaboration between many protagonists, as stated in the Groups' mission.

A reproducible model underlies competitiveness

This business model has proven its efficiency in both internal and external growth, constantly attracting other municipalised multi-utility enterprises from bordering geographical areas. In less than 12 years, following the original model, 22 enterprises from 4 regions in Central North-Eastern Italy have in fact been integrated, allowing the Group to reach outstanding national market positions, quadrupling its EBITDA and, more generally, improving all KPI in socio-environmental sustainability. The model currently adopted by the Group can be seen as a point of reference for the transformation of the sector, an issue which is currently on the Government's agenda and under examination by the regulated services Authority.

A balanced development of the activity portfolio

The Group's growth strategy, pursued with continuity over the years, has maintained a perfect balance between regulated and free market activities in its core businesses. Growth in regulated activities has been achieved both through organic development and by improving the efficiency of while integrating the municipalised enterprises acquired. An expanded customer base and plant system has been reached by gaining new market shares and acquiring "mono-business" companies operating in these sectors. This balanced portfolio mix has ensured an effective expansion of the Group as well as a high degree of risk diversification.

A "risk adverse" strategy

Exposure to market risks and competition has been contained through a carefully considered management of the Group's risk profile and return on activities. This is what lied behind the choice to expand activities in waste treatment, which are inadequate across the entire country and necessary for the sustainability of the services offered, and to focus on commercial development. A further decision in line with this risk adverse strategy concerns gas procurement with short-term contracts, instead of turning to long-term supply contracts, which provide more guarantees but are also more exposed to the risks involved by demand and price fluctuation.

Future prospects in the sector

In Italy, the sector's evolution towards a less fragmentary structure is now supported by a legislative framework that encourages operators to consolidate. In addition to tenders issued for some services whose grants have already expired, this will come about thanks to the introduction of new laws and a reformulation of currently existing ones (i.e. decrees intended to implement the "Madia" law) concerning local public services and public administration, aimed at providing incentives for rationalising or transferring shares held in primary public utility services of general economic interest. This new legislation represents a break with the past, introducing a series of measures whose goal is to encourage smaller municipalised enterprises to consolidate, an objective shared by the recent revision of the tariff systems established by the Authority for Electricity, Gas and the Water Cycle (hereinafter AEEGSI), providing incentives for enterprises that strive towards a higher level of efficiency.

The new business plan to 2019

This complex context defines the reference scenario for the new business plan to 2019, presented on 11 January 2016, that calls for continued growth in EBITDA, reaching over € 1 billion by the end of the period in question. This goal will be sustained by the Group's time-tested development model, which is propelled by two complementary "motors": organic and external growth.

Organic growth

The first motor, i.e. organic growth, will pursue a form of management geared towards searching for efficiencies, developing the plant base and the customer portfolio, and extracting synergies from companies acquired in recent years. These levers will be able to more than compensate for both the impact of tariff revisions in regulated services as nationally defined by the AEEGSI, and the reduction in incentives for energy management from renewable sources.

The second motor of growth, involving external lines, will make the most of tenders awarded for gas distribution in localities served (based on the level of efficiency already reached and a presence in the areas subject to tender), as well as the integration of four multi-utilities in regions in which the Group currently operates. The use of this second motor is expected to contribute, as was the case in the past, to a rise in EBITDA. With its new business plan, the Group intends to support the development of this sector in Italy, counting on the knowhow is has accumulated in the past with M&As, and relying on its own model of governance, open to the entry of new municipalised multi-utilities and their public shareholders.

Building on the previous business plan, four strategic levers will be activated as regards the company's organisation and each of its businesses: growth, efficiency, innovation and excellence. This orientation, which has already proven its validity over the last two years, is at the root of all main strategic projects envisaged for the next four years.

Growth

Growth will be fostered by investments expected to total more than € 2.2 billion, accumulated over the duration of the plan. 78% of these investments will be directed towards regulated assets, maintaining solid asset ratios, thanks to the full coverage guaranteed by cash flow generation coming from operational activities. At the same time, the Group's current presence in free markets will also be reinforced, in particular by developing the number of customers in energy sales activities and boosting activities in waste treatment, by way of an increasingly eco-compatible management.

Objectives for growth in the environment sector are expected to remain in line with market trends seen in the recent past, with a contribution coming from the acquisitions finalised in late 2015 of Geo Nova and Waste Recycling, confirming the rationale of regional expansion and the preference given to plants that are complementary to those currently possessed by the Group.

In the energy sector, Hera can rely on a customer base with approximately 2.2 million contracts, and aims at a greater presence in the retail sector, clearly marked by a more stable and resilient consumption. The objective set for the duration of the Plan is to increase electricity customers, prolonging the trend seen in recent years and continuing to benefit from flexible energy commodity procurement sources. The expansion of this market will be accompanied by continued improvement in service quality, development of new commercial offers and cross selling opportunities for current customers. In this business area, Hera will attempt to contain the effects of the increase in competition, making the most of its present critical mass and market position.

Efficiency

The Group will continue to dedicate close attention to efficiency and synergy extraction, with a view to not only creating value for its shareholders, but also protecting its own competitiveness on the market. The Group's multi-utility model, which already guarantees a 'cost to serve' among the best in the sector, represents a competitive advantage in the search for efficiency, because it allows new organisation and process solutions to increase their benefits, with the possibility of specific applications in the various businesses and an improvement in customer satisfaction.

Innovation

Impetus towards growth will also come from innovation. As confirmation of the importance that Hera gives to this strategic imperative, an Innovation Management branch was created in 2014, specifically intended to act as a receptacle for ideas and new technologies and to propel their implementation across the Group. The Business Plan includes 51 innovative projects that will not only contribute to developing new lines of revenue, but will also be responsible for about 10% of the efficiencies foreseen by the Plan.

Excellence

Hera intends on confirming its customary strategic framework, standing out for its excellence, surpassing the quality and efficiency standards set out by the Authority for regulated services, consolidating its leadership in environmental services and maintaining a level of customer satisfaction among the highest in the sector, all within the context of sustainable growth and continuous development of intangible assets.

These objectives are matched by a dividend policy of 9 cents per share. This policy can be considered feasible thanks among other things to the expected cash flow that, in addition to guaranteeing full coverage of the investment plan, confirms the Group's solid financial structure.

1.06 MACROECONOMIC CONTEXT AND FOCUS ON THE OIL, GAS AND ELECTRICITY SECTORS

The macroeconomic context

In 2015 global gross domestic product (GDP) recorded a slowdown in its growth rate compared to 2014 (the most recent estimates indicating +3.1% compared to +3.3% in the previous year), a phenomenon that can largely be attributed to curbed growth in emerging economies and the difficulties encountered by energy exporters. Among emerging countries, China continued along the trend of economic deceleration that began 5 years ago (+6.9% in 2015 vs. +7.3% in 2014) and is the outcome of an economic and social model that requires significant revisions and greater balance. For oil and gas producing countries, economic difficulties originated from a drop in energy commodity prices: the price of oil in fact went from approximately 100 $/barrel in 2014 to approximately 30 $/barrel in recent months. As regards industrialised economies, the United States and the United Kingdom continued to show encouraging signs, with GDP growth rates around 2.5%, while the euro area should close 2015 with an improvement of roughly +1.5% over its 2014 figures. The current energy context, for importing countries such as the United Kingdom and the euro zone, has no doubt contributed to these positive results, but has also made the problem of the trend in inflation more acute, with virtual stagnation in consumer prices.

The Italian economy in 2015 recorded growth in GDP for +0.8% over the previous year. Household consumption contributed to the increase in national richness, supported by a rise in disposable income and general conditions of increased confidence and lesser uncertainty, and concentrated in particular on durable goods. Regarding employment, the earliest results of the labour reform introduced by the Government (Jobs Act) were seen, with 760,000 more new open-ended contracts than terminations of the same type of contract. Unemployment levelled out at 11.4%, the lowest rate seen in three years, while youth unemployment remained decidedly high, even though it dropped to 37.9%, the lowest rate seen since 2013.

As regards industrial production (+1% over 2014, with the first increase in four years), Italy reached positive results in almost all sectors, in particular in the automobile industry. The confidence felt by enterprises returned to the levels seen before the crisis, favoured by encouraging expectations as to the nation’s economy, and therefore a moderate increase in investments in machinery and equipment has been foreseen for 2015, while investments in constructions should at least interrupt the slump that has affected this sector in recent years.

Exports showed a +3.7% improvement over 2014, favoured by the depreciation of the euro. The United States proved once again to be the main destination for Italian products, while the slowdown in Asian economies and in Russia reduced the flow of exports to these areas to below expected amounts. Small enterprises, the heart of the nation’s production system, also contributed to the increase in exports, as is suggested by the most recent estimates regarding the Emilia Romagna region: the rise in exports by small enterprises (+4.1%) has likely fostered an increase in regional GDP of over 1%. The Veneto and Friuli regions should also record growth of +0.9%, confirming an improvement of the economic situation in the Hera Group’s key geographical areas.

The context in terms of competition

The free market businesses in which the Hera Group operates confirmed their increasingly competitive nature in 2015 as well. In the electricity and gas markets, for example, the excessive offer that has characterised upstream markets for years has not as yet been resolved. Inevitably, integrated operators working in both supply chains have compensated for a fall in earnings in the upstream phases with higher prices in the downstream sector. Activities in special waste disposal and recovery – urban related, but above all industrial – are now part of an increasingly internationalised and strongly competitive market, in which qualitative aspects of the services offered are particularly important.

In regulated activities as well, a progressive increase in competitive drive has taken place, resulting from the tighter targets in cost efficiency improvement introduced by regulators, and from the approaching tenders for services in gas distribution, for which the appropriate institutions defined the relevant legislative context during 2015, thus encouraging the first notices for tenders to be published in some regions.

The Government's intention to work towards higher consolidation between operators in local public sectors has also been repeatedly confirmed, in order to promote greater efficiency in the sector, benefitting both citizens and the competitiveness of the nation as a whole. For 2016, important changes in this regulatory framework are expected to arrive.

1.06.01 REGULATORY FRAMEWORK AND REGULATED REVENUES

Reference legislation

Among the legislative measures introduced in 2015 with the greatest impact on business sectors in which the Hera Group operates, the public administration reform provided for by the so-called "Madia Decree" is particularly significant.

Approval of the public administration reform included in the "Madia Decree".

In early August 2015 the Senate definitively approved a bill issued under parliamentary delegation outlining a re-organisation of the public administration, with widely ranging reforms concerning publicly held enterprises, bureaucracy, management, remote working, etc. Regarding the issues that concern the Group most closely, this law delegated the Government to adopt, within 12 months of its effective date:

- a legislative decree intended to simplify the sector of publicly held enterprises, aimed at formulating a consolidated bill for the sector that redefines the conditions and limits within which local authorities may establish companies, tailored according to their specific tasks and submitted to restrictions as regards the administrators' responsibilities. The legislation applied to public enterprises will be differentiated based on the type of activity, the way in which services are granted (directly or via public tender) and according to whether or not the company is listed. The criteria involved in public procurement procedures for acquisition of goods and services are to be rationalised and, after a certain number of fiscal years with operating losses, companies will be liquidated. Lastly, publicly held enterprises will have to guarantee transparency and accessibility as regards their economic data, assets and the foremost indicators of their management efficiency.
- a legislative decree intended to provide uniformity in regulations for local public services of general economic interest, in order to formulate a consolidated bill for regulations that are now defined by a large amount of legislation. The current ways in which services in the gas and electricity supply chains are managed and granted will not be modified, given that they are subject to regulations directly derived from the EU, while water services are expressly included. The regulatory reorganization will define optimal geographic areas, determine the ways in which services are granted and managed, provide incentives for creating management networks, foresee a clear distinction between supervisory and management roles, revise the current system of asset ownership and management (including asset transfers, in the event of takeovers) and define models for service contracts.

At present, the legislative decrees are still expected to be published in the Gazzetta Ufficiale.

Gas, Electricity and Integrated Water Services Regulations

Among the regulatory changes approved in 2015 by the Authority for Electricity, Gas and the Water System (hereinafter: AEEGSI), one of the most noteworthy is the reform of the methods used in defining return on investment (WACC) and the approval of tariff methods for the new regulatory periods applied to electricity and integrated water services.

New rules for defining regulated return (WACC)

Following a complex consultation process, AEEGSI resolution 583/2015 approved new methods for defining and updating the rate of return on investment for all infrastructural services in the electricity and gas sectors. This intervention was made necessary by current macroeconomic circumstances, characterised by a high degree of instability in return on government securities in European countries (peripheral countries in particular) and the European Central Bank's expansionary monetary policy, which caused a decrease in interest, reaching negatives rates in real terms. With the reform, all of the parameters and criteria for the various business sectors have been unified, with the exception of the beta parameter (non-diversifiable risk level) and the relation between debt capital and equity capital, thus increasing the predictability of the regulatory framework.
To minimize variations in rates, the AEEGSI called for return on equity to correspond to an average long-term market return, which will remain constant for the six years of the regulatory period for return rates. Furthermore, in order to express the greater risk factors found in Italy with respect to more stable Eurozone countries, the risk-free rate was defined as the average return on ten-year government bonds in European countries with a high rating, to which a country risk premium was then added, defined by the spread between Italian and German government bonds. The cost of debt was also revised in order to respect the changed conditions of the bond market, based on debt cost data gathered from the most representative enterprises.
The revised methodology brought return on investment (in real and pre-tax terms) for the three-year period 2016-18 to be set at 5.6% for electricity distribution and metering, 6.1% for gas distribution and 6.6% for gas metering, with a decrease of approximately 80 basis points compared to the figures seen in 2015.

Consolidated Text for electricity tariff regulation for the 5th regulatory period

With resolution 654/2015, the AEEGSI approved the consolidated texts for the new regulatory period concerning electricity transmission, distribution and metering. This resolution extended the regulatory period to eight years, subdividing it into two four-year periods (NPR1 2016-2019 and NPR2 2020-2023). The criteria used for calculating tariffs in NPR1 are substantially in line with the methods applied up to 2015, while in NPR2 a new approach to tariffs will be provisionally adopted which recognises total expenses (totex) instead of using the distinction applied until present between capital and operating costs.
As regards the initial level of operating costs, the regulations foresee for NPR1 the customary setting, which defines recognised costs on the basis of the national average, as defined by the carrying values for 2014. The criterion of profit sharing has furthermore been maintained, with the gain in productivity seen in the previous regulatory period being equally divided between customers and enterprises (50%-50%). The x-factor fixed by the Aeegsi for yearly updates come to 1.9% in real terms for electricity distribution, and serves to gradually compensate for the part of increase in productivity seen in the third and fourth regulatory periods.

For capital costs in NPR1, the resolution essentially confirms a methodological continuity with the previous regulatory periods, narrowing from two years to one the regulatory lag in acknowledging new investments. Useful lives for tariffary recovery of investments in electricity lines and connections have furthermore been lengthened.

For connection services, the resolution calls for an overall rationalisation of regulations concerning active and passive point connections within the end of July 2017. Lastly, for services in electricity metering the resolution requests regulations to be completed within July 2016 in order to define the functional requisites of second-generation meters.

Approval of the water tariff method of the 2nd regulatory period (MTI-2)

With resolution 664/2015 the new water tariff method (MTI-2) was approved for the second regulatory period (2016-19), confirming the general outline of the previous period while introducing a few novelties. The regulatory period will once again have a duration of four years, and in the second two-year period some parameters will be revised, including the tariff multiplier, regulatory invested capital (RAB), the updatable components of operating costs and, potentially, acknowledged financial and fiscal burdens.
The tariff multiplier will still be subjected to a maximum annual increase, determined on the basis of the specific regulatory outline applied to each local management area. The entire regulatory framework includes six outlines, defined by the investment requirements of currently existing infrastructures, the amount of operating costs per inhabitant served, and lastly, as one of the new features of the MTI-2, cases that may arise of modifications in the manager’s objectives or activities, including changes brought about following processes involving mergers.

As regards the acknowledgment of capital costs, the coverage rate for financial and fiscal charges has been set at 5.34%, down roughly 0.8% compared to 2015, maintaining a supplement for new investments of 1%, as a compensation for the two-year regulatory lag in acknowledging tariffs. In order to promote the implementation of priority investments, a component covering advance financing for new investments has been confirmed.
Concerning operating costs, the distinction between internal operating costs and updatable operating costs has been maintained, and a rolling cap type of regulation has been introduced for the costs of bulk water supply as well. The cost of arrears has been defined according to a series of parameters and differentiated over various macro-regional areas (for Northern Italy, the average unpaid ratio comes to 2.1%).
Lastly, the water tariff method includes a mechanism of premiums and penalties based on the quality of service contracts, set in place to promote improvements with respect to the standards fixed by the AEEGSI and financed by a specific component of the tariffs.

Updates in the RCV component for protected categories in electricity

With resolution 659/2015 the AEEGSI updated the figures corresponding to the component covering electricity commercialisation costs (RCV) for service suppliers to protected categories, effective as of 1 January 2016. The amount of RCV has been revised upwards, to take into account the greater frequency of the phenomenon of arrearage and the rise in costs linked to customer acquisition, confirming the previously existing geographical distinction between Central Northern and Central Southern Italy. A further differentiation has also been introduced in order to account for the effect of the dimensions of an enterprise, foreseeing supplements for service providers whose revenue from end customers reaches less than € 10 million. The AEEGSI has decided to maintain a single figure valid nationwide for PCV payments, applied to end customers and intended to cover the costs sustained by different suppliers, according to the subdivision foreseen for the various types of customers.

Among the other resolutions worth mentioning approved in 2015, by way of information, note the approval of a new network code for electricity distribution (resolution 268/2015), new regulations for introducing biomethane into the network (resolution 46/2015), the completion of arrearage regulations for gas and electricity retail customers (resolution 258/2015), a reform of electricity network tariffs for household customers (resolution 582/2015) and a revision of the regulations concerning functional unbundling (resolution 296/2015).

Gas distribution: tariff framework

2015 was the second year of the fourth regulatory period (2014-2019) of the gas distribution and metering tariff system, governed by resolution 367/2014.

The tariff system is consistent with the previous year and entitles each distributor to permitted revenues, which are defined by the AEEGSI on the basis of approved costs, expressed by reference tariffs and the average number of delivery points served in 2015, making revenues independent from volumes distributed. This result is obtained by specific tariff equalisation mechanisms whereby distributors, through the Energy and environmental services fund (CSEA), adjust the differences between their own permitted revenue and the revenue ensuing from invoicing to sales companies (defined by applying to customers the obligatory tariffs set by the AEEGSI for the various macro-regional areas). In particular:

- invested capital acknowledged in tariffs in year t (2015) covers investments implemented until year t-1 (2014), by applying a rate of return on invested capital (WACC) fixed at 6.9% for distribution and 7.2% for metering; the depreciation calculated on the basis of the regulatory useful lives will be acknowledged in the tariffs;
- acknowledged operating costs (differentiated according to the size of the enterprise and customer density) are updated by the FOI inflationary indicator published by the ISTAT, whose effect on the update from the 2014 figures came to 0.67%; furthermore, for distribution service costs, to which a production improvement factor (x-factor) is applied, which differs according to the size of the enterprise and was set, for Group companies, at 1.7% for Hera spa and AcegasApsAmga spa and 2.5% for Marche Multiservizi spa.

Based on these principles, AEEGSI resolution 147/2015 approved for 2015 the provisional reference rates (based on an estimate of investments made in 2014), while approval of the final reference tariffs is due to be completed within February 2016, and will take into account all investments recorded in 2014. Within the consolidated scope of the Hera Group, as regards gas distribution, Marche Multiservizi spa and AcegasApsAmga spa are included, the latter covering the former companies Acegas-Aps, Isontina Reti Gas and AMGA Azienda Multiservizi (the latter having been integrated with effective date 1 July 2014).

As a result of that which has been described above, in the 2015 fiscal year revenues for distribution and metering equalled, for the Hera Gorup, € 236.2 million, for 2.906 million m^3 of volumes distributed, with a corresponding unit revenue of 8.13 € cent/mc. This revenue already includes an anticipation of the definitive reference tariffs and a reasonable estimate of the effects of tariff equalisation. Compared to 2014, and corresponding to a 14% rise in volumes distributed, a € 3.7 million increase in revenues was seen. This result was due to two opposing factors:

- a € 10.4 million increase owing to the consolidation of the revenues of the second semester of 2014 pertaining to AMGA Azienda Multiservizi;
- a € 6.7 million decrease, due to tariffary updates for efficiency improvement in operating costs, as well as amounts attributable to previous financial years.

Gas distribution and metering - Regulated revenue	2014	2015	% Change
Consolidated Hera Group			
- Revenues (€/mln)	232.5	236.2	1.6%
- Volumes (mln m3)	2,550	2,906	14.0%
- Average revenue per unit (€cent/m3)	9.12	8.13	-10.9%

These revenues refer to the RAB set at 31 December 2015, equalling approximately € 1.053 million, concerning Group-owned assets.

Electricity distribution: tariff framework

2015 was the last year of the fourth tariff regulation period (2012-2015) for activities in electricity transmission, distribution and metering. The integrated reference texts (TIT for transmission and distribution and TIME for metering), were approved by resolution 199/11 and later amended by resolution 607/13, that updated the WACC acknowledged for distribution and metering to the amount of 6,4% for the 2014-15 two-year period and modified the ways in which flat-rate connection fees are treated, allowing them to be deducted from invested capital and no longer from acknowledged operating costs.

The tariff method used for distribution services provides for company-specific regulated revenue restrictions, and is structured according to capital costs acknowledged on a mixed basis (implicit for the asset perimeter until 2007 and accounting for actual historical costs for investments since 2008) and average industry-level operating costs on the basis of the operators' accounting data recorded at the beginning of the regulatory period. The latter are then modified to take into account the extra-efficiencies not yet distributed to end customers (profit sharing), regulated according to each single operator and finally updated annually with the price cap method (re-evaluated based on inflation and efficiency according to the x-factor). Similarly to the gas sector, the electricity tariff system is based on a separation between the national tariff invoiced to customers (mandatory tariff) and the reference tariff on which restrictions to the revenue of each distributor are based, and thus also on the ensuing need for appropriate equalisation mechanisms managed by the CSEA.

The AEEGSI, with resolution 146/2015, approved the reference tariffs for distribution in 2015 for companies in the Hera Group, i.e. Hera spa and AcegasApsAmga spa. Within the context described above, the Group's 2015 revenues for electricity transmission, distribution and metering came to € 87.3 million, down € 9.9 million compared to 2014, while the volumes distributed rose by 3.6%. If however the non-recurring entries in the 2014 statement (owing above all to the outcome of the company-specific equalisation for the area surrounding Gorizia served by AcegasApsAmga spa) are excluded from the comparison between the two years in question, the increase in revenue amounts to € 2.2 million.

Electricity distribution and metering - Regulated revenue	2014	2015	% Change
Consolidato Gruppo Hera			
- Revenues (€/mln)	97.2	87.3	-10.2%
- Volumes (mln kWh)	2,948	3,056	3.6%
- Average revenue per unit (€cent/kWh)	3.30	2.86	-13.3%

Revenues refer to a distribution and metering services RAB fixed at 31 December 2015 estimated at roughly € 342 million, almost entirely ascribable to Group-owned assets.

Water Cycle: tariff framework

2015 was the second and last year in which the first tariff regulation period (MTI – Water Tariff Method), as defined by AEEGSI resolution 643/2013, was fully applied. Responsibility for a national tariff regulation of the water system had been given to the AEEGSI as of 2012, with a first two-year period (2012-2013) consisting in transitory regulations (MTT) being followed by a second, fully operational, two-year period (2014-2015). 2015 regulations were thus identical to those of the previous year; each service manager is ensured a revenue (VRG) defined on the basis of the operating and capital costs recognised by the aforementioned tariff method, thus making revenues independent from movements in volumes distributed.
This is ensured by a tariff balancing method that allows servers to recuperate (in the VRG of the following two years) the differences between recognised revenues (VRG) and earnings received thanks to the application of unitary tariffs to the volumes actually sold.
Operating costs are divided into endogenous costs (for which a criterion of efficiency enhancement has also been foreseen) and updatable exogenous costs, mainly regarding purchasing costs of raw materials, electricity and licenses. The former are referred to the year 2011, adjusted according to the FOI inflation index, published by the Istat; the latter are updated with reference to the specific tariff year and are also subject to balancing, in order to recuperate any inequalities between costs included within the VRG and costs which have actually been sustained and recognised.
Capital costs refer to investments made up to two years previously, and cover the corresponding costs for financial (4.2%) and fiscal burdens.
In 2014, furthermore, as an effect of the content of the aforementioned resolution 643/2013, locally responsible Sector Agencies have defined tariff balancing entries regarding periods prior to sector regulation and control transferral to the Authority, which have not been considered within calculations of preceding tariff definitions; said entries concerning years prior to 2012 will be recuperated beginning in 2015.

A comparison with 2014 data shows an increase in overall revenues coming to 2.8%. This is a result of the application of the new SII tariffs resolved for 2015 and the recording of balances concerning years prior to 2012.

Hera Group consolidated Water cycle cycle - revenue from tariff	31-Dec-14	31-Dec-15	% Change
Revenue from (€/mln)	595.8	612.5	2.8%
Volumes (mln/m3)	295	299	1.4%
Average revenue per unit (€cent/m3)	202.2	205.0	1.4%

Urban waste: tariff framework

Urban waste management services are carried out on the basis of conventions stipulated by locally responsible Sector Agencies that regulate, in addition to the service's modalities and its organisation, economic aspects of contractual relations as well. Compensation due to managers for services offered is defined annually, as provided for by Presidential Decree 158/1999, in cases in which the tariff had been established, and is integrated, as of 2013, by first Tares and later Tari regulations.

Through the Tari, single Municipalities purchase the resources to be distributed to managers covering the costs sustained for services in street sweeping and waste collection and disposal; as of the year in which the Tares was introduced (2013), verification and resource collection was conferred to Municipalities who, in a few cases, entrusted this activity to Hera.

In order to respect the principle of continuity in public services involving urban waste management, pursuant to current conventions, the manager is obliged to continue service management even in localities in which the contract deadline has expired, until the effective date of new contracts, for which the required procedures have been set under way.

In December 2015, urban waste management services were offered in 190 municipalities, 39% of which chose to entrust Tari verification and collection to the Hera Group.

A comparison among the homogeneous data pertaining to the consolidated Hera Group leads the following figures to emerge:

Hera Group consolidated Urban waste - revenue from tariff	31-Dec-14	31-Dec-15	% Change
Revenue from (€/mln)	521.9	521.3	-0.1%
Users reached (000)	3,311	3,321	0.3%
Average revenue per unit (€/user)	157.6	157.0	-0.4%

The overall decrease in regulated revenues for urban waste services in Municipalities served, which amounts to 0.1%, is mainly attributable to AcegasApsAmga and is an effect of 2014 and 2015 balances recorded at the appropriate time.

1.06.02 TRADING AND PROCUREMENT POLICY

2015 will be remembered not only for the sharp drop in the price of oil but also for an upturn in national energy consumption. One cannot however forget how significant the drop that preceded this upturn was: declines had been continually seen for 13 years in oil, 2014 witnessed the lowest level of the last 10 years in electricity, while gas consumption in 2015 was in any case inferior to the amount seen in 1999.

Gas consumption up: +9.1%

This being said, natural gas consumption in 2015, interrupting the falling trend seen over the last four years, recorded a significant recovery (+9.1%) and reached 66.95 billion m^3. Domestic consumption, favoured by colder winter temperatures compared to the previous year, rose to 31.43 billion m^3, with a 9.5% increase. Growth in the thermoelectric sector was even more pronounced: benefiting from both a sharp drop in hydroelectric production and the summer heat, it interrupted a long series of downturns and, with an increase of 16.6%, settled at the highest level of the last three years, 20.73 billion m^3. The downward trend in consumption in the industrial sector instead continued, reaching the lowest levels seen in the last fifteen years, 12.77 billion m^3 (-3.0%).

Portfolio optimisation

This market context also had a positive impact on Group sales, and as a consequence trading activities in 2015 were aimed on the one hand at optimising the portfolio, with a view to balancing the short-term position, and on the other negotiate and manage new supply contracts for the 2015/16 thermal year.

To provide further details, short-term adjustments, supported by an efficient prediction of upcoming demand, were implemented through purchase or sale agreements at the Virtual Exchange Point (VEP), at Baumgarten, on the Title Transfer Facility (TTF) and on Net Connect Germany (NCG). These transactions generally occurred at favourable prices and allowed the foreseen objectives in economic results to be met.

Starting in April, Hera Trading initiated gas procurement activities intended both to fill the storage capacity purchased at the auction, coming to roughly 0.33 billion m^3, and to provide gas for the Hera Comm free market for the 2015/16 thermal year, coming to roughly 0.5 billion m^3, sourcing it directly from the spot market.

Modulated gas negotiations for 1.5 billion m^3

During the month of April, earlier than in the previous year, negotiations began for modulated gas intended for the protected market delivery points (so-called Remi) of the Group's sales companies. The total amount involved was approximately 1.5 billion m^3, related to the 2015/16 thermal year, as per the conditions for supply resolved by the AEEGSI beginning in October 2013. This negotiation allowed particularly favourable terms to emerge as regards both prices and payment conditions.

After having fallen for three consecutive years, electricity consumption also returned to positive figures. According to the provisional data elaborated by the national grid transmission company (Terna), total energy demand in Italy in 2015 reached 315.2 billion kWh, with an increase of 1.5% over 2014.

Upturn in electricity consumption, thermo production: +8.3%

This growth was driven above all by the country's southern and central regions. The rise in electricity demand was more contained in Sardinia and Lombardy, and demand remained stationary in the North-East.

The strong drop in hydroelectric production, due to lesser precipitation and increased consumption during the summer months owing to particularly hot weather, favoured an upturn in thermoelectric production (+8.3%). This allowed the sector's suffering to be mitigated, albeit only partially, in that it remains afflicted by a remarkable overcapacity and unquestionably requires urgent reconsideration as to its rules and market framework in order to allow the flexibility of gas thermoelectric plants to be adequately recompensed.

This situation obviously affected the economic results reached by the thermoelectric plants controlled by the Group. Moreover, taking into account the limited installed thermoelectric capacity compared with the final market position, its impact was strongly curbed by commercial activity towards end customers.

Drop in DSM in plants in Campania

During 2015, as a consequence of Terna's removal of grid congestion in central and southern regions, a significant drop in the earnings made by the Teverola and Sparanise plants on the Dispatching service market (DSM) was seen. During the second six months of the year, interventions were initiated on these two plants with the aim of increasing their level of flexibility as preparation for the introduction of the capacity market.

The performance of the Ortona plant was once again modest, to due its location in an area marked by scarce demand on the DSM, as was that of the Cogen plant in Imola, despite the fact that the latter, as of 2015, following technical modifications implemented in 2014, was operated on the DSM as well.

Lesser earnings in electricity trading and import

In 2015, despite an increase in electricity and environmental certificate trading on European markets (+1.4%), the results reached did not meet expectations, due to a general drop in earnings and a lower average valorisation of import capacity detained compared to 2014.
The management/streamlining of Hera Comm's purchasing portfolio, by way of transactions on the Stock exchange and on over the counter (Otc) platforms, proved to be particularly effective.

Management of commodity risk and exchange also proved to be particularly adequate, within a context marked by the plunge in oil prices and significant changes in the euro-dollar exchange rate.

Adaptation to Remit requirements

During 2015, Hera Trading saw to bringing itself into line, in terms of tools and procedures, with the obligations foreseen by the Regulation on Energy Market Integrity and Transparency (Remit), as early as its first deadline, 7 October 2015. This date marked the beginning of the data collection implemented by the Agency for the cooperation of energy regulators (Acer).

1.06.03 FINANCIAL POLICIES AND RATINGS

An economic system struggling to get off the ground

Over the course of 2015 the euro zone continued, as stated above, along a path of relatively resilient economic and financial growth, which thanks to internal demand, in particular household consumption and intra-area exports, did not overly feel the effects of the slowdown in world commerce. The weaker condition of China and other emerging countries, and the ensuing turbulence on world financial markets, in fact caused uncertainties as to prospects for global growth, but the their effect on the euro zone, much like in the U.S., have until present been contained, even though some signs have appeared of a deterioration in extra-area exports. In any case, the expected slowdown in global economic growth and its effects on markets have made the future prospects of advanced economies more uncertain. The upturn in the euro area must still be considered overly fragile and subject to risk due to the slowdown in foreign demand, largely linked to emerging countries, whose activities have all decelerated if not shrunk, and whose currencies have seen a sharp depreciation.

Expansionary monetary policy maintained by the ECB

Given the present European context, and the difficulty in finding new opportunities for development, the ECB did not change its expansionary monetary policy: further cuts in interest rates on deposits were introduced in December, going from -0.20% to -0.30%, and the € 60 billion monthly asset purchase program was kept in place, or rather extended, from September 2016 to March 2017. The monetary policy committee is evaluating the changing economic and financial context of the euro zone, according to expectations that continue to be tied to the objective of 2% inflation. The ECB is facing, moreover, an unfavourable scenario as regards the goal of price stability, in that higher disinflationary effects have derived from the price of oil, a factor that cannot be controlled with monetary policy interventions.

Record low in interest rates

The drop in interest rates seen in 2015, which thanks to quantitative easing reached a record low, falling on average by one percent over the last twelve months, has led many companies to take advantage of this favourable moment and issue new instruments of debt on the capital market.

Limited credit offer

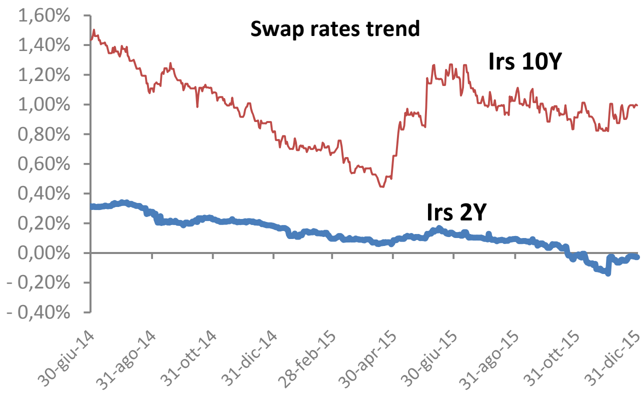
While the European Central Bank's interventions have contributed to lowering interest rates, expectations for improved credit conditions do not seem to have been fully met, in that the bank system's policies in offering credit remain influenced by numerous regulatory restrictions.

Financial markets: high risk aversion

Over the course of the year, financial markets saw a phase of high risk aversion that particularly penalised both stock markets and raw materials markets. As regards stocks, the main indicators of both developed markets and emerging countries recorded the greatest losses seen since summer 2011, in the midst of the euro zone crisis. The event that most strongly influenced trends in financial markets was the Chinese Central Bank's unexpected decision, taken in mid-August, to modify the mechanism that defines the value of its own currency, the yuan. The increase in risk aversion mentioned above brought activities involving lesser risk to be preferred; treasury bond rates therefore fell, while the spread between peripheral European Union bonds and the bund remained substantially stable, thanks to purchases made by the ECB and the agreement reached during the summer between Greece and the international institutions.

Market curve and 10-year BTP-Bund spread

Once the danger of Greece leaving the euro area had been avoided, a general decrease occurred in treasury share rates, with a reversal of the bullish trend seen between April and June. In a context defined by a fall in government bond rates, 10-year swap rates also inverted the bullish trend.
The shape of the swap curve (a benchmark for the bond market), after the downward trend seen in the early months of the year, recorded an increase in the differential between 2-year and 10-year swap rates coming to about 100 basis points, moving towards a balanced medium-term rate that is expected to reach 80 basis points.



The spread between 10-year BTP and Bund yields (as a useful parameter in defining the cost of provisions) fell from over 160 basis points in July to 96 basis points at the end of the year, thus approaching the minimum level of 87 basis points recorded in March of the same year. However, the spread rose rapidly in early 2016, reaching a maximum of 145 basis points, affected by turbulence on financial markets, which began the year in a state of concern, encumbered by the risk of a slowdown in global growth. In particular, in the euro zone, given the absence of a single European bond and complete risk sharing, the repercussions of this phenomenon included a wider spread in peripheral countries (Greece, Italy, Ireland, Portugal and Spain) towards the German Bund, which still remains the safest bond.

Management model: active and prudent towards risk

Given this economic and financial scenario, the Group has devised a financial management plan capable of maximising its yield profile while maintaining a cautious risk strategy. The average cost of debt has been optimised through liability and financial risk management activities aimed at seizing favourable market opportunities. In particular, on 28 May 2015, offset swaps were stipulated on 2019 bonds for € 500 million (fixed rate 2.09%) and 2021 bonds for € 500 million (fixed rate 1.81%) that brought the amount of fixed-rate debt to over 80%, with the aim of setting future cash flows at the minimum rates seen in April-May.

Committed Lines

To support liquidity risk indicators and optimise costs/convenience of funding, the Group has obtained committed credit lines for € 395 million with an average age of 4 years.

Financial risk management strategy

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

Liquidity risk

Proactive liquidity management

The Group attempts to match the maturities of its assets and liabilities, linking its investments to sources of funds that are consistent in terms of maturity and manner of repayment, taking into account the refinancing requirements of its current debt structure.

Liquidity risk refers to a company's failure to meet its financial obligations, due to an inability to obtain new funds or sell assets in the market.

The Group's objective is to ensure such a level of liquidity as to make it possible to meet its contractual obligations both under normal conditions and under critical conditions by maintaining the availability of lines of credit, liquidity and a timely start of negotiations on maturing loans, optimizing the cost of funding on the basis of current and future market conditions.

Adequate liquidity for a worst case scenario

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

Worst case scenario	31.12.2015			31.12.2014		
(€/mln)	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years
Bonds	242	84	84	43	286	83
Debts and other financial liabilities	134	97	75	366	128	95
Trade payables	1,121	0	0	1,194	0	0
Total	**1,497**	**181**	**160**	**1,603**	**414**	**178**

To guarantee sufficient liquidity to meet every financial obligation for at least the next two years (the time limit of the worst case scenario shown above), at 31 December 2015 the Group had € 541.6 million in liquidity, € 474 million in unused lines of credit of which € 395 million in committed lines of credit and a substantial amount that can be drawn down under uncommitted lines of credit (€ 1,000 million).

The lines of credit and the related financial activity are not concentrated on a specific lender, but distributed among major Italian and foreign banks, with a use much lower than the total available.

Average maturity of debt: over 8 years

In December the Group used a line of financing amounting to € 100 million, disbursed by the European Investment Bank (EIB), intended to finance investments aimed at upgrading and expanding gas and electricity distribution networks and public lighting plants. For the Group, this operation provided a significant way of consolidating its financial structure, which is marked by a mainly long-term debt structure, accounting for 90% of total borrowings, of which about 78% reflects bonds repayable at maturity. The average term to maturity is over 8 years, of which 68% maturing beyond five years.

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

Debt repayment outlays (€/mln)	31 Dec 16	31 Dec 17	31 Dec 18	31.12.2019	31.12.2020	Over 5 years	Total
Bonds	195	0	0	500	0	2,035	**2,731**
Bank debt/due to others	219	70	51	51	47	352	**791**
Total	**414**	**70**	**51**	**551**	**47**	**2,388**	**3,522**

Default risk and debt covenants

This risk is related to the possibility that loan agreements entered into contain clauses whereby the lender may demand accelerated repayment of the loan if and when certain events occur, thus giving rise to a potential liquidity risk.

No financial covenants

At 31 December 2015, a significant portion of the Group's net borrowings was covered by loan agreements containing a number of clauses, in line with international practices, that place some restrictions. The main clauses guarantee equal treatment of all debt holders with respect to the company's other non-guaranteed debts (pari passu) and prevent it from granting to subsequent lenders, with the same seniority status, better security and/or liens on its assets (negative pledge).

As to acceleration clauses, there are no financial covenants on debt except a corporate rating limit, specifying that no amount in excess of €150 million in debt can be rated below investment grade (BBB-) by even one rating agency.

Change of control & Investment grade

On the remaining part of the debt, the acceleration clause is triggered only in case of a significant change of control for the Group that entails a downgrading below investment grade or the termination of the publication of the rating.

Interest rate risk

Prudent management of interest rate risk

The Group uses external funding sources in the form of medium- to long-term financial debt, various types of short-term credit facilities and invests its available cash primarily in immediately realizable highly liquid money market instruments. Changes in market interest rates affect both the financial costs associated with different types of financing and the revenue from different types of liquidity investment, thus impacting the Group's cash flows and net financial charges.

The Group's financial policy has been designed to identify an optimal mix of fixed- and floating-rate funding, in line with a prudential approach to interest rate risk management. The latter aims to stabilize cash flows, so as to maintain the margins and certainty of cash flows from operating activities.

Interest rate risk management entails, from time to time, and depending on market conditions, transactions involving a specific combination of fixed-rate and floating-rate financial instruments as well as derivative products.

Offset swaps optimise the average cost of debt

The Group's exposure to interest rate risk, including the effect of derivatives, comes to 17% of total borrowings. The remaining 83% of debt is at fixed rates, resulting from a stipulation of offset swaps dating to 28 May, with which two € 500 million bonds maturing in 2019 and 2021, that in March were at floating rates as an effect of hedging derivatives, were brought to fixed rates.

This operation allowed the rates to be set at 2.09% and 1.81% respectively, decidedly lower than the original rates of 4.5% and 3.25%.

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

83% of borrowings at fixed rates

Gross borrowings (*)	31.12.2015			31.12.2014		
(€/mln)	without derivates	with derivates	%with derivates	without derivates	with derivates	%with derivates
fixed rate	2,799	2,826	83%	2,888	2,013	56%
floating rate	593	567	17%	711	1,586	44%
Total	**3,392**	**3,392**	**100%**	**3,599**	**3,599**	**100%**

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

Exchange risk unrelated to commodity risk

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

Ratings

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

Hera has been given a long-term “Baa1” rating with a stable outlook by Moody’s and a “BBB” rating with a stable outlook by Standard & Poor’s.

On 3 June 2015 Moody’s issued a credit opinion confirming the “Baa1” rating and improving the outlook to “stable”. This positive appraisal of the Group’s risk profile is due to its solid and balanced business portfolio, in addition to its good operating performance and consolidated strategy.

The rating previously issued by Standard & Poor’s was confirmed, owing to S&P’s expectancy that the Group can meet targets in credit worthiness and that its solvency is not completely dependent on the conditions of sovereign risk.

Given the current macroeconomic context and the prolonged uncertainty of Italy’s economic prospects, the Group’s actions and strategies are always calibrated so as to maintain and/or upgrade its rating.

1.07 SUSTAINABILITY POLICIES

The year 2015 was very positive for the Group in terms of social and environmental sustainability, as attested by the results and by the interconnecting programs and projects underway.

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

- a balanced scorecard system linked to incentives and involving the entire management (sustainability goals account - on average - for 20% of the variable manager remuneration in 2015);
- a progressive improvement of the Group's *accountability* profile, as attested by the sustainability report (covering the maximum application level of the GRI-G4 guidelines) as well as by the thematic vertical reports available to the stakeholders (these were furtherly extended and improved in 2015).

Our strong focus on value systems continued in 2015 with the extension of the seminars for managers, executives and new recruits, aimed to raise awareness of the Code of Ethics and of corporate social responsibility, as well as with the launch of the *AlfabEtico* training program in AcegasApsAmga (ending in 2016), which will gradually involve all of the employees.

The sustainability goals achieved and the main events carried out in 2015 have covered the following areas:

Safety at work, internal climate and professional development

Following the awareness programs and the OHSAS 18001 certification, covering" 89% of the Group's employees, the 2015 accident frequency rate dropped, equalling 20.7 (vs 22,6 in 2014). This reduction was recorded in all of the Group's main companies as well as in the labour force population, for which the frequency rate decreased by 11% compared to 2014. The sixth company climate survey (surveys have been conducted every two years since 2005) showed an employee satisfaction rate equalling 63/100 (in line with the target) with a 2-point growth compared to the previous survey. Based on the result, steps for further improvement were defined. Some of the "work-life balance" initiatives are noteworthy: 30 Hera employees' children in the Hera pre-schools and 152 in the summer centres made available in 2015. Finally, the training saw a further increase in 2015, with 31.4 average training hours per capita (vs 28 hours in 2014).

Waste management: state-of-the-art in Italy, consistent with EU circular economy courses

The year 2015 saw a further drop in landfill use for urban waste disposal: 8.1% against 13.3% in the previous year (Italian 2014 average: 34%). Separate collection increased from 54% to 55,6% (Italian 2014 average: 45.2%). Such results are consistent with the European Commission's pathway covering the December 2015 circular economy package, which sets forth a number of detailed recycling and landfill disposal targets as of 2030; some of these have already been met in the Hera territory. The environmental performance results of the Group's 10 waste-to-energy plants are encouraging; atmosphere emissions were very limited in 2015 and, on average, 84% lower than the tolerance. Finally, in November last year Hera issued the 6° edition of the '*Tracing waste*' report - this is certified by an independent body, DNV-GL, and was extended in 2015 to Marche Multiservizi – providing citizens with factual evidence that separate collection is still on the rise and that it equals 94.3%.

Service quality and customer support.

Hera Comm's customer contact quality standards were raised again in 2015: the average waiting time at the call center decreased, equalling 30 seconds for residential and 26 seconds for business customers. Front desk results have also improved: the average waiting time was 8.9 minutes in 2015. In the Triveneto, contact channel performances suffered the transfer of the IT invoicing systems towards the Group's systems, but a strong improvement is expected in 2016.

The constantly rising web-run accounts also affected customer support sustainability: customers registering for online Services rose to 15.9% in 2015, whereas applications for the electronic bill rose to 13.8% (+12% and +58% respectively).

The 2015 survey on the Group's service quality (about 5,300 interviews) recorded a high customer satisfaction rate (70/100; increasing numbers compared to the previous year). Survey data will be used to define further progress, in addition to the measures being planned within the "Customer experience" project, launched in 2015 and aiming to improve the customers' experience with Hera.

Enercy efficiency among the priorities

AcegasApsAmga and Marche Multiservizi obtained the ISO 50001 certification for energy management system in 2015; this is now our 6th ISO 50001-certified company. The implemented ISO 50001 measures (incorporated into the energy improvement plan) have already enabled us to reduce energy consumption by about 1,500 tep. The improvement plan defined in 2015 provides further energy efficiency steps (totalling 2,900 tep) to be implemented by 2016, allowing a 2.3% total saving compared to energy consumption in 2013. To support the Group's commitment in this area, "*Value for Energy*" - the first report entirely focused on energy efficiency - was published and presented to the public at Ecomondo. In addition, many energy efficiency measures are carried out with customer / partner companies, to which the Group offers its know-how (also through Hera Energy Services, founded in early 2015).

Strong commitment to sewage treatment sustainability

In 2015, the main measures were aimed to redesign the Rimini sewage and purification system (2 out of 11 interventions under the Optimized Bathing Safeguard Plan. These included the doubling of the S. Giustina purifier), the refurbishment of the Servola purifier in Trieste (remediation was accomplished and a supplier for the system executive design and adaptation was identified), as well as upgrading the purifying efficiency (and/or reducing energy consumption) for the Bologna (IDAR), Padua (Cà Nordio), Cesenatico (Fc) and Cattolica (Rn) purifiers, which will be completed by 2017.

Focus on sustainability extends to the supply chain.

Even in 2015, upon selecting its suppliers the Group prioritized the most profitable bid method used in public procurement procedures, so accounting for 2/3 of the total value of the allotments. The average score for social and environmental aspects amounted to 24/100. Disadvantaged people employment resulted in a further growth in the value of supplies from social cooperatives, which reached 46.5 million euro last year (+ 4% compared to 2014). Supplies from local providers grew by 68%, while the estimated employment spin-off equals about 5,650 people, which confirms the Group's primary role in territorial development. Supplier monitoring under SA8000 regulation continued in 2015, as did the accident research monitoring for the leading suppliers (those involved in such monitoring account for 79% of the value of goods and services).

Focus on territory and communities.

Environmental education in schools was still carried out in 2015; in all of the areas, 'The Great World Machine' and 'The Science Well' events were consolidated, with over 78,000 participants. Our focus on the territory resulted in a revival of the 'Gift your city a tree' campaign in 2015, with a new target of 50,000 electronic bill subscribers, associated to an additional 1,000 trees for 74 municipalities partnering with us in the initiative. Thanks to the first campaign, launched in 2012, 1,747 trees (out of 2,000 trees in the plan) have already been planted in 42 municipalities. Other evidence of our innovative focus on community and on local sustainable development are:

- the spread of the *'Il Rifiutologo'* (*The Wastologist*) app, installed by over 79,000 people, which informs users about correct separate collection while enabling them to report malpractice through their smartphone (activated in all of the 136 municipalities served by Hera Spa, as well as in Padua and Trieste);
- the extension of several waste reduction programs (eg *'Change the final'*, *'FarmacoAmico'*, *'CiboAmico'*), resulted in encouraging social outcomes (preventing about 5,300 tons of waste, i.e. the yearly production of about 8,700 people, from being produced in 2015);
- the extension of the pilot scheme for the multi-stakeholder local committee 'HeraLAB' to the Modena area, to interface with the local communities' needs and to develop better sustainability in the Hera-managed services. As many as 68 representatives from different stakeholder categories, appointed by the Board of Directors, are involved in the 6 active local HeraLABs. There are 17 schemes proposed by LAB in 2015, 8 of which have already been completed.

A synthetic reference to specific areas and activities is in the following paragraphs; for further analysis, see Sustainability Report.

1.07.01 DEVELOPMENT AND TECHNOLOGICAL INNOVATION

During the year, the development and innovation activities continued to explore the areas identified at the end of 2014, consistently with the priorities of the group's business chains. More specifically, the programs planned for each key area were launched, such as circular economy, recovery of materials, energy efficiency and smart city services.

Circular economy and waste recovery

The launching plan for the new facility that will produce biomethane from organic waste continued in 2015. The technical choices, the designing and the public tenders for the main plant components were completed. The process for obtaining the relevant authorizations has also been started up.

A number of experiments have been launched for the enhancement of waste or by-products (sludge from sewage treatment, cuttings, pruning, etc), in order to assess the viability of fuels or bio fuel production.

As to urban waste collection, we defined a concept underlying a new, more user-friendly waste collection system, capable of increasing the quantity and quality of separate collection. The key concept features involve aesthetics, integration into the urban context, identification of users' data to achieve accurate billing, as well as user data transmission to the collector.

Smart City

After the construction of the first smart public lighting pole prototype, which integrates different technologies (smart cameras, hot-spot wi-fi, RFID readers, smart parking sensors, environmental sensors etc.), an evolution is underway to activate the same services on the existing poles with no infrastructure replacement.
As part of the smart city services, new initiatives were identified and their viability is scheduled to be completed in 2016. Key areas involve supplying new innovative services (e.g. common environmental monitoring, video surveillance with image analysis) as well as coordinating the different profiles that deliver public services in the city (e.g. integrated and optimized management of excavation requests).

Energy efficiency

Our engagement in energy recovery and in the optimization of energy consumption is ongoing.
The major pressure drops in water networks were assessed in view of the installation of microturbines for recovering energy, and preliminary checks were carried out in view of the installation of a Francis turbine in the Bologna water supply network.
New technologies for sewage sludge treatment and for process optimization in purification plants were also evaluated; these advancements help maximize biogas production for energy recovery and lead to controlling the organic sector in order to optimize energy consumption. The feasibility stage and the first implementation of these opportunities are scheduled in 2016.
The analysis of domestic consumption optimization devices (smart thermostats) is still ongoing. After fitting the most innovative thermostats on the market at the Forlì laboratory, three devices were identified as being the most interesting for testing with real users. About a hundred of our employees have tested the thermostats in their homes, to help identify the best device for marketing among the Group's customers.
The energy-mapping project saw the creation of a model that integrates consumption data from the main services in order to extract value-added information, which will help

spot particularly critical consumers (from an energy efficiency viewpoint) and to create a number of benchmarks for consistent user clusters.

Funding tenders

The potentially interesting funding tenders were still monitored during the year, and attention was paid to both European (Horizon 2020 and Life) and national / regional calls (POR / ERDF). In some cases, projects in partnership with national and international subjects were presented.

1.07.02 QUALITY, SAFETY AND ENVIRONMENT

The Integrated Management System including Quality, Safety, Environment, Security and Privacy was further consolidated in 2015; its maturity and flexibility enabled it to adapt to organizational changes as well as to scope extensions in all of the relevant activities.

The civil site emergency management was also centralised in favour of the entire Group.

The environmental offence prevention system, set forth in Legislative Decree 231, was expanded under the regulatory changes enforced, resulting in a revision of the thematic information flows.

The accident rates are unchanged in frequency and in severity.

1.07.03 INDUSTRIAL RELATIONS, DEVELOPMENT AND STAFF TRAINING

Industrial relations

The new Hera Group's Industrial Relations Protocol with the National Category Unions was signed on 28th July 2015. This protocol applies to the whole Group's workforce and covers all of the Hera Spa territories, areas and subsidiaries nationwide. The new protocol, which is required in light of the new corporate and regional status of the Group, provides for a new three-tier system of industrial relations: Group, business/chain units or single controlled company, and territorial structural unit. The protocol will continue to include prior/final information, joint review/comparison and bargaining stages. An Industrial Relations Committee will be established for Hera Group, to promote an information and joint-analysis model of the reference scenarios; the formerly launched technical Observatory for organizational innovation and work quality (LaborHERA) will also be reappointed. Meeting minutes covering Hera Group's organizational and corporate development - resulting from the unbundling requirements - were also signed with the National Secretariats and the Group's Union Coordination Board. Through dedicated meetings, the parties also activated a preparatory course focused on the new corporate scenario, covering any ensuing aftermaths.

In the Friuli Venezia Giulia and Veneto areas, union agreements were signed to achieve more uniform working hours and Performance Bonus remuneration. Through such arrangements, bonus economics as well as working hours are now entirely consistent in comparison to the Emilia-Romagna area. In the Veneto, canteen treatments were also uniformed. In the Marche area, as part of the Performance Bonus renewal, the parties went on to define new targets, aimed at improving results in terms of quality, productivity and profitability. In addition, an extra bonus for security parameter advancement was defined. New minimum services to be delivered in case of strike were also defined through agreement minutes between Hera and the environmental unions of the Bologna area. The lawful joint examination procedure on the transfer from Geo Nova to Herambiente of the landfill and stocking management business unit was also completed.

Development

Our commitment to training and to spreading the Group's leadership model continued: a series of initiatives aimed at managers and executives have been implemented since 2010. The "focus on service" training sessions - mainly designed for the Group's executives, managers and directors - took place in the first term of 2015 and the AcegasApsAmga and Marche Multiservizi employees were fully integrated in the scheme. The sixth climate survey, started up in the 2nd half of the year, saw a growing participation by our workforce; while the outcomes will be published in early 2016, we will simultaneously define a number of centrally directed and budget-unit directed upgrading steps.

The Good Return Policies project, funded as of 19th March 2013, ended on 18th March 2015. After its approval by all of the unions, the final accounting for the project was sent to the Ministry; the ensuing value consistency and reported activity assessment by the Ministry yielded excellent results. A new Development Process for the entire Group was also underway in 2015; all the profiles involved in evaluation and calibration were trained and about 5,000 people underwent performance and managerial skill assessment.

Training

In the first half of 2015, as many as 141,190 hours of training were delivered at Group level: 16.9 hours per capita (14.6 in 2014), with an increase of about 16%. Still at Group level, about 92% of the employees were involved in at least one training activity. The related economic investment, net of trainee and in-house trainer costs, amounted to € 766,702, of which € 95,018 from training funds.

A total of 262,125 training hours were delivered in 2015: 31.4 hours per capita (28.2 in 2014), increasing by roughly 11%. At Group level, about 99% of the employees were involved in at least one training activity. The economic investment, net of trainee and in-house trainers cost, equalled € 1,730,725, of which € 578,986 from training funds. The above figures confirm the Group's substantial economic and resource effort to promote its human capital’s growth and advancement; this was also achieved through the consolidation of HerAcademy, the Group's corporate university. As to the HerAcademy programs, particularly noteworthy is the workshop held on 14th December, called *Waste Cycle Sustainability* and *New Lifestyles in a Changing Society*, as well as the development of a school-work scheme management model, based on a work-and-school skills integration approach. This was started up following the memorandum of understanding with the Emilia-Romagna Regional Education Office, signed on 25th September 2015, which provides for 180 training schemes alternating school and work, and for summer internships over the next three years.

Diversity and Welfare

On 18th March 2015, the Good Return Policies funding scheme ended; from 2013, the scheme allowed to train 75 people returning from parental or family care leave, and to involve 50 people in group coaching. Through this project, agreements have been signed since 2013 with nurseries close to the Hera offices in Modena, Ferrara, Forlì and Rimini. These agreements have made it possible to deliver an affordable, flexible service to colleagues even in areas that still had not been able to benefit from a company or intercompany nursery.

The positive summer camp experience continued in 2015 for the employees' children: 152 children benefited from the service under particularly favourable conditions during the summer weeks, with a 50% contribution to the registration fee for the first week, along with Cral and through agreements with local partners in Emilia-Romagna. Moreover, in line with the balancing approach, the scheme was extended to colleagues from AcegasApsAmga and Marche Multiservizi.

The DeMailing project, aiming to reduce the number of emails exchanged in the company through awareness-raising, information and technological upgrade, was activated in 2015 with several positive outcomes, such as work time streamlining.

1.07.04 COMMERCIAL POLICY AND CUSTOMER CARE

Growth of the Group's client base

The Group's customer base saw a further growth in 2015, with varying performance in the individual services. The number of gas customers rose by 0.9%, thanks to the Alento Gas entry (+12thousand customers approximately).
The Electricity client base grew by 7.7% as a result of the marketing action developed in the Group's historical territory, where growth was consistent between the residential and the non-residential segments.
The water service customers grew by 0.3%, in line with the same change detected in the previous financial year.

Contracts	31-Dec-15	31-Dec-14	Delta pdf n.	delta pdf %
Gas	1.327,6	1.316,2	11,4	0,9%
Electricity	856,8	795,2	61,6	7,7%
Water	1.449,4	1.444,6	4,9	0,3%
District heating	11,8	11,5	0,3	2,4%

Data expressed in thousands

A growing number of customers contact Hera Comm through the web channel

The paperwork volumes handled by Hera Comm's contact channels (customer front desks, call centers, mail and on-line services) saw a slight decline in 2015 (1.5%), almost entirely due to the improvement of consumption estimates and to transparency in the contracting and billing stages. The call center is still the most widely used contact channel (53.5%), followed by customer assistance front desks (28.4%) and by the web channel (12.6%), where the filed procedures grew by 4.6% compared to 2014. The web channel increase ensues from the upgrading measures implemented in the online services, which were shared through accurate communication policies, so as to enable our final customers to manage their needs in an easier, faster and more efficient way.

Call centres as customers' favourite channel

Investments in technology to improve call centre efficiency and innovation continues in 2015. The development and full implementation of the telephone platform, activated in 2014, has led to significantly improved quantitative and performance indicators. Proactivity towards the customer is also ongoing, aimed at increasing the direct debiting and electronic delivery of bills. Special attention is paid to staff training and problem solving in order to perfect the one-call solution and to increase customer satisfaction.
At the end of 2015, the Group's network had 123 front desks. During the year, the points present in the different areas were further standardised and developed and their management process was consolidated; the inauguration of the Udine front office, whose layout is in line with Hera Comm's front desks, is among the results.
Below are the main front office and call centre indicators (Hera Comm).

Average waiting time - contact center (sec.)	2013	2014	2015
residentials customers	49	40	30
business customers	31	31	26

Average waiting time - customer (min., sec.)	2013	2014	2015
average	11,45	11,06	8,54

1.08 INFORMATION SYSTEMS

Corporate evolution

The Information System management supported the Group's corporate evolution with the launch and completion of the projects ensuing from the Romagna Compost and Hare merger into Herambiente and from the extension of this solution to former Akronplants.

Standardisation of systems in other companies

The plan aimed to harmonize the other companies' systems within the Group's enterprise platforms is ongoing. The AcegasApsAmg three-year migration plan continues and HeraComm Marche, Alento Gas, Synergy, Tri-generation, Insignia have also underwent migration.

Regulatory adjustment

The first planning stage of the unbundling program, of the 2.0 bill and of the electronic invoicing targeted to the public administration was completed. The specifications set forth by a number of resolutions - such as electric turning, the new electric grid code, commercial quality, remote reading and residential gas meter management (basic functionality) – were also implemented.

Support to business

Several projects were completed in this sector, such as the asset and financial planning system, the marketing campaign management and the analytical laboratory management. In the mobile sector, newly designed applications were integrated with the Group's systems, to assist in meter enrollment management and in surveying.

Reduction of technology risk

Among the various activities scheduled for technology risk reduction this year, it is worth mentioning the launch of a gradual adoption of highly performative and scalable engineered systems, to support the Group's IT solutions.

DSI process efficiency

The fine-tuning of the new managerial organization was completed, along with the adjustment of the impacted processes.

Information system safety

The IT and enterprise data safety systems, in compliance with data protection regulations, are among the key objectives of the Information Systems Division. Our commitment to preventing and monitoring potential cyber attacks is ongoing, through a periodic risk analysis on the production systems(vulnerability assessment), through updates of the existing systems and through new specialized solutions. This setting is the ground for the 2015 plans to update the anti-virus and identity managemenent systems, as well as to implement the database access monitoring system.
During the year, audits were conducted for the renewal of ISO 9001, ISO 14001 and OHSAS 18001.

1.09 PERSONNEL STRUCTURE

Human Resources

Hera Group's employees with open-ended contracts as of 31st December 2015 equal 8,426 (consolidated scope) and are distributed by role as: executive managers (146), middle managers (526), office clerks (4,449), and workers (3,305). This setup ensues from 257 entries and 350 exits and from changes in company structure*, which introduced a hundred new units. Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

(*) Entries: (Alento GAS +3TI; BIOGAS +6TI; GEONOVA +11TI; WASTE RECYCLING +70TI; REW TRASPORTI +22TI). Exits: (TOTF -12 TI)

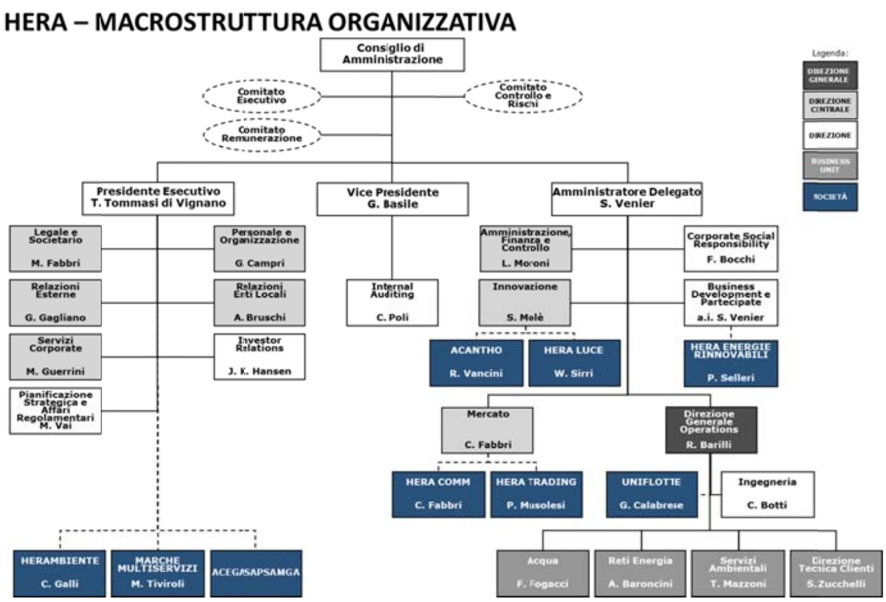
Structure

Industrial and operational integration: the Hera model

The Hera model stands out in the multi-utility industry for implementing its industrial and operational integration under one leading holding company, which ensures a group-wide view through a central management unit in charge of setting and control. Activity management is enacted through dedicated business lines, where coordination and guidance of the operational areas are entrusted to the Operations General Department. The utility sector changes constantly and rapidly due to competitive dynamics, to a specialty-oriented regulatory setting, and to other key elements such as water and environmental services legislation, service allocation tenders and regional regulations. Accordingly, growth in such a setting rests on the ability of enterprises to innovate the industrial processes on a regular basis.

Innovation and streamlining of operating processes

Besides consolidating its structural model, in 2015 the Group continued to streamline its operating processes and was further committed to technological and process innovation, with the aim of securing the tools needed to pursue the Group's aims.
Below is the Group's organizational macrostructure:



The General Operations Department saw the remodelling of the Engineering Department structure, aimed to overcome the distinction between Large Plant and Network System Engineering, with planning, design and work construction skills made to converge into a single organizational ambit.
In line with regulatory developments on functional unbundling, logistic changes to spin off the distribution of gas and electricity have been enacted and are scheduled to be implemented in July 2016.
As far as the Energy Network Department is concerned, the overall management structure was rearranged with a view to streamlining the model. The District Heating Department and the Relevant Production Units function (CHP Imola) were relocated within the Market Central Department, as they were not directly affected by unbundling legislation and were consistent with district heating guidelines.
As part of the streamlining, it is worth mentioning the reallocation of the Technical Services Department - previously under Central Innovation - into the Technical Customer Department, to back the management role in the delivery of technical customer services group-wide.

Through its structure, processes, resources and systems, the Group aims to balance its business prospects and territorial roots while pursuing maximum effectiveness and efficiency in service delivery.

Uniforming AcegasApsAmga's organisational model

AcegasApsAmga's structural harmonization plan was still ongoing in 2015. To this purpose, procurement, fleet management and facility management were conveyed into Purchases, Contracts and Services.
A company-wide project aiming to improve performance and service in AcegaApsAmga contact structures was launched, promoting an integrated view of the diverse customer management issues.

Main developments in Herambiente

The activities that led to the merger through incorporation of Akron into Herambiente, operational from 1st July 2015, are complete as at 30th June 2015; they aim to bolster our leading role in the waste-to-energy market, completing the value chain downstream of the standard treatment process.

By virtue of the merger, seven plant areas located in Emilia Romagna and comprising storage, sorting, treatment and recovery facilities, were conveyed into Herambiente.

As to the Production Department, following AcegasApsAmga's sale of the Padua and Trieste WTE plants, Hestambiente was established with operational effect from 1st July 2015, aimed to strategic business development and to underpinning our leading role in the waste disposal sector.

The Geo Nova business branch, including two landfills and a storage facility located in the provinces of Verona and Pordenone. was acquired by Herambiente in the fourth quarter of 2015, with operational effect as of 29th December 2015.

This operation is designed to boost Herambiente's role as a partner for the disposal and brokerage services targeted to North-Eastern companies in Italy, by detecting business opportunities in the special waste market for all of the segments within Herambiente's scope (e.g. small and medium sized companies, global service, etc).

The merger of Herambiente Recovery and Romagna Compost into Herambiente is also completed as of 31st December 2015. By virtue of this merger, the Cesena dry digestion plant (compost and digesters chain) and the Mantua sorting and recovery plant (selection and recovery chain) converged within the Herambiente Production Department. Both operations aim to uphold our leading role in the waste-to-energy sector, completing the value chain downstream of the standard treatment process.

Corporate-wise, *Waste Recycling* was finally acquired as of 31st December 2015, aiming to strategic business development and to supporting our leading role in the waste disposal industry in Tuscany.

As to the Market Central Department, in addition to the above changes to the District Heating Department and to the Relevant Production Units, below are the main changes:

Main developments in the Market Central Department

- effective as of March 2015, Hera Comm's Top Business Market section underwent rearrangement, while a structure was outlined for Hera Energy Services, which oversees and develops integrated electrical and thermal energy management as well as energy efficiency and heat improvement services;
- effective as of 1st April 2015, a structure was defined for Amga Energy&Services consistently with Hera Comm's steering guidelines, and Hera Comm's Costing and Forecasting function was also reorganized;
- effective as of February 2015, Hera Comm's Corporate Market function was reorganized;
- effective as of 1st January 2016, the new Energy Services Department was established to focus on the Energy Service business as well as to attain transversal cooperation between the group companies operating in this area and the District Heating Department.
- effective as of 1 January 2016, the Direct Selling structure in the Top Business market was reallocated within the Marketing and Indirect Sales Management (renamed *Marketing and Sales*) in order to underpin the overall coverage of the Top Business customer segment, and to encourage interaction with strategic marketing setting activities.

Main development in the Central Entities Department

The treasury function was reallocated within the Central Department of Administration, Finance and Control.

In the Central Unit area, it is worth mentioning:

- effective as of 1st January 2016, the reallocation of Uniflotte's supplier and general accounting within the Department of Administration, Finance and Control, in line with the Group's operating model;
- with reference to the structural changes ensuing from the above spin-offs, the reallocation - effective as of 1st January 2016 - of the Insurance structure, which was previously under the Customer Technical Department and which reported directly to Risk Management and Insurance at the Central Legal and Corporate Affairs Department.

Finally, effective from July 2015, the Group's operating model in terms of business continuity management was formalised, aiming to define the management system that best ensures the business stability of priority corporate processes, in the event of highly impacting accidents.

New committees: Management Review and Business Review

In addition to the internal committees, appointed directly by the Board to perform an advisory and proactive role in specific areas of expertise, the Group's management provides for two collegial committees:

- Management Review, which deals with examining and sharing corporate policies, strategies, goals and operational planning group-wide, as well as with fostering integration between corporate entities.
- Business Review, whose duty is to report on periodic operating performance to each of the corporate business areas, and to assess the progress of specific budget unit actions set forth under the budget and business plans.

1.10 RISK AND UNCERTAINTY FACTORS

Risk Corporate Governance

Hera's organizational structure is designed for optimal management of any risk exposure arising from its business; it benefits from an integrated approach, aimed to uphold management effectiveness and profitability across the entire value chain. Hera's internal risk management auditing enables organisational strategies to be handled uniformly and consistently. In such a system:

- the Board of Directors plays a guiding role and assesses the adequacy of the internal auditing and risk management system;
- the President and CEO supervise - within their ambits - the internal auditing and risk management functionality;
- the Vice President oversees the coordination between the Risk Committee and the Audit and Risk Committee;
- the Audit and Risk Committee supports the Board of Directors in defining internal monitoring and risk management guidelines;
- the Risk Committee is the main policy-making, auditing and reporting organ for risk management; besides setting the general risk management guidelines, it maps and screens business risk, ensures that Risk Policies are set forth and outlines the information protocols targeted to the Audit and Risk Committee, to the Internal Auditing Management and to the Statutory Auditors.

Risk monitoring and management are functionally separated roles in Hera, and risk owners are in charge of the different articulations that deal with governance and with the adequacy of assessment in risk management processes. More specifically, the correct and effective functioning of the Internal Control and Risk Management System is monitored centrally, through a broad mandate entrusted to the Internal Auditing direction, which reports directly to the Vice Chairman of the Board.

The two main corporate bodies responsible for supervising the risk issue in accordance with their responsibilities are described in more detail below.

The Audit and Risk Committee

Under Principle 7 of the Self-Governance Code, the Audit and Risk Committee oversees the internal auditing system, the efficiency of corporate operations, financial reporting consistency, compliance with laws and regulations, as well as the protection of company assets. It is the committee's duty to support - after relevant preliminary action - the Board of Directors in assessments and decisions related to the risk management system. Meetings are attended by the Chairman of the Board of Statutory Auditors or by another Auditor appointed by the Board Chairman; upon invitation by the Committee Chairman, the CEO and the Chairman of the Board of Directors may also attend.

The Risk Committee

The Risk Committee was appointed by the Board of Directors on 28th April 2014 and consists of: Hera Spa's Executive Chairman, Vice Chairman and Chief Executive Officer; the Central Director of Administration, Finance and Control; the Central Director of Market, and the Enterprise Risk Manager. In relation to specific pertaining issues, the Central Director of Legal and Corporate Affairs, the Central Director of Corporate Services, the Central Director of Innovation and the CEO of Hera Trading Srl are also expected to attend.

The Risk Committee is the principal policy-making, monitoring and reporting organ for risk management and is responsible for

- defining the general risk management process guidelines; mapping and monitoring business risk;
- ensuring that risk policies and measurement parameters are defined and submitted for approval to the Hera SpA Board of Directors;
- reporting to the Board on a half-yearly basis;
- defining and securing the information protocols towards the Audit and Risk Committee, the Internal Auditing Direction and the Board of Auditors.

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

Enterprise Risk Management

Hera has adopted the Enterprise Risk Management (ERM) best practice in order to establish a systematic, consistent approach to risk control and management, and to create an effective guidance, monitoring and representation model, aiming to the adequacy of management processes and to their consistency with the final administration targets. This approach has been endorsed with the Board of Directors' approval of the Group Risk Management Policy, which defines the group's stance on risk issues and identifies its Risk Management Framework; this is detailed through

- the Risk Model, identifying the reference scope for all risk management analysis carried out by the Group
- the Group's Risk Appetite, which defines acceptable risk levels consistently with a given risk management strategy, through the identification of key risk scales, risk metrics and their associated limitations
- Risk Management activities, classified as 1) Enterprise Risk Management, aimed to examine the evolution of the Group's overall risk profile, to develop mitigation strategies and to monitor their implementation, and 2) Continuous Risk Management, which requires a persistent sector-specific risk management approach, entrusted to dedicated risk Specialists / risk Owners, in line with ad-

hoc processes and methods which are developed and enacted within the relevant risk policies.

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

Risk type and applicable management

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

Internal Risks

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

Risks associated with environmental impact regulations

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

Risks associated with regulations on workers' health and safety

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

Risks associated with logical and physical safety

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

Risks associated with service disruption

To safeguard business continuity, the Disaster Recovery and Business Continuity project was completed in the ICT sector, to provide technology infrastructure hosting at a secondary site.

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

Strategic Risks

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

External Risks

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

Competitive-regulatory risks

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

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

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

With reference to regulations, competitive and regulatory risks arise when creating or altering the economic, organizational and IT requirements to be met by Hera; such risks stem from potential market structure changes induced by them. They have an impact on the network business (water, gas and electricity supply), where regulatory risks ensue from Aeegsi's definitions of rate processing and market criteria (electricity and gas sale). To address these risks, a Group structure liaises with national and local authorities, carries out extensive consultation with institutional stakeholders, actively partakes in working groups established by the authorities and adopts a transparent, co-operative, proactive approach towards regulatory instability.

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

Risks associated with weather and climate variability

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

Financial risks associated with the energy market

These are related to variations in energy, gas and other fuel prices, which affect the final result in the purchase and sale of electricity and gas. To handle these risks, processes have been structured for effective procurement and hedging, with a clear-cut focus on the skills involved. The Group's approach provides for a single interface for 'risk to market' management, i.e. HeraTrading, which covers the group's risk positions through specific portfolios for fuel and electricity, ensuring that risk management is unified under the terms of the respective policies. There are many advantages to this approach, such as higher levels of coverage, cost optimization by resorting less to the market (through position netting) as well as greater flexibility in structuring the procurement and in supplying customers. The implemented process continued to show adequate strength even in 2015, in terms of both risk assessment and risk control, while ensuring compliance with the limits set by the group's direction.

Financial risks associated with the debt market

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

Financial risks associated with counterparties

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

1.11 CORPORATE GOVERNANCE REPORT

1. 1. Issuer profile

The Hera Group was born in 2002 out of the integration of 11 Emilia-Romagna public service companies, and in the subsequent years continued its territorial growth in order to expand its core business.

Hera is one of the leading Italian multi-utilities in the waste management, water, gas and electricity businesses, with more than 8,500 employees.

The Company, the majority of whose share capital is owned by the State, has been listed on the Mercato Telematico of Borsa Italiana S.p.A. since 26 June 2003 and operates mainly in the territories of Bologna, Ravenna, Rimini, Forlì, Cesena, Ferrara, Modena, Imola and Pesaro-Urbino, and since 1 January 2013, following the integration with the Acegas-Aps Group, in the territories of Padua, Trieste and Gorizia as well. Following the aggregation with Amga – Azienda Multiservizi S.p.A., which was completed as of 1 July 2014, Hera extended its activities to include the Municipality of Udine and the Province of Udine as well.

Hera's goal is to become the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates, while respecting the local environment.

As early as 2003, Hera included corporate social responsibility as part of its strategy, as an effective tool for increasing competitivity and as a key element for achieving sustainable development. The Mission and Values outline the guidelines for corporate behaviour already contained in the Code of Ethics and shape every action taken by and relationship maintained by the Group. Mission, values and shared conduct represent the strategic and cultural framework within which the industrial plan is formulated, results are reported transparently through the Sustainability Report, and economic planning is defined on an annual basis.

Hera grants special attention to dialoguing with its stakeholders and the local area in which it operates, consolidating positive results achieved in terms of creating value and demonstrating the Group's ability to grow despite the current complex economic conditions.

2. Information on the ownership structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Finance Act (TUF)) as at 22 March 2016.

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

The share capital is Euro.1,489,538,745, fully subscribed and paid-up, and consists of 1,489,538,745 ordinary shares with a par value of Euro1 each. Share Capital Structure Type of share Number of shares

Type of shares	number of shares	% of share capital	Listed	Rights and obligations
Ordinary shares		100%	MTA of Borsa Italiana	Ordinary shares give holders dividend and voting rights provided for 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)

Declarer	Direct shareholder	% of share capital
Municipality of Bologna	Comune di Bologna	9.731%
Municipality of Imola	CON.AMI	6.939%
Municipality of Modena	Comune di Modena	6.519%
Municipality of Ravenna	Ravenna Holding Spa	5.540%
Municipality of Trieste	Comune di Trieste	4.603%
Municipality of Padova	Comune di Padova	4.234%
Municipality of Udine	Comune di Udine	2.963%
Gruppo Società Gas Rimini Spa	Gruppo Società Gas Rimini Spa	2.066%
Carimonte Holding Spa	Carimonte Holding Spa	2.001%

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, there is a Voting Trust and Share Transfer Rules Agreement in existence between 117 public shareholders concerning procedures for the exercise of voting rights and the transfer of Hera shares held by the signatories. This agreement was signed on 23June 2015 for a period of three years and is effective from 1 July 2015 to 30 June 2018.

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

There is also a Consultation Agreement in existence, renewed on 22 February 2016 by five minority shareholders of Hera S.p.A., concerning procedures for the exercise of voting rights and the appointment of members of the Board of Directors and of the Board of Statutory Auditors.

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 28 April 2015 authorized, pursuant to the limits established by Article 2357 of the Italian Civil Code, to purchase, within 18 months of the date of the resolution, on one or more occasions, up to a revolving maximum of 60 million ordinary Hera shares with a par value of Euro1 each, in accordance with the following conditions:

i. unit purchase price not lower than the par value and not more than 10% higher than the reference price recorded on the stock-market trading day preceding each individual purchase;
ii. the purchases and all the deeds concerning the treasury shares may occur at a price that does not involve negative economic consequences for the company, and must occur in compliance with the laws, regulations and provisions established by the supervisory body and/or Borsa Italiana S.p.A., involving a maximum increase in investment of 150 million Euros.
iii. use of the treasury shares purchased within the scope of transactions representing investment opportunities or other transactions involving the allocation or disposal of treasury shares;

It is also stated that the number of treasury shares in the portfolio at the close of the 2015 financial year was 14,944,960.

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

Hera abides by the provisions of the Corporate Governance Code (hereinafter referred to as the "Code"), which contains a detailed series of recommendations concerning principles and rules for the management and control of listed companies, in order to increase the clarity and concreteness of persons and roles, particularly with regard to the independent directors and the internal committees of the Board of Directors.

Although adoption of the principles contained in the Code is not demanded by any legal obligation, the Company agreed to the principles of the Code, and to the modifications and integrations so as to reassure investors that a clear and well-defined organisational model exists within the company, with appropriate divisions of responsibility and powers and a correct balance between management and control, as an effective tool for enhancing and protecting the value of its shareholders' investment.
The full text of the Code is available to the public on the Committee for Corporate Governance website http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.pdf

4. Board of Directors;

a) Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter l) of the TUF)
The shareholder's meeting held 23 April 2014 appointed a Board of Directors, whose mandate lasts from now until the approval of the financial statement for the 2016 financial year, on the basis of the regulations established by the Articles of Association currently in force, which establish that the administrative body by composed of 14 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 2 must be of the less-represented gender;
- 3 members taken from the lists that were not the one that obtained the highest number of votes and which were neither presented nor voted on by shareholders associated with the shareholders who presented or voted for the majority list, of which at least 1 must be of the less-represented gender;

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

There is a Voting Trust and Share Transfer Rules Agreement in existence between the local authority shareholders which governs the procedures for drawing up the majority list.

There is also a Consultation Agreement in existence, renewed on 22 February 2016 by five minority shareholders of Hera S.p.A..

Plans of succession

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

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

. 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 organized and to operate in such a way as to guarantee the effective and efficient performance of its duties, thereby ensuring the creation of value for shareholders and defining the nature and the level of risk compatible with the issuer's strategic objectives, the Company's Articles of Association provide that the Board of Directors be vested with the widest powers for the ordinary and extraordinary management of the Company without any limitations, with the power to carry out all acts considered necessary or appropriate for the pursuit of the corporate purpose, excluding only those which, by law or by virtue of the Articles of Association, are strictly reserved to the Shareholders' Meeting. .

In particular, in accordance with the provisions of the Articles of Association, and in addition to the definition of the structure of the Group, deliberations on the following matters fall to the exclusive competence of the Board:

I. * appointment and/or removal of the Chairman and Vice Chairman;
II. * appointment and/or removal of the CEO and/or the General Manager;
III. * formation and composition of the Executive Committee, appointment and/or removal of the members of the Executive Committee;

IV. * determination of the powers delegated to the Chairman, the CEO and/or the General Manager and/or the Executive Committee, and modification of those powers;
V. * approval and modification of any long-term plans or business plans;
VI. * approval and modification of Group regulations, if adopted;
VII. * recruitment and/or appointment, on the proposal of the CEO, of the managers responsible for each departmental area;
VIII. * proposal to place on the agenda of the Shareholders' Meeting the modification of Article 7 (Public majority shareholding), Article 8 (Limits on shareholdings), Article 14 (Validity of Shareholders' Meetings and rights of veto) and Article 17 (Appointment of the Board of Directors) of the Articles of Association;
IX. * the acquisition and disposal of equity investments with a value exceeding Euro500,000 (five hundred thousand);
X. * purchase and/or sale of properties with a value exceeding Euro500,000;
XI. * provision of sureties, liens and/or other real guarantees with a value exceeding Euro500,000;
XII. * purchase and/or sale of companies and/or business units;
XIII. * appointment of directors of subsidiaries and/or affiliates;
XIV. * participation in calls for tender and/or public procedures involving the assumption of contractual obligations exceeding Euro 25 million.

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

The Board of Directors met on 10 occasions in 2015. All the directors took part in 7 of these meetings, while almost all of them took part in the other 3; all the statutory auditors took part in 7 of the meetings, while almost all of them took part in 3. The average length of the meetings of the Board of Directors was approximately two hours and fifty-five minutes.

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

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

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

As for the current financial year, as of 22 March 2016 4 meetings of the Board of Directors have been held; 3 of these meetings were attended by all of the directors and all of the standing auditors while the other ones were attended by almost all of the directors and all of the standing auditors. As of that date, 7 meetings of the Board of Directors have already been scheduled for the remainder of the year.

Transactions with Related Parties

At its meeting of 10 October 2006, the Board of Directors of Hera S.p.A. approved, in compliance with 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 subsequently updated on 21 December 215 ("Consob Regulation"). .

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

In the Procedure, the Board of Directors fully adopted the definitions of "Related Parties" and "Transactions with Related Parties", as well as all the directly associated definitions, contained in the Consob Regulation and its annexes.

In particular, the following were identified:

1. the types of transactions with Related Parties to which the Procedure applies:
    - "Transactions of Major Importance", or transactions in which at least one of the indices of importance determined by the Consob Regulation exceeds the threshold of 5%;
2. "Transactions of Minor Importance", or transactions with Related Parties that are neither of Major Importance nor of Negligible Amount;
    - "Ordinary Transactions", or transactions which (a) fall within the ordinary conduct of the company's operating activities or associated financial activities; and (b) are carried out under conditions: (i) similar to those normally applied to unrelated parties for transactions of a comparable nature, scale and risk, (ii) based on regularly applied tariffs or established prices, or (iii) comparable with those applied to parties with whom the company is legally obliged to deal for a determined consideration;
    - "Transactions of Negligible Amount", or transactions for which the maximum foreseeable amount of the consideration or of the value of the service does not exceed, for each transaction, the sum of Euro1 million;
    - "Transactions with Related Parties carried out by Subsidiaries".
3. 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 Internal Control Committee (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 and 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 Committee for Internal Control and risk management.
The Procedure also identifies the cases to which the Procedure does not apply, as well as governing the procedures for communication with the public on the transactions carried out.
Beginning May 2014, a specific Operational Guideline was applied by Hera and its subsidiaries and subsequently updated on 31 March 2016, in order to detail the information reported in the Procedure and outline the rules, roles and responsibilities, as well as operational activities, implemented by the company.

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

On 24 February 2016, 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 judgment with regard to the functioning of the Board.
This evaluation was carried out with the support of the external consultancy Spencer Stuart, governance experts and administrative body consultancy services, and is based on the following criteria:

- interviews with the members and chairman of the Board of Statutory Auditors
- analyses of international best practices;
- an analysis of the culture of the Board of Directors
- an examination of company documents.

The table below shows the current composition of the Board of Directors. The personal and professional details of each director are available on the website www.gruppohera.it.

Name and surname	Office held	Title
Tomaso Tommasi di Vignano	Chairman	Executive director
Stefano Venier	Chief Executive Officer	Executive director
Giovanni Basile	Vice President	Independent non-executive director
Mara Bernardini	Director	Independent non-executive director
Forte Clò	Director	Independent non-executive director
Giorgia Gagliardi	Director	Independent non-executive director
Massimo Giusti	Director	Independent non-executive director
Riccardo Illy	Director	Independent non-executive director
Stefano Manara	Director	Independent non-executive director
Luca Mandrioli	Director	Independent non-executive director
Danilo Manfredi	Director	Independent non-executive director
Cesare Pillon	Director	Non-executive director
Tiziana Primori	Director	Independent non-executive director
Bruno Tani	Director	Independent non-executive director

Accumulation of positions in other companies.

In a resolution dated 10 October 2006, the Board of Directors placed a limit of one on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of executive director, and a limit of two on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of non-executive director.

The Board of Directors ensures that its own members participate in initiatives aimed at increasing their own knowledge of Hera's sector of activities, its company dynamics and their developments, as well as the regulatory reference frame.

d) Delegated bodies

Chairman of the Board of Directors

The Board of Directors, at its meeting of 28 April 2014, passed a resolution to grant the following powers to the Chairman:

1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the CEO;
3. to oversee the deliberations of the Company's administrative bodies, without neglecting the reports presented periodically by the Internal Auditing Department;
4. to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;
5. in cases of urgency, in association with the CEO, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
6. in association with the CEO, to propose to the Board of Directors the appointment of Company representatives on the administrative and control bodies of affiliate companies;
7. to represent the company in relations with the shareholding Public Authorities;
8. to propose to the Board the candidates for membership of the Committees that the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or that it intends to establish;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. to supervise the Company's performance for the purposes of achieving the corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
12. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
13. to supervise the management of the Company and, as far as his authority permits, of its subsidiaries, reporting each month to the Board of Directors;
14. to draw up the Long-term Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;

15. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
16. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies that do not constitute joint-stock companies, of which the Company is a member, with the power to issue special proxies;
17. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
18. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (Consob), the Ministry for Foreign Trade, and the Italian Exchange Office, and any other Public Administration or Authority; by way of example:

    a) to sign notices, including notices to the General Register of Shares and to Consob, and to fulfill the corporate obligations provided by law and regulations;

    b) to submit reports, motions and appeals, to apply for licenses and authorizations;
19. to represent the Company in all active and passive lawsuits, in all degrees of civil and administrative proceedings, before arbitration boards, with the widest powers to:
    a) to bring jurisdictive, conservative, restraining and executive actions, request summary judgments and seizures of property and oppose the same, enter civil proceedings, file motions and appeals;
    b) request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
20. to stipulate and sign contracts and deeds to take on or dispose of shares, to constitute companies, associations and consortiums with a value not exceeding Euro500 thousand 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 Euro300 thousand for each operation;
22. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
23. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of Euro2 million for each transaction;
24. to provide for all the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
    a) works and supplies necessary for the transformation and maintenance of properties and plants up to an amount of Euro20 million 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 Euro10 million 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, either 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 calls for tender 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; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of Euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding Euro 25 million will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
27. to take out, modify and cancel insurance policies, with the cost limit referring to the annual premium, including for surety policies, up to the value of Euro500 thousand for each operation (this limit will not apply to transactions connected with participation in tenders);
28. to draw up, sign and implement deeds of sale, purchase, and expropriation of properties and to grant, modify or cancel the in rem rights associated with these properties, with the option of carrying out all the operations associated with and consequent to this, including paying and/or receiving, also in installments, the payment, and to pay out possible damages and waive statutory mortgages, up to a total of Euro500 thousand for each operation;
29. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of Euro500 thousand for each operation;
30. to rent or let out properties under leases or subleases and stipulate, amend and terminate the relative contracts;
31. to deliberate the cancellation, reduction or restriction of mortgages or liens registered in favour of the Company, as well as subrogations in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;
32. to establish, register and renew mortgages and liens on the account of third parties and to the benefit of the Company; permit mortgage cancellations and limitations

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

33. to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of Euro 5 million for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
34. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel hiring and management in compliance with the annual budget; propose the engagement of directors for each department to the Board of Directors, in consultation with the Executive Committee; engage, appoint and dismiss personnel in accordance with the provisions contained in the annual budgets; promote disciplinary sanctions, dismissals and any other measure in relation to personnel;
35. to represent the Company in all lawsuits pertaining to labour law, including the power to:
    a) settle individual labour disputes concerning the categories of officers, clerical workers, assistants and auxiliaries;
    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. to represent the Company before Social Security and Welfare offices and entities for the settlement of issues relating to employees of the Company, and also before Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the related documents;
37. to grant and revoke powers of attorney within the scope of the aforesaid powers, for individual deeds or categories of deeds, to both employees of the Company and to third parties including legal entities;
38. as far as his authority permits, to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than Euro300 thousand for each operation;
39. the Chairman is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of 30 June 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;
40. the Chairman, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is charged, as far as his authority permit, with the establishment and maintenance of the Internal Control and Risk Management Systems. To this end, as far as his authority permits, he: :
    a) ensures that the Risk Committee identifies the main business risks, taking account of the characteristics of the activities carried out by the Company and

its subsidiaries, and periodically presents those risks for examination by the Board of Directors,

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

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

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

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

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

Chief Executive Officer

During the same meeting, the Board of Directors passed a resolution to vest the Group CEO with the following powers:

1. + to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. * in cases of urgency, in association with the Chairman, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
3. to implement corporate and Group strategies, within the context of the directives established by the Board of Directors, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
4. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
5. to draw up the annual budget to be submitted to the Board of Directors;
6. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
7. to make monthly reports to the Board of Directors, as far as his authority permits, as regards the specified subsidiary companies;
8. to sign company 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 Euro1 million for each individual transaction;
10. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising available funds or lines of current account credit;

11. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
12. to draw bills on customers, endorse (also for discount) promissory notes, bills and drafts as well as cheques of any kind, and effect any consequential transaction;
13. to grant credit on behalf of the Company, with and/or without recourse, up to a maximum amount of Euro250 million for each individual transaction, and to work with factoring companies and institutions, signing all related deeds;
14. to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank, as well as before the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, and Post and Telegraphic Offices; by way of example:
    a) to sign tax and VAT returns and to fulfil any other tax-related obligations;
    b) to submit reports, motions and appeals, to apply for licences and authorisations;
    c) to issue receipts, in particular for payment orders in relation to credits subject to factoring operations;
    d) to perform any transaction at the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for the shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages or registered and insured letters, issuing receipts for the same;
15. to issue guarantees and grant loans, and sign bank surety agreements up to the value of Euro500 thousand for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
16. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
17. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international levels, both private and public; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of Euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding Euro 25 million will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
18. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
19. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of Euro2 million for each transaction;

20. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of Euro300 thousand for each operation;
21. to conclude transactions up to an amount of Euro5 million for each individual operation, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
22. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of Euro 500 thousand for each operation;
23. to grant and revoke powers of attorney within the scope of the aforesaid powers, for individual deeds or categories of deeds, to both employees of the Company and to third parties including legal entities;
24. as far as his authority permits, to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than Euro300 thousand for each operation;
25. the CEO is assigned the role of "Employer" pursuant to and for the purposes of Article 2 of Legislative Decree 81 of 9 April 2008 and subsequent amendments and integrations, with the duties provided for therein and with the power to delegate, as far as is permitted by said decree, the performance of any activity useful and/or necessary for ensuring compliance with the provisions of the law, with the exception of the following Sectors/Structures, for which the role of Employer is attributed as indicated below:
    a) Mr. Marcello Guerrini, as Corporate Systems Central Director.
    b) Mr. Roberto Barilli, as Operations General Director and in particular for the regulated services planning and coordination department
    c) Mr. Salvatore Molè, as Innovation Central Director.
    d) Mr. Alessandro Baroncini, as Director of Energy Networks;
    e) Mr. Franco Fogacci,as Director of Water;
    f) Mr. Tiziano Mazzoni, as Director of Environmental Services;
    g) Mrs. Susanna Zucchelli, as Technical Director of Clients;
    h) Mr. Carlo Botti, as Engineering Director (especially for planning and implementing large plant engineering projects);
    i) Mr. Cristian Fabbri, as Director of the Central Market Department (especially for activities regarding district heating, the Imola cogenerator productive unit and all the plants and activities falling under this authority).
26. the CEO is responsible for managing activities relating to the Register of Freight Carriers, with the power of delegation;
27. the CEO, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is charged, as far as his authority permits, with the establishment and maintenance of the Internal Control and Risk Management Systems. To this end, as far as his authority permits, he: :

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

Hence both the Chairman and the CEO are executive directors.

Neither of the two executive directors can be described as the principal supervisor for the management of the company (chief executive officer).

Information to the Board

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

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

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

e) Executive Committee

The Board of Directors, appointed during the Shareholders' Meeting of 23 April 2014, 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 2016, as provided for by Article 23.3 of the Articles of Association, at its meeting of 28 April 2014, appointed the Executive Committee consisting of the following members: :

- Mr. Tomaso Tommasi di Vignano Chairman of the Executive Committee
- Mr. Giovanni Basile Vice Chairman of the Executive Committee;
- Mr. Stefano Venier member of the Executive Committee.
- Mr .Riccardo Illy member of the Executive Committee.

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

1. as to contracts and agreements in any way pertaining to the corporate purpose with a value exceeding Euro2 million for each individual contract;
2. in the interests of the Company, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, with a value exceeding Euro 300 thousand and up to Euro 1 million for each operation;
3. as to the Company's subscription to bodies, associations and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the said entity and where participation in the same involves an outlay of more than Euro 300 thousand and up to Euro 1 million for each operation;
4. to settle disputes and/or waive credits of an amount exceeding Euro 5 million;
5. as to the activation, amendment and termination of contracts for the opening of lines of credit or loans of any type and duration involving a cost commitment of more than Euro1 million and up to Euro5 million for each operation;
6. as to issuing calls for tender and/or the stipulation, amendment and termination of contracts for investments relating to:
   - works and supplies necessary for the transformation and maintenance of properties and plants for an amount exceeding Euro 20 million for each operation;
   - purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding Euro10 million for each operation.
7. To examine Audit Reports on a three-monthly basis
8. to supervise, in conformity with the system of delegations defined within the Company, the implementation of the action plans arising from the audit reports.
9. examine the reports for the mapping and monitoring of financial risks on a three-monthly basis;

The Board of Directors met on 4 occasions in 2015, and all of the meetings were attended by all members. The average duration of the meetings of the Executive Committee was approximately one hour and fifty minutes. .

f) Independent directors

There are currently 11 directors qualifying as non-executive independent members of the Board, in that:

a) they do not control the Company directly or indirectly, including via subsidiary or trust companies or third parties; they do not exercise significant influence over the Company; they are not party to any shareholders' agreement whereby one or more parties may exercise control or significant influence over the Company;
b) they are not currently, nor have they been in the last three financial years, important representatives of the Company, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the Company, or of a company or body which, also together with others as a result of shareholders' agreements, controls the Company or is able to exercise significant influence over it;
c) they do not currently have, nor have they had in the previous financial year, either directly or indirectly, any significant commercial, financial or professional relationship:
   - with the Company, 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 Company, 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;

d) they have not received in the last three financial years, from the company or from a subsidiary or parent company, significant supplementary remuneration (in addition to the "fixed" emolument of the Company'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;

e) they have not held the office of executive director in another company in which an executive director of the Company holds the office of director;

f) they are not shareholders or directors of a company or entity belonging to the network of the firm appointed to audit the Company's accounts;

g) they are not close relatives of a party in one of the positions described in the previous points;

h) they satisfy the requirements of independence set forth under Article . 148, paragraph 3 of the TUF.

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.

As regards Hera directors who have held office for more than nine years, the Board of Directors has resolved that these directors also possess the requisites of independence, in that the duration of the assignment alone does not constitute a factor that invalidates in and by itself the independence of directors, since it does not condition either the independence of their judgment, or the free exercise of this judgment.

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

Induction

As occurred in the past for new appointments to the Board, it was decided to arrange for some occasions of further reflection, both specific and as part of Board meetings. With the renewal of the Board of Directors in 2014, the Group has intensified this activity in order to ensure that new directors acquire adequate knowledge of the main issues related to the company as quickly as possible.

As in previous years, after the specific induction sessions carried out in 2014 to provide newly appointed board members with an appropriate understanding of the main sectors of activity (networks, energy and environment), during 2015 several training events were organized, as part of the Board of Directors' meetings, regarding business issues, regulatory developments, subsidiaries and investments.

5. Handling of corporate information

For the purposes of governing the communication to the sector Authorities and to the public of notices, data and price-sensitive information pertaining to the management and activities carried out, whose dissemination might have an impact on the processes used for valuing the Company's shares, and consequently on the levels of demand and supply of those shares, on 15 February 2007 the Board of Directors adopted a specific procedure aimed at:

i) identifying price-sensitive and confidential information;
ii) defining procedures for authorization and management within the Group;
iii) governing the procedures for external communication in terms of documentation, notices issued, interviews given, statements made and meetings conducted.

Additionally, in applying the new procedure adopted by Hera S.p.A. on 27 March 2006 with regard to internal dealing, and in accordance with Article 152-sexies of the Consob Issuers' Regulation, the following individuals have been identified as significant parties obliged to inform Consob of the transactions they have carried out on Hera S.p.A.'s financial instruments: the members of the Board of Directors, the Statutory Auditors and the shareholders who hold an equity investment equal to or greater than 10% of the share capital, as well as individuals closely linked to these parties.

In conformity with the provisions of the Issuers' Regulation, the timescales and procedures for communication of the operations carried out by the significant parties have been identified by the procedure adopted by Hera S.p.A. 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 Department for disseminating the information to the market by means of the NIS screen-based system (Network Information System).

Furthermore, in accordance with the provisions of Article 115-bis of the Tuf and Article 152-bis of the Issuers' Regulation no.11971 of 14 May 1999, introduced by means of Consob resolution no.15232 of 29 November 2005, as of 1 April 2006 Hera S.p.A. set up the "Register of Individuals who, as a result of work or professional activities, or in relation to the functions performed, have access on a regular or occasional basis to privileged information", this being understood as information (i) of a precise nature; (ii) directly or indirectly concerning the issuer or its financial instruments; (iii) which has not been made public; and (iv) which, if made public, could considerably influence the prices of these financial instruments (price-sensitive information).

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

The internal committees, formed in compliance with the Code of Conduct of Borsa Italiana Spa, are an internal structure of the Board of Directors with an advisory and consulting role and its membership is available on the website www.gruppohera.it.

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 23 April 2014, redefined the composition of the afore-mentioned committees at its meeting of 28 April 2014.

a) Appointments Committee

It was decided that the Board of Directors would fulfill 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

It is noted that, in 2015, the Remuneration Committee handled matters relating to remuneration policies, subject to approval by the Board of Directors at the time of the 2015 financial statement. For information relating to this Section, please refer to the Remuneration Report 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 28 April 2014, is made up of Giovanni Basile as Chairman, Massimo Giusti, Stefano Manara and Danilo Manfredi. At least one member of the Internal Control Committee has experience in accounting and financial matters judged adequate by the Board of Directors at the time of the appointment.

The Controls and Risks Committee met on 8 occasions in 2015. All the members took part in 6 of these meetings, duly recorded in the minutes, while almost all of them took part in the remaining two; The average length of the meetings of the Internal Controls Committee was approximately one hour and fifteen minutes.

Functions assigned to the Controls and Risks Committee

The Controls and Risks Committee is tasked with supporting the decisions and assessments of the Board of Directors in relation to the internal control and risk management system and concerning the approval of periodic financial reports through adequate surveying and evaluative activities.

In carrying out its supportive role in relation to the Board of Directors, the Committee therefore expresses its judgment concerning:

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

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

d) together with the Appointed Manager in charge of drafting corporate financial documents and in consultation with the legal auditor and Board of Statutory

Auditors, evaluates the proper use of accounting principles and their homogeneity in relation to drafting balance sheets and financial statements more generally;

e) expresses its judgment regarding specific aspects of the identification of primary corporate risks;

f) analyses periodic reports concerning the assessment of the internal control and risk management system as well as those drafted on at least a bi-annual basis by the Supervisor of the Internal Auditing Structure;

g) communicates to the Board of Directors its preventative judgment regarding the proposals developed by the Directors in charge of the internal control and risk management system in relation to measures regarding the appointment and dismissal of the Supervisor of the Internal Auditing Structure, allotting this figure adequate resources for the completion of his or her responsibilities as well as establishing appropriate remuneration in keeping with corporate policies;

h) monitors the autonomy, effectiveness and efficiency of the Internal Auditing Structure;

i) evaluates the findings of the Internal Auditing Structure Supervisor's reports, of statements from the Board of Statutory Auditors and each of its individual members, of reports and any possible management letters from Independent Auditors, and of surveys and investigations carried out by other committees of the company and third parties;

j) may ask the Internal Auditing Structure to perform checks on specific operational areas, contextually communicating the results to the president of the Board of Statutory Auditors;

k) communicates to the Board of Directors about the activities performed by and the adequacy of the internal control and risk management system at least on the occasion of the annual and bi-annual approval of the financial statement.

During the course of the meetings held during 2015 financial year, which were duly recorded, the following measures were carried out:

- evaluation of the effectiveness of the Internal Control System;
- preparation of the periodic Reports of the Internal Auditing Department;
- preparation of the periodic Reports of the Internal Controls and Risks Committee;

The Committee also examined the audit reports, held regular meetings with the head of Internal Auditing for Hera, AcegasApsAmga Spa, the Board of Statutory Auditors and the Independent Auditors, met with the Chief Financial Officer, carried out the risk assessment and prepared the three-year plan, prepared the 2016 Business Plan and budget of the Internal Auditing Department.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman and, at the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO, attend the Committee's meetings.

In the performance of its functions, the Controls and Risks Committee had access to the information and business functions necessary for carrying out its duties.

In relation to the 2015 financial year and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy, efficacy and effective functioning of the internal control and risk management system in relation to the features of the company and the type of risks it takes on.

d) Ethics Committee

Composition and functioning

During its meeting of 12 September 2007, the Board of Directors of Hera 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.

Consequently, in application of Article 60 of the aforementioned Code, the Board of Directors, at its meeting of 8 October 2007, set up a suitable Committee, whose composition was renewed on 28 April 2014. This Committee comprises a director of Hera S.p.A. in the person of Massimo Giusti, Mario Viviani, and a manager with expertise in matters of social responsibility.

The Board of Directors of Hera S.p.A., at its meeting of 26 January 2011, at the end of the three-year experimental phase of using the Code of Ethics, adopted an updated text of the Code with a view to implementing it within the Company.

In 2013, following a second three-year period of application, the Code of Ethics was again assessed and updated in line with Article79 of the Code. This second update was carried out by involving employees to an even greater degree, with the objective of defining standards of conduct that are as shared as possible within the Group.

In 2014 the code was subjected to an additional update concentrating on a number of technical as well as value-based and cultural aspects.

The Board of Directors met on 8 occasions in 2015, and all of the meetings were attended by all members. The average duration of the meetings of the Ethics Committee was approximately one hour and thirty minutes

Functions of the Ethics Committee

The Ethics Committee is responsible for monitoring the dissemination and implementation of as well as compliance with the principles of the code of ethics. Since 2008, the year the Code of Ethics came into effect, an ethics committee was established for which Whistleblowing policies are in effect, designed to provide a confidential and direct channel of communication with the committee for all the stakeholders interested in reporting any possible conduct in violation of the code and the values promoted by the Group.

In the meetings held during the course of the financial year the Committee closely examined new reports and updated those already in progress.

7. Internal Control and Risk Management System

The Hera Group is committed to promoting and maintaining a suitable internal control and risk management system understood as a collection of regulations, procedures and organizational structures aimed at allowing the business to be run in a manner that is consistent with the objectives established by the Board of Directors through the identification, evaluation, management and monitoring of the primary risks.

In its meeting of 24 July 2013, The Hera S.p.A. Board of Directors approved the guidelines for the Hera Group Internal Control and Risk Management System, which constitute the disciplinary framework of reference under which the Hera Group adopts uniform organizational and management rules in the area of internal control and risk management, simultaneously emphasizing the role of strategic direction played by the

Board of Directors of the parent company and explicitly defining the responsibilities and tasks of each actor involved in implementing the Control System.
On 11 November 2015, the Board of Directors approved the internal audit activities plan for the 2016-2018 three-year period, and on 21 December 2015 approved the specific work plan for the year 2016.

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.
On 24 March 2011, the Board of Directors of Hera S.p.A. created the Hera Group Risk Committee, defining its components, aims and operational modes.
The Hera S.p.A President and CEO oversee, within their scope of responsibility, the functionality of the internal control and risk management system.
The Risk Committee meets periodically multiple times throughout the year and comprises:

- Hera S.p.A President;
- Hera S.p.A CEO;
- Hera S.p.A Vice President;
- Market Central Director;
- Administration, Finance and Control General Director;
- Enterprise Risk Manager.

Additionally, in relation to specific domains of responsibility, the following may also participate:

- Hera Trading S.r.l CEO;
- Legal and Corporate Central Director;
- Innovation Central Director;
- Corporate Systems Central Director.

The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of risk management and is responsible for:

- defining the general guidelines for the Risk Management process;
- providing for the mapping and monitoring of corporate risks;
- ensuring the definition of Risk Policies and measurement parameters to be submitted for approval by the Hera S.p.A. Board of Directors;
- providing for the bi-annual accounting submitted to the Hera S.p.A. Board of Directors;
- defining and ensuring information protocols directed to the Controls and Risks Committee, the Internal Auditing Management and the Board of Statutory Auditors.

Relevant risks handled by the Risk Committee pertain to the following areas: strategic, energy, finance, credit, insurance, information and communication, technology, safety and the environment, and business continuity.

The Hera Spa Board of Directors, in its meeting of 13, May 2015, approved the Enterprise Risk Management (ERM) process, and, in the meeting of the Board of Directors of 20, January 2016 the board approved the Hera Group Guideline "Group Risk

Management Policy "aimed at outlining the guidelines for risk management at the Group level.

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. 58 of 24 February 1998 (Tuf) - article 154-bis of the TUF; ;
- Law no. 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 to the Appointed Managers in charge of drafting corporate financial documents (Article 2434 c.c.) for corporate management, for disloyalty crime originating from conferred or promised utility (Article 2635 c.c.) and for the crime of obstructing the functions of public and surveillance authorities (Article 2638 c.c.); . . ;
- Legislative Decree 231/2001 that references the above-mentioned regulations of the Civil Code and the administrative responsibility of legal subjects for crimes committed against the Public Administration and includes the Appointed Manager in charge of drafting corporate financial documents among the Apical Subjects.

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

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

As part of the internal control and risk management system pertaining to the financial information process, the Appointed Manager has set up an administrative and financial control Model - Regulation of the Appointed Manager for drafting corporate financial documents (hereafter also "The Model") approved by the Hera spa Board of Directors in the meeting held 15 May 2013, 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:

1. Risk assessment for the identification and evaluation of risks regarding company information;
2. Identifying controls and updates for the financial-administrative procedures in view of the identified risks;
3. Evaluation of the identified risks.

Step 1: Risk Assessment
represents the process of identifying the risks connected to the financial statement (risks of unintentional errors or fraud) that might have an effect on the financial statement, and is carried out under the supervision of the Appointed Manager, at least on an annual basis.
This process aims at identifying the set of objectives that the system seeks to pursue in order to ensure a truthful and accurate representation. Risk Assessments, carried out according to a top-down approach, concentrates on those areas of the financial statement wherein potential effects on financial information have been located in relation to the failure to achieve these control objectives.
As part of the process of Risk Assessment, the following tasks are carried out:

- identifying the Group companies considered relevant in view of the proper functioning of the Group's control system for corporate reporting;
- identifying the list of corporate processes that have been identified as relevant in view of the proper functioning of the Group's financial and administrative control system;
- a review of the overall adequacy of the current Financial and Administrative Control Model.

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

Step 2: Identifying controls and updates for the financial-administrative procedures
In relation to companies, statement items and processes that are considered relevant, the necessary checks for mitigating the risks identified in the previous step are carried out taking into consideration the control objectives associated with financial reporting.
Based on the above, Hera SpA has established an internal control system under which the directors of corporate functions periodically verify the design and operating effectiveness of control activities, each for the areas under his or her jurisdiction.

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

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

In the course of these activities, the Appointed Manager evaluates at each given time what degree of involvement, of the directors of corporate departments and of contact persons within the Subsidiary Companies, is necessary for carrying out assessment activities.

On a bi-annual basis, the Hera Spa Appointed Manager and CEO receive specific internal statements from Hera Group subsidiary companies and relevant connected companies in reference to the completeness and reliability of information flows for the purposes of financial reporting.

On a bi-annual basis, the Appointed Manager 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 effective as of 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 28 April 2014, the Board of Directors has set forth that, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, the Chairman and CEO are charged, as far as their authority permits, with establishing and maintaining the Internal Control and Risk Management Systems.

The Chairman and CEO, in keeping with their mandates:

- ensure that the Risk Committee identifies the main business risks, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and periodically present those risks for examination by the Board of Directors,
- implement the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their appropriateness, effectiveness and efficiency,

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

c) Internal auditing department manager

In order to ensure an adequate functioning of the internal control and risk management system, the Internal Auditing department, whose manager reports directly to the Vice President, ensures that the internal control system is always adequate, fully operational and functions in such a way as to achieve an acceptable level of overall risk.

The Internal Auditing Manager provides a report on his or her activities, every three months or whenever he or she considers it necessary, to the CEO, the Chairman of the Board of Directors, the Internal Controls and Risk Management Committee and the Board of Statutory Auditors. He or she is hierarchically independent of the heads of operational divisions and may have direct access to all information necessary for the performance of his or her duties.

Through the establishment of an adequate Risk Assessment and three-yearly Audit Plan:

- provides a synthetic and comparative assessment of the primary risk areas and associated control systems, performing updates through the meetings that take place with management;
- according to the varying level of risk of corporate processes, prioritizes the duties of the Internal Auditing department.

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

Legislative Decree no. 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. In particular, the law introduced the criminal liability of entities for certain offences committed in the interest or to the advantage of those entities by persons fulfilling roles of representation, administration or management of the entity or of one of its organisational units with financial and operational independence, or by persons who exercise management and control thereof, including on a de facto basis, and lastly, by persons subject to the direction or supervision of one of the above-mentioned parties. Significant offences are those committed against Public Administration and corporate offences committed in the interest of the companies. .

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 Law no. 123/07 and Legislative Decree no. 190/2012, 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 comprises 24 protocols. The organizational, management and model

The organisational, management and control model pursuant to Legislative Decree no. 231/2001 has also been adopted by subsidiaries with strategic importance.

Consequently, the Board of Directors set up the supervisory board, renewed 23 April 2014, comprising the head of Internal Auditing of Hera S.p.A. as Chairman, the head of Legal and Corporate Affairs of Hera S.p.A. and an external member, to which the aforementioned duties are entrusted, including the task of periodically reporting to the corporate bodies of Hera S.p.A. on the implementation of said model.

The supervisory board met on 6 occasions in 2015 and all these meetings were attended by all the members.

The average length of the meetings of the supervisory board was approximately one hour and fifteen minutes.

The Supervisory Board updated the 231 protocols that make up the organisational model.

The Supervisory Board also examined the system of information flows that allow it to supervise the functioning of and compliance with the models, as well as examining the reports that followed from the audits and examining legislative developments pursuant to Legislative Decree 231/2001 and planning further activities.

In order to carry out the checks and controls, the Supervisory Board drew up a schedule of measures for checking compliance with the protocols adopted.

e) Independent Auditors

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

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

In compliance with the provisions of the Tuf and the Company's Articles of Association, in consultation with the Board of Statutory Auditors, the Board of Directors resolved on 1 October 2014 to appoint Luca Moroni to the role of Finance and Control Administration Central Director, in the post of Appointed Manager in charge of drafting corporate financial reports. He is in possession of the professional qualifications set forth in Article 29 of the Company's Articles of Association, in compliance with the Tuf (Article 154-bis, paragraph 1).

The Appointed Manager is additionally responsible for establishing adequate financial-administrative procedures for the creation of the financial statement and consolidated financial statement as well as any other financial communication. To this end, the Appointed Manager will have access to a dedicated budget approved by the Board of Directors and an adequate (in terms of quantity and quality of resources) organizational structure dedicated to the preparation/updating of financial-administrative procedures and periodical assessment activities concerning the suitability and actual application of financial-administrative rules and procedures. If the internal resources prove to be insufficient for the suitable management of these activities, the Appointed Manager is permitted to exercise the power of expenditure granted to him or her. .

The Board of Directors verify that the Appointed Manager has access to adequate powers and means to carry out the tasks entrusted to him or her by Article . 154-bis, and also monitor that financial and administrative procedures are being followed.

The Appointed Manager communicates and exchanges information with all the administrative and control bodies of the Company and of the Group's subsidiaries, including but not limited to:

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

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

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

- periodic coordination meetings focused in particular on the process of drafting financial reporting 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. Appointment of the statutory auditors

The auditors are appointed by the shareholders' meeting on the basis of the voting list system set forth in Article 26 of the Statute. In particular, 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.

The composition of the Board of Statutory Auditors, beginning from the first renewal of this board following the effective date of Law 120/2012, and therefore with effect beginning from the shareholders' meeting called to approve the Financial Statement as at 31 December 2013, and with reference to its first three consecutive terms, complies with current regulations relating to gender balance.

The lists must be delivered to the registered office at least 25 days before the date set for the meeting, together with the curriculum vitae of the candidates and a declaration from each individual candidates stating that he or she accepts the office and certifying that there are no causes of ineligibility, incompatibility or revocation as established by law, and the existence of the requirements of integrity and professionalism required by law for members of the Board of Statutory Auditors. The lists must also be accompanied by a statement certifying that there are no agreements or connections of any kind with other shareholders who have presented other lists, and a list of the administrative and control positions held by the candidates in other companies. These lists must be made available to the public at the registered offices and on the website www.gruppohera.it, no less than 21 days prior to the date of the Shareholders' Meeting.

In the event of the replacement of a sitting Statutory Auditor, he or she will be succeeded by the alternate Auditor belonging to the same list as the Auditor to be replaced, respecting the principles of minority representation and gender balance.

For the purposes of the provisions of legislation in force concerning the requirements of professionalism for members of the Board of Statutory Auditors of listed companies, "business matters and sectors strictly pertaining to the activities performed by the Company" means the business matters and sectors associated with or pertaining to the activity performed by the Company and cited in Article 4 of the Articles of Association. .

The office of Statutory Auditor is incompatible with the offices of councilor 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.

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

The Board of Statutory Auditors comprises three statutory members and two alternate members. The Board of Statutory Auditors, whose term expired upon approval of the financial statements for the year ended 31 December 2013, was renewed during the course of the Shareholders' Meeting of 23 April 2014 and will remain in office until the approval of the financial statements for the 2016 financial year.

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

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

The Board of Statutory Auditors met 17 times in 2015; 13 of these meetings were attended by all statutory auditors, while 4 were attended by almost all of them. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours and ten minutes.

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

There is also a consultation agreement in existence, signed on 22 February 2016 by five minority shareholders of Hera S.p.A., concerning the appointment of members of the Board of Statutory Auditors.

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

9. Relations with shareholders

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

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

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

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

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

The resolutions of extraordinary shareholders' meetings concerning the modification of Article 6 ("Shares"), Article 7 ("Public majority shareholding"), Article 8 ("Limits on shareholdings"), Article 14 ("Validity of Shareholders' Meetings and rights of veto") and Article 17 ("Appointment of the Board of Directors") of the Articles of Association will be valid if they are passed on the basis of a vote in favour by attending shareholders representing at least three-quarters (rounded if necessary) of those with voting rights.

The shareholders' meeting of 29 April 2003 approved the text of the meeting regulations, which indicate the procedures to be followed in order to permit the orderly and proper functioning of meetings, without prejudicing the right of each shareholder to express his or her opinion on the matters under discussion.

The shareholders' meeting of 27 January 2011 modified the text of the regulations in order to take into account the new provisions introduced by Legislative Decree no. 27 of 27 January 2010 concerning the "Implementation of Directive 2007/36/EC ("Shareholders' rights directive"), as well as to adapt the regulations to certain organizational requirements. The new, updated version is published on the Company's website at www.gruppohera.it.

During the 2015 financial year, one shareholders' meeting was held on 28 April, which was attended by 12 directors.

Table 1: structure of the Board of Directors and Committees

Board of directors													Risks and control committee		Remun. Committee		Appointment Committee		Executive Committee		Ethics committee	
Office	Member	Date of birth	Date of first nomination *	In office since	In office until	List **	Exec.	Non exec.	Indep. Code	Indep. TUF	Number of other offices held ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Tomaso Tommasi di Vignano	1947	04-nov-02	23-apr-14	Appr. F.S. 2016	M	X				1	10/10							P	4/4		
CEO	Stefano Venier	1963	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X				-	10/10							M	4/4		
Vice Pres.	Giovanni Basile	1965	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/10	P	8/8	P	3/3			M	4/4		
Director	Mara Bernardini	1957	01-gen-06	23-apr-14	Appr. F.S. 2016	m		X	X	X	1	10/10			M	2/3						
Director	Forte Clò	1951	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/10										
Director	Giorgia Gagliardi	1982	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/10										
Director	Massimo Giusti	1967	23-apr-14	23-apr-14	Appr. F.S. 2016	m		X	X	X	-	9/10	M	8/8			n.a.				P	8/8
Director	Riccardo Illy	1955	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/10							M	4/4		
Director	Stefano Manara	1968	28-ago-13	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/10	M	7/8								
Director	Luca Mandrioli	1967	29-apr-11	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/10			M	3/3						
Director	Danilo Manfredi	1969	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	9/10	M	7/8								
Director	Cesare Pillon	1953	01-gen-13	23-apr-14	Appr. F.S. 2016	M		X			-	10/10			M	3/3						
Director	Tiziana Primori	1959	23-apr-14	23-apr-14	Appr. F.S. 2016	M		X	X	X	-	10/10										
Director	Bruno Tani	1949	27-apr-06	23-apr-14	Appr. F.S. 2016	m		X	X	X	-	9/10										
Indicate the quorum required for the presentation of the lists for the last appointment: the lists can be presented by sharehoders who hold at least 1% of the voting shares in the ordinary shareholders' meeting																						
Number of meetings held during the year in question							BoD 10			RCC: 8		RC: 3	AC: /				CE: 4				Ethics C: 8	

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. The positions are described in full in the report on corporate governance.*

(*) This column indicates the percentage of attendance by directors at the meetings of the Board of Directors and of the Committees (indicate the number of attended meetings as compared the total number of meetings that he or she could have attended, e.g.. 6/8; 8/8 etc..).

(**) This column indicates the role played by the director on the Board: "P": Chairman, "M": member.

Table 2: structure of the Board of Statutory Auditors

Board of Statutory Auditors									
Office	Member	Date of birth	Date of first appointment *	In office since	In office until	List **	Indep. Code	*** (%)	No. of other offices ****
Chairman	Santi Sergio	1943	16-ott-03	23-apr-14	Appr. F.S. 2016	m	X	15/17	-
Standing statutory auditors	Girolomini Marianna	1970	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X	16/17	-
Standing statutory auditors	Gaiani Antonio	1965	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X	16/17	-
Alternate statutory auditors	Frasnedi Violetta	1972	23-apr-14	23-apr-14	Appr. F.S. 2016	m	X	-	-
Alternate statutory auditors	Bortolotti Valeria	1950	23-apr-14	23-apr-14	Appr. F.S. 2016	M	X	-	-
Indicate the quorum required to present lists for the last appointment:									
Article 26 of the Statute specifies that (i) municipalities, provinces and consortia constituted pursuant to art. 31 of Legislative Decree. no. 267/2000 or Agencies or Public Authorites, as well as consortia or companies controlled directly or indirectly by these are allowed to present a single list and (ii) the shareholders other than those listed in (i) may present lists provided that they represent at least 3% of the shares entitled to vote (percentage reduced to 1% by Consob Resolution no. 18775 of 29/01/2014)									
Number of meetings held during the financial year in question: 17									

** 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. .*

1.12 SHAREHOLDERS' MEETING RESOLUTIONS

The Hera Spa Shareholders' Meeting:

- having acknowledged the Board of Directors' report;
- having acknowledged the Statutory Auditors' report;
- having acknowledged the Independent Auditors' report;
- having examined the financial statements at 31 December 2015, which closes with profits totalling € 171,977,932.13;

resolves

- to approve Hera Spa's financial statements as at 31 December 2015 and the corporate governance report prepared by the Board of Directors;
- to allocate profits for the 1 January 2015 – 31 December 2015 financial year, for a total of € 171,977,932.13 as follows:
  - € 8,598,896.61 to the legal reserve; and
  - € 0.09 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
  - € 29,320,548.47 to the extraordinary reserve.

The total dividend paid out therefore amounts to € 134,058,487.05, corresponding to € 0.09 for each ordinary share outstanding (excluding, that is, treasury shares held in the company's portfolio);

- to establish 22 June 2016 as the initial date for dividend payment, and 20 June 2016 as ex-dividend date for coupon no. 14, dividends being paid to shares recorded at 21 June 2016.
- 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.

1.13 NOTICE CONVENING THE SHAREHOLDERS' MEETING

Dear Shareholders, you are called to an Extraordinary and Ordinary Shareholders' Meeting at the registered office of *Hera S.p.A. – Viale C. Berti Pichat n. 2/4, Bologna* – at the "*Spazio Hera"* – on **28 April 2016 at 10.00 in a single call** to discuss and resolve the following matters:

Agenda

Ordinary Part

1. Financial statements as of 31 December 2015, Directors' Report, proposal to distribute profits and report of the Board of Statutory Auditors and Independent Auditors: related and consequent resolutions; Presentation of the consolidated financial statements at 31 December 2015.
2. Presentation of the corporate governance report and non-binding resolution concerning remuneration policy.
3. Renewal of the authorisation to purchase treasury shares and procedures for arrangement of the same: related and consequent resolutions.

Extraordinary Part

1. Amendment of article 4 of the Articles of Association: related and consequent resolutions.

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

Right to attend and participation by proxy

Those who are entitled to vote at the end of the accounting day of 19 April 2016 (record date) and those from whom the Company has received the relevant notification from an authorised intermediary by the end of the third day the market is open prior to the date set for the meeting, i.e. 25 April 2015, are eligible to attend the Shareholders' Meeting. Legitimacy to participate and to vote in any case remains if the communications are received after said term, as long as this occurs before the start of the proceedings of the meeting. Those who only become shareholders following 19 April 2016 will not have the right to take part in and vote at the meeting.

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

The Company has appointed Computershare S.p.A. as a representative whom shareholders with voting rights can, by 26 April 2016, nominate as a proxy with instructions for voting on all or some of the proposals on the agenda. The proxy for the above-mentioned representative must be conferred using the methods in the dedicated proxy form available on the Company's website www.gruppohera.it.

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

Other shareholders' rights

Shareholders may also submit questions on agenda items before the date of the meeting, provided this is done by 25 April 2016 and in accordance with the procedures set forth on the Company's website www.gruppohera.it.

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

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

CHAPTER 2

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

2.01 FINANCIAL STATEMENTS

2.01.01 Income Statement

million euros	notes	2015	2014
Revenue	1	4,487	4,189
Other operating revenues	2	331	325
Use of raw materials and consumables	3	(2,257)	(1,965)
Service costs	4	(1,132)	(1,144)
Personnel costs	5	(511)	(497)
Amortisation, depreciation, provisions	6	(442)	(427)
Other operating costs	7	(62)	(57)
Capitalised costs	8	28	17
Operating profit		**442**	**441**
Portion of profits (loss) pertaining to joint ventures and associated companies	9	12	8
Financial income	10	81	145
Financial expense	10	(227)	(299)
Total financial operations		**(134)**	**(146)**
Pre-tax profit		**308**	**295**
Taxes	11	(114)	(113)
Net profit for the year		**194**	**182**
Attributable to:			
Shareholders of the Parent Company		180	165
Non-controlling interests		14	17
Earnings per share	12		
basic		**0.123**	**0.114**
diluted		**0.123**	**0.114**

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.02.01 of these consolidated financial statements.

2.01.02 Statement of comprehensive income

million euros		2015	2014
Profit (loss) for the period		**194**	**182**
Items reclassifiable to the income statement			
fair value of derivatives, change in the year	*19*	-	4
Tax effect related to the other reclassifiable items of the comprehensive income statement		-	(1)
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	26	8	(16)
Tax effect related to the other not reclassifiable items of the comprehensive income statement		(2)	4
Total comprehensive income/ (loss) for the year		**200**	**173**
Attributable to:			
Shareholders of the Parent Company		185	156
Non-controlling interests		15	17

2.01.03 Statement of financial position

million euros	notes	31 Dec 15	31 Dec 14
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	2,028	2,064
Intangible assets	*14*	2,896	2,797
Property investments		4	4
Goodw ill	*15*	378	379
Non-controlling interests	*16*	157	153
Non-current financial assets	*17, 31*	125	83
Deferred tax assets	*18*	73	68
Financial instruments - derivatives	*19*	108	103
Total non-current assets		**5,769**	**5,651**
Current assets			
Inventories	*20*	116	120
Trade receivables	*21, 31*	1,533	1,464
Current financial assets	*17, 31*	35	45
Current tax assets	*22, 31*	29	32
Other current assets	*23, 31*	226	262
Financial instruments - derivatives	*19*	7	24
Cash and cash equivalents	*17, 30*	541	834
Total current assets		**2,487**	**2,781**
Non-current assets held for sale			1
TOTAL ASSETS		**8,256**	**8,433**

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.02.02 of these consolidated financial statements.

cont.d

million euros	note	31 Dec 15	31 Dec 14
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	*24*		
Share capital		1,474	1,470
Reserves		704	676
Profit / (loss) for the year		180	165
Group equity		**2,358**	**2,311**
Non-controlling interests		145	148
Total equity		**2,503**	**2,459**
Non-current liabilities			
Non-current financial liabilities	*25, 31*	2,944	3,121
Post-employment benefits	*26*	148	163
Provisions for risks and charges	*27*	365	337
Deferrred tax liabilities	*18*	24	15
Financial instruments - derivatives	*19*	34	38
Total non-current liabilities		**3,515**	**3,674**
Current liabilities			
Current financial liabilities	*25, 31*	484	550
Trade payables	*28, 31*	1,121	1,194
Current tax liabilities	*22, 31*	26	30
Other current liabilities	*29, 31*	585	494
Financial instruments - derivatives	*19*	22	32
Total current liabilities		**2,238**	**2,300**
TOTAL LIABILITIES		**5,753**	**5,974**
TOTAL EQUITY AND LIABILITIES		**8,256**	**8,433**

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.02.02 of these consolidated financial statements.

2.01.04 Cash flow statement

million euros	notes	31 Dec 15	31 Dec 14
Pre-tax profit		**308**	**295**
Adjustments to reconcile net profit to the cashflow from operating activities:			
Amortisation and impairment of property, plant and equipment		161	171
Amortisation and impairment of intangible assets		177	168
Allocations to provisions		104	99
Effect of valuation using the equity method		(12)	(8)
Financial expense / (Income)		146	154
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)		8	(12)
Change in provisions for risks and charges		(29)	(20)
Change in provisions for employee benefits		(12)	(8)
Total cash flow before changes in net working capital		**851**	**839**
(Increase) / Decrease in inventories		4	(4)
(Increase) / Decrease in trade receivables		(125)	(120)
Increase / (Decrease) in trade payables		(76)	(12)
(Increase) / Decrease in other current assets/ liabilities		134	7
Change in working capitals		**(63)**	**(129)**
Dividends collected		5	11
Interests income and other financial income collected		50	54
Interests expense and other financial charges paid		(159)	(179)
Taxes paid		(127)	(89)
Cash flow from (for) operating activities (a)		**557**	**507**
Investments in property, plant and development		(110)	(110)
Investments in intangible fixed assets		(236)	(219)
Investments in companies and business units net of cash and cash equivalents	*30*	(67)	(13)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)		7	8
Divestment of unconsolidated companies and *contingent consideration*	*30*	1	4
(Increase) / Decrease in other investment activities		(22)	12
Cash flow from (for) investing activities (b)		**(427)**	**(318)**
New issues of long-term bonds		100	25
Repayments and other net changes in borrowings		(359)	(139)
Lease finance payments		(5)	(7)
Investments in consolidated companies	*30*	(33)	(5)
Share capital increase		9	-
Dividends paid out to Hera shareholders and non-controlling interests		(145)	(137)
Change in treasury shares		10	(19)
Cash flow from (for) financing activities (c)		**(423)**	**(282)**
Effect of change in exchange rates on cash and cash equivalents (d)		**-**	**-**
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)		**(293)**	**(93)**
Cash and cash equivalents at the beginning of the year		834	927
Cash and cash equivalents at the end of the year		541	834

In compliance with Consob Resolution no. 15519 dated 27 July 2006, the effects of relationships with related parties are accounted for in the appropriate statement of financial position outlined in paragraph 2.02.03 of these consolidated financial statements.

2.01.05 Statement of changes in equity

million euros	Share capital	Reserves	Reserves for derivatives instruments recognized at fair value	Reserve actuarial income/(losses) post-employment benefits	Profit for the year	Equity	Non-controlling interests	Total
Balance at 31 December 2013 (*adjusted*)	**1,410**	**607**	**(3)**	**(19)**	**165**	**2,160**	**145**	**2,305**
Profit for the period					165	**165**	17	**182**
Other components of comprehensive income at 31 december 2014 :								
fair value of derivatives, change in the year			2			**2**	1	**3**
Actuarial income/(losses) post-employment benefits				(11)		**(11)**	(1)	**(12)**
Total comprehensive Income for the year		**-**	**2**	**(11)**	**165**	**156**	**17**	**173**
Change in treasury shares	(8)	(11)				**(19)**		**(19)**
acquisition of Gruppo Amga	68	74				**142**		**142**
changes in equity interests		(2)				**(2)**	(3)	**(5)**
Allocation of 2013 profit :								
- dividends paid out					(126)	**(126)**	(11)	**(137)**
- allocation to ohter reserves		17			(17)	**-**		**-**
- undistributed profits to retained to retained earnings		22			(22)	**-**		**-**
Balance at 31 December 2014	**1,470**	**707**	**(1)**	**(30)**	**165**	**2,311**	**148**	**2,459**
Balance at 31 December 2014	**1,470**	**707**	**(1)**	**(30)**	**165**	**2,311**	**148**	**2,459**
Profit for the period					180	**180**	14	**194**
Other components of comprehensive income at 31 december 2015 :								
fair value of derivatives, change in the year			-			**-**	-	**-**
Actuarial income/(losses) post-employment benefits				5		**5**	1	**6**
Total comprehensive Income for the year		**-**	**-**	**5**	**180**	**185**	**15**	**200**
Change in treasury shares	4	6				**10**		**10**
Payment for non-controlling shares						**-**	9	**9**
changes in equity interests		(16)				**(16)**	(17)	**(33)**
Allocation of 2014 profit :								
- dividends paid out		(5)			(127)	**(132)**	(10)	**(142)**
- allocation to ohter reserves		8			(8)	**-**		**-**
- undistributed profits to retained to retained earnings		30			(30)	**-**		**-**
Balance at 31 December 2015	**1,474**	**730**	**(1)**	**(25)**	**180**	**2,358**	**145**	**2,503**

2.02 FINANCIAL STATEMENTS -- CONSOB RESOLUTION 15519/2006

2.02.01 Income Statement

			of which Related parties							of which Related parties					
thousand euros	Notes	2015	A	B	C	D	Total	%	2014	A	B	C	D	Total	%
Income Statement															
Revenue	1	4,487		92	312	11	415	*9.2*	4,189		85	340	30	455	*10.9*
Other operating revenues	2	331			1		1	*0.3*	325		3	1		4	*1.2*
Use of raw materials and consumables	3	(2,257)		(32)	(1)	(44)	(77)	*3.4*	(1,965)		(14)		(40)	(54)	*2.7*
Service costs	4	(1,132)		(8)	(33)	(31)	(72)	*6.4*	(1,144)		(14)	(26)	(41)	(81)	*7.1*
Personnel costs	5	(511)				(1)	(1)	*0.2*	(497)				(1)	(1)	*0.2*
Amortisation, depreciation, provisions	6	(442)							(427)						
Other operating costs	7	(62)			(2)	(1)	(3)	*4.8*	(57)			(5)	(1)	(6)	*10.5*
Capitalised costs	8	28							17						
Operating profit		**442**		**52**	**277**	**(66)**	**263**		**441**		**60**	**310**	**(53)**	**317**	
Portion of profits (loss) pertaining to joint ventures and associated companies	9	12		12			12	*100.0*	8		8			8	*100.0*
Financial income	10	81		3	1		4	*4.9*	145		3		2	5	*3.4*
Financial expense	10	(227)		(8)			(8)	*3.5*	(299)		(6)		(2)	(8)	*2.7*
Total financial operations		**(134)**		**7**	**1**	**0**	**8**		**(146)**		**5**	**0**	**0**	**5**	
Pre-tax profit		**308**		**59**	**278**	**(66)**	**271**		**295**		**65**	**310**	**(53)**	**322**	
Taxes for the year	11	(114)							(113)						
Utile netto dell'esercizio		**194**		**59**	**278**	**(66)**	**271**		**182**		**65**	**310**	**(53)**	**322**	
Attributable to:															
Shareholders of the Parent Company		180							165						
Non-controlling interests		14							17						
Earnings per share	12														
basic		0.123							0.114						
diluted		0.123							0.114						

Key of headings of related parties columns :
A Non-consolidated subsidiaries
B Jointly controlled associated companies
C Related companies with significant influence (Municipality shareholders)
D Other related parties, statutory auditors, strategic executives and the Board of Directors

2.02.02 Statement of Financial Position

thousand euros	Notes	31-Dec-15	of which Related parties A	B	C	D	Total	%	31-Dec-14	of which Related parties A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	13	2,028							2,064						
Intangible assets	14	2,896							2,797						
Property investments		4							4						
Goodwill	15	378							379						
Non-controlling interests	16	157	1	133		19	153	97.5	153		129		19	148	96.7
Non-current financial assets	17, 31	125		64	20	25	109	87.2	83		49	19		68	81.9
Deferred tax assets	18	73							68						
Financial instruments - derivatives	19	108							103						
		5,769	**1**	**197**	**20**	**44**	**262**		**5,651**		**178**	**19**	**19**	**216**	
Current assets															
Inventories	20	116							120						
Trade receivables	21, 31	1,533		22	43	6	71	4.6	1,464		19	41	16	76	5.2
Current financial assets	17, 31	35		14	2	1	17	48.6	45		20	1		21	46.7
Current tax assets	22, 31	29							32						
Other current assets	23, 31	226		4	3	2	9	4.0	262		1		18	19	7.3
Financial instruments - derivatives	19	7							24						
Cash and cash equivalents	17, 30	541							834						
		2,487		**40**	**48**	**9**	**97**		**2,781**		**40**	**42**	**34**	**116**	
Non-current assets held for sale									1						
TOTAL ASSETS		**8,256**	**1**	**237**	**68**	**53**	**359**		**8,433**		**218**	**61**	**53**	**332**	

million euros	Notes	31-Dec-15	of which Related parties A	B	C	D	Total	%	31-Dec-14	of which Related parties A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	24														
Share capital		1,474							1,470						
Reserves		704							676						
Profit / (loss) for the year		180							165						
Group equity		**2,358**							**2,311**						
Non-controlling interests		145							148						
Total equity		**2,503**							**2,459**						
Non-current liabilities															
Non-current financial liabilities	25, 31	2,944			5		5	0.2	3,121			6		6	0.2
Post-employment benefits	26	148							163						
Provisions for risks and charges	27	365							337						
Deferrred tax liabilities	18	24							15						
Financial instruments - derivatives	19	34							38						
		3,515			**5**		**5**		**3,674**			**6**		**6**	
Current liabilities															
Current financial liabilities	25, 31	484		1	14		15	3.1	550		1	32		33	6.0
Trade payables	28, 31	1,121		12	23	25	60	5.4	1,194		13	21	26	60	5.0
Current tax liabilities	22, 31	26							30						
Other current liabilities	29, 31	585		2	12		14	2.4	494		4	9	3	16	3.2
Financial instruments - derivatives	19	22							32						
		2,238		**15**	**49**	**25**	**89**		**2,300**		**18**	**62**	**29**	**109**	
Total liabilities		**5,753**		**15**	**54**	**25**	**94**		**5,974**		**18**	**68**	**29**	**115**	
TOTAL EQUITY AND LIABILITIES		**8,256**		**15**	**54**	**25**	**94**		**8,433**		**18**	**68**	**29**	**115**	

Key of headings of related parties columns :
A Non-consolidated subsidiaries
B Jointly controlled associated companies
C Related companies with significant influence (Municipality shareholders)
D Other related parties, statutory auditors, strategic executives and the Board of Directors

2.02.03 Cash Flow Statement

million euros	31 Dec 15	Of which related parties
Pre-tax profit	**308**	
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	161	
Amortisation and impairment of intangible assets	177	
Allocations to provisions	104	
Effect of valuation using the equity method	(12)	
Financial expense / (Income)	146	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	8	
Change in provisions for risks and charges	(29)	
Change in provisions for employee benefits	(12)	
Total cash flow before changes in net working capital	**851**	
(Increase) / Decrease in inventories	4	
(Increase) / Decrease in trade receivables	(125)	5
Increase / (Decrease) in trade payables	(76)	
(Increase) / Decrease in other current assets/ liabilities	134	9
Change in working capitals	**(63)**	
Dividends collected	5	5
Interests income and other financial income collected	50	4
Interests expense and other financial charges paid	(159)	(8)
Taxes paid	(127)	
Cash flow from (for) operating activities (a)	**557**	
Investments in property, plant and development	(110)	
Investments in intangible fixed assets	(236)	
Investments in companies and business units net of cash and cash equivalents	(67)	
Sale price of property,plant and equipment and intangible assets (including lease-back transations)	7	
Divestment of unconsolidated companies and *contingent consideration*	1	
(Increase) / Decrease in other investment activities	(22)	(42)
Cash flow from (for) investing activities (b)	**(427)**	
New issues of long-term bonds	100	
Repayments and other net changes in borrowings	(359)	(20)
Lease finance payments	(5)	
Investments in consolidated companies	(33)	
Share capital increase	9	
Dividends paid out to Hera shareholders and non-controlling interests	(145)	(58)
Change in treasury shares	10	
Cash flow from (for) financing activities (c)	**(423)**	
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**(293)**	
Cash and cash equivalents at the beginning of the year	834	
Cash and cash equivalents at the end of the year	541	

2.02.04 Related parties list

Values shown in the table as at 31 December 2015, refer to the related parties hereunder:

Group A - Related parties – non-consolidated subsidiaries and joint ventures:

AdriaLink S.r.l.

Black Sea Comp.Compr.GAS Ltd

Consorzio Akhea Fondo Consortile in liquidation

Inrete Distribuzione Energia Spa

Group B - Related parties – associated companies and joint ventures:

Adriatica Acque Srl

Aimag Spa

Centro Idrico di Novoledo Srl

Elettrogorizia Spa

Enomondo Srl

Energo doo

Estenergy Spa

Estense Global Service Scarl

Ghirlandina Solare Srl

H.E.P.T. Co.Ltd

Natura Srl in liquidation

Oikothen Scarl

Q.Thermo Srl

S2A Scarl

Sei Spa

Service Imola Srl

SET Spa

SGR Servizi Spa

So.Sel Spa

Tamarete Energia Srl

Group C - Related parties with significant influence:

Municipality of Bologna

Municipality of Casalecchio di Reno

Municipality of Cesena

Municipality of Ferrara

Municipality of Imola

Municipality of Modena

Municipality of Padova

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:

Aloe Spa

Romagna Acque Spa

Unica reti-Asset

Acosea Impianti Srl

Acquedotto del Dragone Impianti Spa

Amir Spa-Asset

Aspes Spa

Calenia Energia Spa

Fiorano Gestioni Patrimoniali Srl

Formigine Patrimonio Srl

Galsi Spa

Maranello Patrimonio Srl

Megas Net Spa

Sassuolo Gestioni Patrimoniali Srl

Serramazzoni Patrimonio Srl

Sis Società Intercomunale di Servizi Spa in liquidazione

Società Italiana Servizi Spa-Asset

TE.AM. Società Territorio Ambiente Spa in liquidazione

Statutory auditors, strategic executives and the Board of Directors

2.03 CONSOLIDATED EXPLANATORY NOTES

2.03.01 Consolidated explanatory notes

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

The 2015 consolidated financial statement, 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. 38/2005.

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

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

The figures in these financial statements are comparable with the same balances of the previous financial year, unless indicated otherwise in the notes commenting on the individual items. When comparing individual lines of the income statement and financial position, it is also necessary to take into account changes in the scope of consolidation as indicated in that specific section.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of and for the year ended 31 December 2014. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results.

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

In the financial statements any non-recurring costs and revenues are indicated separately.

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

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

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

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

As a result of the Group's growing size and in order to make financial reporting more effective, the Group has decided to adopt millions of Euros as its reporting unit, in contrast with the previous financial year, for which the unit used was thousands of Euros.

As a result of adopting millions of Euros as its reporting unit, furthermore, the Group has decided to group together several headings from the Financial Position table in view of the fact that they are no longer significant:

mln of euros	31 Dec 14	adjusted	31 Dec 14
Inventories	104	16	120
Contract work in progress	16	(16)	-
Non-current financial liabilities	3.096	25	3.121
Finance lease payments - maturing beyond 12 months	25	(25)	-
Current financial liabilities	547	3	550
Finance lease payments - maturing within 12 months	3	(3)	-

These consolidated financial statements, drawn up according to IAS/IFRS, have been audited by Deloitte & Touche Spa.

These consolidated financial statements as at 31 December 2015 were drawn up by the Board of Directors and approved by the same at the meeting held on 22 March 2016.

Scope of consolidation

The consolidated financial statements as at 31 December 2015 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. Small-scale subsidiaries and those in which the exercise of voting rights is subject to substantial and long-term restrictions are excluded from line-by-line consolidation and valued at cost.

Equity investments in joint ventures (as defined by IFRS 11), in which the Hera Group exercises joint control with other companies, are consolidated with the equity method. The equity method is also used to evaluate equity investments in companies over which a significant influence is exercised. Small-scale subsidiaries are carried at cost. Subsidiaries and associated companies that are not consolidated, or are accounted for with the equity method, are reported in Note 16.

Companies held exclusively for future sale are excluded from consolidation and valued at their fair value or, if fair value cannot be determined, at cost. These investments are recorded as separate items.

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2015 financial year as compared to the consolidated financial statement at 31 December 2014.

Acquisition of control	Loss of control/deconsolidation
Alento Gas Srl (1)	
Biogas 2015 Srl	
Business unit "Geo Nova"	
Waste Recycling Spa (2)	
New eco Srl (2)	
Rew Trasporti Srl (2)	
	Consorzio Akhea in liquidation
	Hera Energie Rinnovabili Spa
	Trieste Onoranze e Trasporti Funebri Srl

1) Company merged by incorporation into Hera Comm Marche Srl following its acquisition;

(2): companies acquired in the business combination with the Waste Recycling Group

Acquisition significant influence/joint control	loss significant influence/joint control
	Elettrogorizia Spa

On 29 April 2015 the Group acquired all the shares of the sales company Alento Gas Srl, thus acquiring control over it. The cash outlay for the acquisition was approximately 5 million Euros and the merger led to a client list to be registered for 5 million Euros. Later, effective as of 30 September 2015, the company was merged by incorporation into Hera Comm Marche Srl.

On 22 July 2015 the shareholders' meeting approved that the Akhea Consortium be dissolved and liquidated ahead of scheduled. The consortium, beginning from the date the liquidation was initiated, is valued at cost on the grounds that it is no longer operational, and on the basis of no longer relevant financial values.

On 29 October 2015 the Group acquired control over the company Biogas 2015 Srl, specialized in researching and developing activities related to environmental services. The cash outlay for the acquisition was approximately 8 million Euros and the merger led to intangible rights to be registered for 7 million Euros.

On 30 November 2015, Herambiente Spa acquired from Geo Nova Spa control over a business unit consisting of a waste storage facility and two operating landfills for non-hazardous waste located in Loria (Treviso) and Sommacampagna (Verona). The cash outlay for the acquisition was approximately 20 million Euros and the merger led to the recording of an increased value of the assets in the amount of approximately 18 million Euros.

On 21 December 2015 AcegasApsAmga Spa sold off its 50% share in the capital of Elettrogorizia Spa, a company that was under the Group's joint control. The divestiture operation involved the recording of a capital loss in the amount of approximately 3 million Euros.

On 23 December 2015 the Group acquired 100% of the shares of Waste Recycling Spa (which in turn holds stakes in Rew Trasporti Srl and Neweco Srl), a company operating in the province of Pisa that carries out special waste treatment and recovery activities. The cash outlay for the acquisition was approximately 34 million Euros and the merger led to a client list to be registered for 29 million Euros.

On 29 December 2015 the Group sold off 90% of its shares in Hera Energie Rinnovabili Srl, thereby losing control over the company. Concurrently, the company, now designated as a related party, has changed its corporate name to Aloe Spa. The proceeds for the divestiture at the date the transfer of shares was carried out amounted to approximately1 million Euros.

On 30 December 2015 AcegasApsAmga Spa sold off its 100% stake in the share capital of Trieste Onoranze e Trasporti Funebri Srl, which thus left the scope of consolidation on the same date.

With reference to the loss of control over the company Hera Energie Rivnnovabili, the table below indicates the assets and liabilities sold off, as well as the effects of the divestiture:

	Hera Energie Rinnovabili
Non-current assets	
Property, plant and equipment	21
Intangible assets	1
Current assets	
Other current assets	1
Cash and cash equivalents	2
Non-current liabilities	
Non-current financial liabilities	(20)
Current liabilities	
Current financial liabilities	(1)
Trade payables	(1)
Total net assets sold	**3**
Fair value of fees/payment	3
Fair value remaining equity interest	-
Total sale value	**3**
Gain/(Loss) arising from loss of control	**-**

In reference to the main operations of control acquisition previously mentioned, see the section "Other Business Combination operations" below for an analysis of their effects on the consolidated financial statements.

The lists of the companies included in the scope of consolidation are shown at the end of these notes.

Changes in equity investments

Effective 1 January 2015, Hera Energie Srl, held at 51% by Hera Comm Srl and fully consolidated, was merged by incorporation into Sinergia Srl, at the same time changing the name of this latter company to Hera Servizi Energia Srl. As a result of this transaction and Hera Comm Srl's concomitant transfer of the "heat management" bunsiness unit, the share capital of Hera Servizi Energia Srl has increased and the Group's stake has grown from from 62.77% to 57.89%.

On 20 April 2015 the Group acquired the minority shares of Akron Spa held by the remaining shareholders, passing from 57.5% to 100%. The operation involved an overall cash outlay of 27 million Euros.
Later, effective as of 1 July 2015, the company Akron Spa was merged by incorporation into Herambiente Spa, with effectiveness beginning 1 January 2015 for the purposes of accounting.

On 8 June 2015, the company HestAmbiente Srl was established by AcegasApsAmga Spa, held at 100% by the Group. Subsequently, AcegasApsAmga Spa sold its 70% stake in Hestambiente Srl (75% owned by the Group) to Herambiente Spa. The Group's interest therefore decreased from 100% to 82.50%.

On 16 September 2015 the Group acquired the shares held in the company Romagna Compost Srl by its minority shareholders, thus becoming the sole shareholder. The operation involved an overall cash outlay of approximately 3 million Euros. Effective at 31 December 2015, and with accounting and fiscal effects backdated to 1 January, the company was merged by incorporation onto Herambiente Spa.

Following the purchase of shares from the municipalities of Pesaro and Tavullia, on 24 September 2015, the Group's interest in Marche Multiservizi Spa passed from 46.39% to 49.59%. In addition, since Hera Comm Marche is controlled at 29.50% by Marche Multiservizi Spa, increasing the latter's percentage of shares also increased its interest in Hera Comm Marche from 71.07% to 72.1%. The operation involved an overall cash outlay of approximately 3 million Euros.

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

Other corporate transactions

With effect beginning 31 July 2015, the companies Naturambiente Srl and MMS Ecologica Srl, fully consolidated and 100% owned by the company Marche Multiservizi Spa, were merged by incorporation into their parent company.

Effective 1 August 2015, the shareholders' meeting of Sinergia Spa approved the partial spin-off of the company by transferring the business unit focused on the management of public lighting systems, including the entire share held in Insigna Spa, to the sole shareholder AcegasApsAmga Spa.

On 21 December 2015, with effect beginning 31 December 2015, Herambiente Recuperi Srl, fully consolidated and 100% owned by Herambiente Spa, was merged by incorporation into its parent company.

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting principle IFRS3 revised. Specifically, the management conducted analyses of the fair value of assets and liabilities and contingent liabilities, on the basis of information concerning facts and events available at the date of acquisition. The evaluation period ended on 31 December 2015.

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

million euros	Alento Gas	Biogas 2015	Business unit "Geo Nova"	Waste Recycling Group	Total business combination
Non-current assets					
Property, plant and equipment		6	29	17	52
Intangible assets	5	7		29	41
Current assets					
Trade receivables	3	1		12	16
Current financial assets				2	2
Other current assets		1		2	3
Cash and cash equivalents	1			1	2
Non-current liabilities					
Non-current financial liabilities		(3)		(4)	(7)
Post-employment benefits				(2)	(2)
Provisions for risks and charges			(8)		(8)
Deferrred tax liabilities	(1)	(2)		(10)	(13)
Current liabilities					
Current financial liabilities		(1)		(3)	(4)
Trade payables	(1)			(7)	(8)
Current tax liabilities				(1)	(1)
Other current liabilities	(1)	(1)	(1)	(2)	(5)
Total net assets acquired	**6**	**8**	**20**	**34**	**68**
Fair value of fees/payment	6	8	20	34	68
Fair value shares held					-
Non-controlling interests acquired					-
Total merger value	**6**	**8**	**20**	**34**	**68**
Goodwill / Badwill	**-**	**-**	**-**	**-**	**-**

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

	Alento Gas	Biogas 2015	Business unit "Geo Nova"	Gruppo Waste Recycling
Carying amount of acquired assets	**2**	**7**	**4**	**14**
Adjustments to fair value:				
Property, plant and equipment		4	21	1
Intangible assets	5	4		29
Goodw ill				(1)
Financial liabilities		(4)		(1)
Provisions for risks			(5)	
Other assets/liabilities		(1)		
Deferred tax assets / (liabilities)	(1)	(2)		(8)
Fair value net assets acquired	**6**	**8**	**20**	**34**
Cash payment	6	7	20	34
Potential fees/payments		1		
Fair value of fees/payment	**6**	**8**	**20**	**34**

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

- Alento Gas 5 million Euros derived from the evaluation of the gas client list.
- Biogas 2015, 4 million Euros associated with the assets held though financial leasing contracts and 7 million Euros associated with (potentially negotiable) rights over the use of biogas. Concurrently, intangible assets without recoverable value were identified in the amount of 3 million Euros;
- Geo Nova, 18 million euro related to the acquisition of landfills being developed and to their future expansion;
- Waste Recycling, 29 million Euros deriving from the valuation of customer lists, especially in view of the treatment sector in which the company operates and which is characterized by a high degree of customer loyalty.

Please see note 30 "Comments to the financial report" for an analysis of the cash flows associated with the combination operation.

Accounting policies and consolidation principles

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

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

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

The total of capital and reserves of subsidiaries pertaining 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 the paragraph "Accounting standards, amendments and interpretations applied as of 1 January 2015". As far as the income statement is concerned, the costs and revenues stated include those recorded at year-end, which have a balancing entry in the statement of financial position. In this regard, income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

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

The assets and liabilities of foreign companies denominated in currencies other than the euro which are included in the scope of consolidation are translated using the exchange rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rate for the year. Exchange rate differences are included in a reserve until the relevant foreign operation is sold.

The main exchange rates used to translate the value of the investees outside the Euro zone are as follows:

	2015	31 Dec 15	2014	31 Dec 15
	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558
Serbian Dinar	120.687	121.451	120.687	121.451

The criteria and principles adopted are outlined here below.

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

Ordinary maintenance costs are charged in full to the income statement. Improvement, upgrading and transformation costs which increase the value of the assets are capitalized to the assets concerned.

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

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

General services	% min	% max
Buildings	1	3.33
Light constructions	5	10
Generic plants	7.5	15
Laboratory equipment	5	10
Office furniture, electronic machines	6	12
Machines, systems and data processing units	10	20
Motor vehicles and means of internal transport	10	20
Cars	12.5	25
Remote control	2.5	20
Public Lighting	1.25	8

Purification service	% min	% max
Building civil w orks	1.5	3
Purification plant/Civil w orks	1.66	3.33
Purification plant	3.33	6.67
Generic and specific plants	5	15
Lifting equipment	6	12
Netw ork	2.5	5
Laboratory equipment	5	10

Gas service	% min	% max
1st stage pressure reducer stations	2.5	15
2nd stage pressure reducer stations - district - specific plant - user stations	3.13	10
Distribution netw ork in steel	1.75	8
Outlets/intakes	2.33	8
Meters	4	10
Cathodic protection	3.7	8

District heating service	% min	% max
Buildings	1.92	5.5
Generic and specific plants	3.85	9
Distribution netw ork	2.7	8
Meters	2.5	6.67
Heat exchange units	4.5	9
Equipment	5	10

Water service	% min	% max
Buildings/civil w orks	1.75	3.5
Wells	1.43	10
Captation	1.25	2.5
Production, raising and drinking w ater plants	1.43	15
Tanks	1.11	5
Pipelines and distribution netw ork	1	5
Outlets/intakes and connections	2.22	5
Meters	4	10

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

Waste management service	% min	% max
Buildings	1.5	3
Generic plants	7.5	15
Specific IIR plant		
- buildings	1 - 1,25	2 - 2,5
- fixed plant w ith real estate pertinency	1,66 -2	3,33 - 4
- external building w orks	1.66	3.33
- electricity production plants	2	4
- general plants	2.5	5
- w aste-to-energy post-combustion furnace boiler and fume recovery line	2.5	5
- w aste-to-energy heater w ith fluid bed boiler line	3.57	7.14
- steam turbine and electricity production	2.5	5
- w aste-to-energy line control systems	5	10
Specific BIOGAS plant. storage + IRE		
- buildings	1 - 1,25	2 -2,5
- fixed plant w ith real estate pertinency	1,66 -2	3,33 - 4
- external building w orks	1.66	3.33
- electricity production plants	2.5	5
- CDR packing	2.5	5
- selection, chopping, feeding and sorting plant	2,5 - 3,33	5 - 6,67
- ventilation plant	3.33	6.67
- general plant - stabilisation plant - storage tanks	2.5	5
- control systems	5	10
- containers and bins	5 -10	10 -20
- internal handling equipment	4.16	8.33
Specific w aste composting plant		
- buildings	1 - 1,25	2 - 2,5
- fixed plant w ith real estate pertinency	1,66 - 2	3,33 - 4
- external building w orks	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.5	5
- mixing plant	3,33 - 5	6,67 - 10
- palleting plant	5	10
- energy recovery plant-	2.5	5
- screening and refining plant	3,33 - 4,16	6,67 - 8,33
- w eighing plant	2.25	5
- deoxidisation/organic treatment systems	3.33	6.67
- second maturing	5	10
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10	25
Equipment	5	10
Landfill controlled	0	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.

During the financial year ending 31 December 2015, no changes were made to depreciation plans for any of the categories of tangible fixed assets.

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

Gains and losses on disposal of assets are calculated as the difference between proceeds from the sale and the book value of the relevant investment and are recognized in the income statement as the risk and benefits incident to ownership are 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 of for the provision of goods or services or in connection with company operations. As permitted by IAS 40, investment property has been recognized at cost. As such, these assets are reported at cost minus depreciation and any impairment.

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

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

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

Advertising expenses are charged directly to the income statement.

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

The concessions mainly comprise the rights associated with networks, plants and other facilities related to gas and integrated water cycle services managed by Hera Spa 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.

As for depreciation, they are calculated on the basis of the provisions of the respective conventions, and namely: i) according to a constant rate for the shorter of the following two periods: the useful life of the assets granted in concession and the duration of that same concession, provided that, when this concession expires, the outgoing operator is not granted any compensation value (Salvage value, or "SV"); ii) according to the useful life of the individual assets if, at the moment the concessions expire, the assets in question are expected to pass into the hands of the operator; trademarks and licenses are depreciated according to the duration of their associated rights (3-5 years).

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, linked to services managed by the Group. These arrangements are accounted for by applying the "intangible asset model", 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. The implementation of IFRIC 12 made it necessary to apply IAS 11 to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. So, 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 "Assets Companies", established pursuant to Art. 113 of Legislative Decree 267/00), but managed by the Group by virtue of business unit leasing contracts. These contracts, in addition to establishing the fees due, also include clauses governing the restitution of assets, normally maintained, upon payment of a balance corresponding to the net book value or the Industrial Residual Value (also taking into account the recovery funds) of these assets.

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

The depreciation commences when the asset is ready for utilisation.

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 risk and benefits incident to the ownership of the asset are transferred to the buyer.

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

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

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

In the case of business combinations that take place in phases, the equity investment previously held by the Group in the acquired company is revalued 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 there is any indication that said assets have suffered an impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total write-down. The recoverable amount is either the fair value , less sales costs or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the cash flows to which said assets belong. Future cash flows are discounted to present value at a rate (net of taxation) that reflects the current market value and takes into account the risks associated with the specific business activities.
If the recoverable amount of an asset (or of a cash generating unit) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the impairment is booked to the income statement. When there is no longer any reason for a write-down to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value that the asset would have had if the write-down had not been made for the loss in value. The write-back of the value is charged to the income statement.

Treasury shares - In application of IAS 32, treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement

Investments - Investments entered in this item refer to long-term investments.

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

Other investments and financial instruments - Other investments and financial instruments are accounted for according to IAS 39 "available-for-sale financial assets" (as discussed in the specific section). They comprise equity instruments and are evaluated at fair value in equity. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted if there are losses of value.
If the reasons for the write-down cease to exist, the investments carried at cost are revalued through profit or loss, or in equity if the investments are held as available for sale. 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.

As more fully specified hereunder, the financial assets that the Company intends or is able to hold to maturity are stated at cost, represented by the fair value of the initial consideration, increased by transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

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

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

The management determines their classification when they are first recorded.

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

Receivables and loans - This category includes assets not represented by derivative instruments and not listed on an active market, from which fixed or determinable payments are expected. These assets are valued at depreciated cost on the basis of the effective interest rate method. Should there be objective proof of indicators of impairment, the value of the assets is reduced to such an extent as to be equal to the discounted value of the flows that can be obtained in the future: losses in value determined through impairment test are recorded in the income statement. If reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from applying the amortised cost if the impairment test had not been carried out. These assets are classified as current assets, except for the portions accruing after 12 months, which are included amongst the non-current assets.

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

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

Should there be objective proof of indicators of impairments, the value of the assets is reduced to such an extent as to be equal to the discounted value of future cash flows. The negative value changes previously recorded in the shareholders' equity reserve are reversed to the income statement. The impairment previously booked is restored if the circumstances that brought about its recording no longer exist.

Environmental bonds - The Group complies with the various regulations issued in relation to the environment (directive 2003/87/CE – emission trading; Ministerial Directive 24/05 ss.mm.ii. – green certificates; Ministerial Directive 20/07/04 – energy efficiency bonds) 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), green certificates 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. The environmental bonds assigned free of charge are initially recorded at a nil value. 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 non-current assets - These are stated at par value, and possibly adjusted for any losses in value corresponding to the "amortised cost".

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. Furthermore, these assets are derecognized in the event of sale which transfers all risks and benefits associated with their management to third parties.

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

Inventories - Inventories are recorded at cost, including directly attributable costs, or net estimated realizable value, whichever is the lower. The cost configurations used for the valuation of stocks are the average cost measured on a continuous basis (used for raw materials and consumables) and the specific cost of other inventories. The net realisable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.
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.

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. Actuarial gains and losses are reported as other comprehensive income/losses. Following the Budget Act of 27 December 2006, no. 296, for companies with more than 50 employees, the severance amounts accruing after 1 January 20017 qualify as a defined-benefit plan.

Provisions for risks and charges - The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the obligation, as of the balance sheet date (assuming that there are sufficient elements for being able to make this estimate) and are discounted to present value when the effect is significant and the necessary information is available. In such event, the provisions are determined by discounting to present value the future cash flows at a pre-tax discount rate that reflects the current market valuation and takes into account the risk associated with the business activities.

When the discounting to present value is carried out, the increase in the provision due to the passing of time is recorded amongst the financial charges. If the liability relates to property, plant and equipment (e.g. restoration of sites), the contra-entry to the provision made is an increase of the asset to which the liability refers; on the other hand, the financial charges are expensed out through the depreciation process of the item of property, plant and equipment to which the charge refers. The methods envisaged by IFRIC 1 are adopted if liabilities are recalculated.

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

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

Trading activities – As part of the activities characteristic of the Hera group, activities of physical and financial commodities trading were authorized (specifically in relation to electricity) and environmental bonds. These activities are governed by specific procedures and segregated ex ante from the characteristic activities in specific “Trading Portfolios”. These activities include physical and financial contracts on commodities and environmental bonds; they are assessed at fair value and changes in fair value are recorded in the financial statement.

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

Operations which, in relation to risk management policies, meet the requirements established by international accounting standards for hedge accounting treatment are designated “hedge-related” (accounted for in the terms indicated below). On the contrary, operations which, while carried out with the corporate intention of hedging, do not meet the requirements of international accounting standards, are classified as “trading-related”. In this case, the changes in the fair value of derivatives are recorded in the financial statement for the period in which they take place. The fair value is calculated on the basis of the reference market value.

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

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

For instruments classified as cash flow hedges and that qualify as such, the fair value changes are recorded, only as far as the "effective" amount is concerned, in a reserve called "cash flow hedge reserve" through the statement of comprehensive income. This reserve is reversed to income whenever underlying hedged instrument is realized. The change in fair value referring to the ineffective portion is immediately recorded in the income statement of the period. If the underlying transaction should no longer be considered highly probable, or the hedging relationship can no longer be demonstrated, the corresponding portion of the "cash flow hedge reserve" is immediately reversed to income.

If, on the other hand, the derivative instrument is sold and therefore the hedging of the risk for which the transaction was created no longer qualifies as effective, the amount of "cash flow hedge reserve" relating to it is kept until the economic effects of the underlying contract arise.

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

The Group applies the so-called fair value option where the requirements are met.

Assets and liabilities held for sale - Assets and liabilities held for sale are those whose value will be recovered mainly through sale rather than use. Assets and liabilities are classified as held for sale the moment the sale of the group of assets is considered highly likely and the assets and liabilities are immediately available for sale in their current condition.
Assets held for sale are valued at either cost or fair value, whichever is lower, net of sales costs.

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

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

Specifically:

- the revenues from energy, gas and water sales are recognized and recorded at the moment of the provision of the service and include the services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels);
- revenues for distribution are earned on the basis of the tariffs earned by the AEEGSI, and are subject to equalization at year end in order to reflect the Authority's earnings on investments in accordance with the accrual criterion;
- revenues from services rendered are recognized on the basis of services provided and in compliance with the relevant contracts;
- revenues from the sale of goods are recognised at the time the Group transfers the significant risks and benefits associated with ownership of the assets to the purchaser;
- costs are accounted for in accordance with the accruals principle.

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

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

In determining tax rates for the period, the Group took into consideration the effects of the IAS tax reform introduced by law no. 244 of 24 December 2007 and in particular the reinforced derivation principle established by Article 83 of the Consolidated Tax Act (TUIR) which 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 and liabilities are determined on the basis of the tax rates foreseen to be in force during the financial year in which the tax asset will be conferred or the tax liability will be extinguished, on the basis of tax rates established by provisions in force or substantively in force at the date of the financial statements. These changes are charged to the income statement, or equity, depending on how the difference in question was originally charged.

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 wide range of customer portfolios in the major business areas in which it operates; for the same reason, this risk is spread over a large number of clients. In order to manage credit risk, the Group has established procedures for selecting, monitoring and evaluating its customer portfolio. The Italian market is the market of reference. The assets are reported net of impairment losses calculated on the basis of the default risk of the counterparties, taking into account the information available on solvency as well as historical data.

Liquidity risk

The liquidity risk to which the Group is exposed may arise from difficulties in obtaining, in a timely manner, loans in support of operations. Cash flows, financing needs and the liquidity of the Group Companies are centrally monitored or managed, under the control of the Group's Treasury Department, for the purpose of ensuring an efficient and effective management of financial resources.

The financial planning of requirements, focused on medium-term borrowings, and the availability of abundant funds in credit facilities, allow effective management of liquidity risk.

Exchange rate risk and interest rate risk

The Group is not subject to exchange rate risk as it operates almost exclusively in the Italian market, both in relation to the sale of its services and the procurement of goods and services. As for interest rate risk, the Group regularly assesses its exposure to the risk of interest rate fluctuations and manages this risk by means of derivative financial instruments, in accordance with its risk management guidelines. Under these guidelines, the use of derivative financial instruments is restricted to the management of exposure to interest rate fluctuations related to cash flows and balance sheet assets and liabilities. These policies do not enable speculative activities to be carried out.

Fair Value Hierarchy

IFRS 7 requires classification of financial instruments measured at fair value in a three-level hierarchy based on the way the fair value was determined, i.e., with reference to the factors used in determining the value:

- level 1, financial instruments the fair value of which is determined on the basis of quoted prices in active markets;
- level 2, financial instruments the fair value of which is determined using valuation techniques that employ parameters that are directly or indirectly observable on the market. Instruments valued on the basis of the market forward curve and short term differential contracts are classified in this category;
- level 3, financial instruments the fair value of which is determined using valuation techniques that employ parameters that cannot be observed on the market, using internal estimates exclusively. As of 31 December 2015, the Group owns only financial instruments on commodities that fall into this category of level 3.

Significant estimates and valuations

Use of estimates

Preparation of the consolidated financial statements and related notes requires the use of estimates and valuations by the directors, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by the next accounting period are set forth below.

Specifically, information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.

Going Concern

The directors have assessed the applicability of the going concern premise in preparing the financial statements, and concluded that this premise is appropriate given that there is no doubt regarding the going concern.

Impairment test

At least once a year, the Group analyzes the recoverable value of goodwill and equity investments (associate companies) in companies that hold assets for generating thermo-electric power by means of an "impairment test". This test is based on calculations of its value in use that require the use of estimates, as in sections 15 and 16 of these notes.

Provisions for risks

These provisions have been made by adopting the same procedures as previous years, referring to updated reports by the legal counsel and consultants overseeing disputes, as well as on the basis of procedural developments in these disputes and updates of hypotheses regarding future disbursements to be incurred for "post-closure" expenses related to the landfills, following the revision of appraisals carried out by external consultants.

Recognition of revenues

Revenues for the sale of electricity, gas and water are recognised and accounted for at supply and include the allocation for services rendered between the date of the last reading and the end of the financial year, but still not billed. This allocation is based on estimated of the customer's daily consumption, based on the historic profile, adjusted to reflect the weather conditions or other factors which might affect consumption under evaluation.

Deferred tax assets

Accounting for deferred tax assets takes place on the basis of expectations of taxable income in future years. The evaluation of the taxable income expected for the purposes of accounting for deferred tax assets depends on factors that may vary over time and significantly affect the recoverability of deferred tax assets.

Depreciation

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.

Determination of fair value and the evaluation process

The fair value of financial instruments on both interest rates and exchange rates derives from market prices; in the absence of quoted prices in active markets, it is determined by using the discounted future cash flow method on the basis of observable market parameters. The fair value of commodity derivatives are determined using directly observable market input, where available. The method for calculating the fair value of the instruments in question includes the evaluation of non-performance risk, if deemed relevant. All of the derivative contracts the Group has stipulated are with leading institutional counterparts.

Accounting standards, amendments and interpretations applicable from 1 January 2015

Starting 1 January 2015 the standard listed below, issued by the Iasb and integrated by the European Union, will apply mandatorily:

IFRIC 21 - Levies (Regulation 634/2014). Interpretation issued on 20 May 2013 by the IFRS IC and applicable retrospectively for financial years beginning 17 June 2014 or afterwards. The interpretation was issued to indicate the accounting treatment of levies, i.e. all the payments to a government agency for which the entity does not receive specific goods or services. The document identifies different types of levies, clarifying which events give rise to the obligation that determines, in turn, the recognition of a liability under IAS 37.

On 12 December 2013 the International Accounting Standards Board (IASB) published the "Improvements to the International Financial Reporting Standards (2011-2013 Cycle)", subsequently adopted by the European Union with Regulation 1361/2014. These improvements, which are applicable as of 1 July 2014, include amendments to the following existing IFRSs:

- Improvement IFRS 1 - First-time adoption of IFRSs: Meaning of effective IFRSs. This improvement clarifies that, on first-time adoption of IFRSs, an entity may either choose to apply a current standard or opt for the early application of a new standard that is intended to replace the current standard.
- Improvement IFRS 3 - Business Combinations: Scope of application for joint ventures. The improvement clarifies that all types of joint arrangements are outside the scope of IFRS 3.
- Improvement IFRS 13 - Fair value measurement: Exception in the evaluation of fair value of a set of assets and liabilities (paragraph 52). The objective of this amendment is to clarify that the possibility to measure at fair value a set of assets and liabilities applies also to all contracts within the scope of IAS 39 (or IFRS 9), but that do not meet the definitions of financial assets or financial liabilities as defined in IAS 32 (such as contracts to buy and sell commodities, which can be settled in cash for their net amount).
- Improvement IAS 40 - Investment property - Interrelationship between IFRS 3 and IAS 40. The objective of this amendment is to clarify that, to determine whether the purchase of property falls within the scope of IFRS 3, reference should be made to IFRS 3; on the other hand, if the purchase falls within the scope of IAS 40, reference should be made to this standard.

No effects on the Group's balance sheet have been found following the application of the amendments introduced.

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 2016, the following accounting standards and amendments of accounting standards will be obligatorily applied, having also already concluded the process of community endorsement:

Amendments to IAS 19 - Employee benefits: Defined-benefit plans - employee contributions (Regulation 29/2015). Document issued by the IASB on 21 November 2013, applicable for the financial years beginning 1 January 2014. The objective of the amendments is to simplify the accounting treatment of contributions, which are independent of the number of service years for employees, such as employee contributions calculated on the basis of a fixed salary percentage.

On 12 December 2013 the International Accounting Standards Board (IASB) published the "Improvements to the International Financial Reporting Standards (2010-2012 Cycle)", subsequently adopted by the European Union with Regulation 28/2015. These improvements, which are applicable as of 1 July 2014, include amendments to the following existing IFRSs:

- Improvement IFRS 2 - Share-based Payments: Definitions relating to vesting conditions. The definitions of vesting conditions and market conditions are changed and the new definitions of performance condition and service condition are introduced.
- Improvement IFRS 3 - Accounting for contingent consideration in a business combination. This improvement clarifies that contingent consideration in a business acquisition classified as an asset or a liability is measured

at fair value at every year-end, whether it falls within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability.

- Improvement IFRS 8 - Operating segments: Aggregation of operating segments. The improvement requires disclosure of management's considerations in the process of aggregation of operating segments.
- Improvement IFRS 8 - Operating segments: Reconciliation of the total of the reportable segment assets to the entity's total assets. This improvement calls for the reconciliation to be reported only in the event that the total of the segment assets are regularly reported to the management.
- Improvement IFRS 13 - Fair value measurement: Short-term receivables and payables. This improvement clarifies that the introduction of IFRS 13 does not change the possibility to account for short-term receivables and payables without discounting, when the effect of discounting is immaterial.
- Improvement IAS 16 - Property, plant and equipment & Improvement IAS 38 - Intangible assets: Revaluation method. These improvements remove certain inconsistencies in the recognition of depreciation and amortization, when an item or property, plant and equipment or an intangible is revalued. In particular, they clarify that the gross carrying amount must be adjusted consistently with the revaluation of the carrying amount of the asset and that accumulated depreciation is equal to the difference between the gross carrying amount and the carrying amount minus any previously recognized impairment.
- Improvement IAS 24 - Related parties: Key management personnel. Clarifications are provided for the identification of related parties and the disclosure in relation to key management personnel.

Amendments to IFRS 11 - Joint arrangements: acquisitions of interests in joint operations(Regulation 2173/2015). Amendment issued by the IASB on 6 May 2014 and effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted. The document establishes that the standards contained in IFRS 3 - Business combinations concerning recognition of a business combination must be applied to recognise the acquisition of a joint operation in which the activity constitutes a business.

Amendments to IAS 16 and IAS 38 - Clarifications as to acceptable methods for depreciation and amortisation (Regulation 2231/2015). Amendments issued by the IASB on 12 May 2014 and applicable as of financial years that begin on 1 January 2016. The documents specifies that, except for a few limited circumstances, a method of amortisation related to revenues cannot be considered acceptable for property, plant and equipment nor for intangible assets.

Amendments to IAS 16 and IAS 41 - Bearer plants (Regulation 2113/2015). Amendments issued by the IASB on 30 June 2014 and applicable as of financial years that begin on 1 January 2016. The documents specifies that for a few specific types of biological assets (bearer plants) the accountancy methods must be those of IAS 16.

Amendments to IAS 27 - Separate financial statements (Regulation 2441/2015). Document issued by the IASB on 12 August 2014. The amendments, applicable as of financial years beginning 1 January 2016, allow the equity method to be used in recognising investments in subsidiaries, associated companies and joint ventures in the separate financial statements. The objective is to reduce the complexity of treatment and the relative costs for companies that operate in legal systems in which the IFRS standards also applicable in separate financial statements as well.

On 25 September 2014 the International Accounting Standards Board (IASB) published the "Improvements to the International Financial Reporting Standards (2012-2014 Cycle)", subsequently adopted by the European Union with Regulation 2343/2015. These improvements, applicable to financial years beginning 1 January 2016 or later, include amendments to the following international accounting standards:

- Improvement IFRS 5 - Non-current Assets held for sale and discontinued operations: changes in methods of disposal. The amendment establishes the guidelines to be followed in case an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa) or cases in which an asset no longer meets the criteria of held-for-distribution accounting.
- Improvement IFRS 7 - Financial Instruments: supplementary disclosures. The document adds additional guidance to clarify whether a servicing contract constitutes continuing involvement in an asset transferred for the purposes of the requested report. Furthermore, as regards compensation between financial assets and liabilities, the document clarifies that the report is not explicitly required for all the interim financial statements.

However, the information could be necessary to respect the requisites foreseen by IAS 34, in case the information in question is significant.

- Improvement IAS 19 - Employee Benefits: problems related to the discount rate. The document introduces amendments to IAS 19 in order to clarify that high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The amendments specify that the scope of the market for high quality corporate bonds should be assessed at currency level.
- Improvement IAS 34 - Interim Financial Reporting: position of supplementary disclosures. The document introduces amendments in order to clarify cases in which the required information is presented in the interim report, but not in the balance sheet sections. The amendment specifies that such information be included by way of cross-references between the two documents, provided that both are made available to users on the same terms and at the same time.

Amendments to IAS 1 - Presentation of Financial Statements (Regulation 2406/2015). Document issued by the IASB on 18 December 2014. The amendments, applicable as of financial years beginning 1 January 2016, are aimed at improving the clarity of financial statements. The amendments introduced concern:

- materiality and aggregation - clarifies that information should not be obscured by way of aggregation or disaggregation and that the concept of materiality is applied to balance sheet formats, explanatory notes and the specific informatory requirements specified by each IFRS. It also clarifies that the information specifically required by IFRS is to be provided only if the information is material;
- statement of financial position and statement of comprehensive income - clarifies that the list of items specified by IAS 1 for such statements can be aggregated or disaggregated according to individual cases. Guidelines are also provided as to the use of subtotals within the statements;
- presentation of other comprehensive income (OCI) - clarifies that an entity's share of OCI of equity-accounted associates and joint ventures is presented in an aggregated form as single line item, based on whether or not it will subsequently be reclassified to profit or loss;
- explanatory notes - clarify that entities are entitled to flexibility in defining the structure of the explanatory notes and guidelines are provided as to the systematic order in which notes are to be presented.

The Group is currently evaluating the potential effects on its balance sheets that would derive from the adoption of these standards or amendments to existing standards.

Accounting standards, amendments and interpretations not yet endorsed by the European Union

The following standards, updates and amendments of IFRSs (already approved by the IASB) as well as interpretations (already approved by the IFRS IC) are in the process of being endorsed by the competent bodies of the European Union:

IFRS 9 - Financial Instruments. Published by the IASB in its final version on 24 July 2014 at the end of a process lasting many years, intended to replace the current IAS 39. The standard, whose application has been defined at 1 January 2018, introduces new criteria to classify financial assets and liabilities, for the derecognition and impairment of financial assets, and the treatment and accounting of hedging transactions**.** A detailed analysis will soon be initiated to assess what implications the introduction of IFRS 9 will have for the Group.

IFRS 15 - Revenue from contracts with customers. Standard issued by the IASB on 28 May 2014 that replaces the IAS 18 - Revenue, the IAS 11 - Construction contracts, the interpretations SIC 31, IFRIC 13 and IFRIC 15. The new standard applies to all contracts with customers except for leases within the scope of IAS 17 - Leasing for insurance policies and financial instruments. It establishes a principle to be delivered in five phases, defining a timetable and the amount of revenue to be recognised (identifying the contracts with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price, recognising revenue when (or as) the entity satisfies a performance obligation).

Application of the standard begins on 1 January 2018, and earlier application is permitted. The standard will be applied with retroactive effect, with the possibility of choosing whether to represent the financial years presented in the comparative report or to recognise the effects arising from its application in the opening balance of equity as at the date of the first reporting period in which it was applied. A detailed analysis will soon be initiated to assess what implications the introduction of IFRS 15 will have for the Group.

Amendments to IFRS 10, IFRS 11 and IAS 28 - Investment Entities: applying the consolidation exception. The document, issued by IASB on 18 December 2014, introduces the following amendments:

- the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity;
- the requirement, for an investment entity, of consolidating a subsidiary providing services that relate to the parent's investment activities, to be applied only for subsidiaries that are not, themselves, investment entities;
- when applying the equity method to an associate or joint venture that is an investment entity, it is possible to retain the fair value measurement applied by the associate or joint venture to its interests in its own subsidiaries;
- an investment entity measuring all of its subsidiaries at fair value must provide the disclosures required by IFRS 12.

A detailed analysis will soon be initiated to assess what implications the introduction of IFRS 15 will have for the Group.

IFRS 16 - Leases Standard published by the IASB on 13 January 2016, to replace the IAS 17 principle "Leases", as well as the IFRIC interpretations 4 "Determining whether an agreement contains a lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the substance of transactions in the legal form of a lease ". The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish lease contracts from service contracts, specifying the following determination criteria: the identification of the good in question, the right to replace it, the right to obtain essentially all of the economic benefits arising from the use of the good and the right to manage the use of the good governed by the contract. Its application will be effective 1 January 2019. Early adoption is permitted for entities that apply IFRS 15. A detailed analysis will be initiated on the next few months to assess what implications the introduction of IFRS 16 will have for the Group.

Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses. Document issued by the IASB on 19 January 2016. The amendments, applicable as of financial years beginning 1 January 2017, clarify how to account for a deferred tax asset associated with a financial liability evaluated at fair value. Early adoption is permitted.

Amendments to IAS 7 - Reporting. Document issued by the IASB on 29 January 2016. The amendments, applicable as of financial years beginning 1 January 2017, require the entities to provide information regarding variations in their tax liabilities so that the users can better evaluate the reasons underlying the change in the entity's indebtedness.

For the following standards and interpretations, the EU endorsement process has been indefinitely suspended:

IFRS 14 - Regulatory deferral accounts. Document issued by the IASB on 30 January 2014. It permits an entity which is a first-time adopter of IFRS to continue to account for amounts related to rate regulation in accordance with its previous accounting standards. Its application will be effective 1 January 2016, but early adoption is permitted.

Amendments to IFRS 10 and IAS 28 - Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. Document published by the IASB on 11 September 2014 in order to resolve a conflict between the two standards mentioned, regarding the sale of assets or subsidiaries to an associate in a joint venture, effective for annual periods beginning on or after 1 January 2016. The amendments introduced foresee that in case of sales or contributions of assets or subsidiaries to an associate or a joint venture, the value of the profit or loss to be recognised in the balance sheets of the sold/contributed entity is to be put in relation with the classification of the assets or the subsidiary sold/contributed as a business, as defined by IFRS 3. In the event that the sale/contribution represents a business, the entity must recognise the profit or loss for the entire interest previously held; while, if this is not the case, the entity must recognise the amount of profit or loss pertaining to the interest still held by the entity to be eliminated.

Please note that paragraphs 1.01 and 1.2 of the management report provide an analysis of the business' management performance that may contribute to a better understanding of changes in the main categories of operating expenses and revenues.

1 Revenues

	2015	2014	Change
Revenues from sales and services	4,483	4,196	287
Changes in inventories of w ork in process, semifinished and finished products and w ork in progress	4	(7)	11
Total	**4,487**	**4,189**	**298**

Revenues are achieved mainly in Italy.

2 Other operating revenues

	2015	2014	Change
Long-term contract	201	186	15
White certificates	45	48	(3)
Operating grants and grants for separated w aste collection	30	26	4
Apportionments of operating grants	8	8	-
Uses of provisions	6	5	1
Other revenues	41	52	(11)
Total	**331**	**325**	**6**

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held under concession pursuant to IFRIC 12 interpretation. The change is due to greater investment in the networks held under concession as compared to the 2014 financial year .

"White certificates" show the revenues recorded for the Compensation Fund of the electricity sector, after energy efficiency goals were attained.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 5 million Euros (5 million Euros tin 2014 as well), mainly comprising incentives provided by the GSE for the production of energy from renewable sources and contributions from sorted waste collection in the amount of 25 million Euros (21 million Euros as at 31 December 2014) mainly comprising the value of packaging (cardboard, iron, plastic and glass) transferred to the Conai consortia.

"Grants related to plants" represent the proceeds associated with the depreciation rate of the assets subject to grants..

"Use of funds", this item is associated with the costs incurred internally and duly accounted for in relation to labor, leachate and vehicle hours.

"Other revenues" mainly represents proceeds from recovering the costs incurred for activities related to environmental, electrical and gas services, security incentives, active leases and insurance refunds.

3 Use of raw materials and consumables

	2015	2014	Change
Electricity ready for sale	1,104	944	160
Methane ready for sale and LPG net of change in stocks	847	752	95
Maintenance materials net of changes in stocks	73	63	10
Electricity for industrial use	58	57	1
Water	46	41	5
White, green an grey certificates	41	33	8
Fuels and lubricants	16	17	(1)
Chemical products	16	14	2
Heat management combustible materials	14	4	10
Charges and revenues from derivatives	12	(1)	13
Charges and revenues from certificate valuation	9	12	(3)
Methane for industrial use	7	14	(7)
Consumables and sundry	14	15	(1)
Total	**2,257**	**1,965**	**292**

For the item "Charges and revenues from derivatives," please see note 19 of the statement of financial position.

"White, Grey and Green Certificates" includes the purchase cost of the various types of environmental certificates incurred during 2015, and specifically: 38 million Euros for White certificates (31 million Euros in 2014) and 2 million Euros for Grey certificates (1 million Euros in 2014). The change from the previous financial year was due to the different purchasing dynamics in view of the Group's certificate needs.

"Charges and revenues from certificate valuation" reflects the valuation of certificates in stock, mainly made up of Green certificates

4 Service costs

	2015	2014	Change
Charges for w orks and maintenance	290	297	(7)
Transport and storage	284	275	9
Waste transport, disposal and collection service	249	246	3
Fees paid to local authorities	79	71	8
IT and data processing services	29	29	-
Professionnal, legal, tax and organisational services	25	25	-
Rents and leases payable	22	28	(6)
Recruitement training and other staff cost	18	17	1
Other commercial services	18	16	2
Insurances	16	21	(5)
Technical services	15	17	(2)
Postal and telephone cost	15	16	(1)
Bank fees and charges	12	14	(2)
Agency costs	11	12	(1)
Cleaning and security costs	8	8	-
Announcements and advertising	7	6	1
Meters reading	6	4	2
Remuneration to statutory auditors and directors	5	6	(1)
Fees payable	5	3	2
Other service costs	18	33	(15)
Total	**1,132**	**1,144**	**(12)**

"Charges for works and maintenance" includes the costs for the construction or improvement of Infrastructures under concession pursuant to the application of the IFRIC 12 interpretation and costs for maintaining the plants: The change from the previous financial year is due to greater investment in the networks held under concession, as already indicated in the note dedicated to "Other Operational Revenues", mitigated by a decrease in investment in fixed assets

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution. The increase is mainly due to the greater costs incurred by the subsidiary Hera Comm.

In relation to “Waste transportation, disposal and collection," the increase is mainly due to the greater costs of waste disposal paid to third parties.

The item "Fees paid to local authorities" includes the charges incurred for the use of public owned networks, fees paid to companies that own these assets for the rent of gas, water and electricity cycle assets, and the leasing of the drop-off points.

For "Rent and lease liabilities", the decrease from the previous financial year is mainly due to lower costs incurred in relation to various rents.

The item "Other costs for services" includes items related to users, organizational services and laboratory analyses.

5 Personnel costs

	2015	2014	Change
Wages and salaries	363	353	10
Social security contributions	117	115	2
Employee leaving indemnity and other benefits	1	1	-
Other costs	30	28	2
Total	**511**	**497**	**14**

The increase in labor costs of 14 million Euros as compared to the previous financial year is mainly due to the consolidation of the Amga Group for all of the 2015 financial period as compared to the 6 month period during 2014, in addition to the normal evolution of contractual dynamics.

The average number of employees in the period in question, analysed by category, is as follows:

	2015	2014	Change
Managers	151	152	(1)
Middle-management	509	477	32
Clerks	4,375	4,264	111
Blue-collar w orkers	3,335	3,399	(64)
Total	**8,370**	**8,292**	**78**

Overall, the average cost of labour per capita for 2015 was 61 thousand Euros (59.9 thousand Euros in 2014).

At 31 December 2015, the actual number of employees was 8,426 (8,419 employees at 31 December 2014).

6 Amortisation, provisions and depreciation

	2015	2014	Change
Amortisation property,plant and equipment	161	166	(5)
Amortisation intangible assets	176	165	11
Allow ance for bad debts	72	66	6
Provisions for risks and charges	37	32	5
Impairment of property, plant and equipment and intangibles	1	8	(7)
Releases from provisions	(5)	(10)	5
Total	**442**	**427**	**15**

For the composition of the items, please refer to the detailed reports and comments on "Fixed Assets", "immaterial assets", "commercial credits" and "Provisions for risks and charges" in the statement of financial position.

The higher depreciation of intangible assets is related to the increase of the amortization of assets related to contracted public services provided on commissions and already carried out in previous financial years.

The item "removal from provisions" includes the re-classification of various budget funds. As of 31 December 2015, there were re-classifications for "legal risks funds" amounting to 1 million Euros and "other risks funds" in the amount of 4 million Euros.

7 Other operating costs

	2015	2014	Change
Taxation other than income taxes	14	15	(1)
Bad debt expense	12	1	11
Losses on disposals and divestitures of assets	7	4	3
Landfill special tax	5	9	(4)
State rentals	5	7	(2)
Other minor charges	19	21	(2)
Total	**62**	**57**	**5**

"Taxation other than income taxes" mainly relates to taxes on buildings, stamp duties and registration fees and excise duties.

"Special landfill levy" refers to the relevant environmental tax for the period on landfills operated by the Group. The decrease is mainly attributable to the lower quantities of waste disposed of in landfills as compared to the previous year.

"State rentals" is mainly related to fees paid to the Emilia Romagna region and land reclamation consortia.

The item "Losses on the sale of goods and disposal of assets" is mainly related to the demolition of a building being used as office space.

The item" Other minor charges" mainly includes compensation for damages, fines, penalties and other non-recurring charges, in addition to associational fees.

"Loan losses", attributable almost entirely to the subsidiary Hera Comm Srl, mainly refer to a one-time sale of "non performing" loans.

8 Capitalized costs

	2015	2014	Change
Increases in self-constructing asset	28	17	11

"Increases in self-constructed assets" includes mainly labour costs and other charges (such as materials and vehicle hours) directly attributable to the Group's self-constructed assets. The increase from the previous financial year is mainly due to environmental recovery work carried out internally to the Group.

9 Share of profits (losses) pertaining to joint ventures and associated companies

	2015	2014	Change
Share of net profit pertaining to joint ventures	6	4	2
Share of net profit pertaining to associated companies	6	4	2
Total	**12**	**8**	**4**

The item "Share of profits/losses pertaining to joint ventures and associated companies" includes the effects generated by the evaluation of the companies included in the scope of 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, 2 million Euros (1 million Euros in 2014) and Estenergy Spa, 4 million Euros (3 million Euros in 2014).

The "net subsidiary company income" mainly refers to the share of the net income earned by Aimag Spa, 2 million Euros (2 million Euros in 2014) and Sgr Servizi Spa, 4 million Euros (2 million Euros in 2014).

10 Financial income and expenses

	2015	2014	Change
Interest rate and foreign exchange derivatives	58	106	(48)
Income from valuation at fair value of financial liabilities	8	14	(6)
Customers	6	7	(1)
Other financial income	9	18	(9)
Total Income	**81**	**145**	**(64)**

	2015	2014	Change
Financing and Bonds	108	112	(4)
Interest rate and foreign exchange derivatives	39	44	(5)
Charges from valuation at fair value of financial liabilities	21	65	(44)
Discounting of provisions and financial leases	20	16	4
Factoring charging	10	13	(3)
Loans	9	18	(9)
Charge from the valuation of financial liabilities at amortised cost	7	14	(7)
Write-downs of financial assets	6	8	(2)
Other financial expense	7	9	(2)
Total Expense	**227**	**299**	**(72)**

The change in financial management is described, overall, in the Directors' Report.

For details on costs and the structure of the items "Financing and Bonds", please refer to note 25 "Current and non-current financial liabilities". It should be noted that the item "Loans" decreased mainly following the termination of several loans by subsidiaries Herambiente Spa and Rilagas Ad.

For "Income and expenses related to changes in the fair value of financial liabilities" and "Interest rate derivatives" reference is made to note 19 of the statement of financial position.

The item "Discounting of provisions and finance leases" is broken down as follows:

	2015	2014	Change
Post-closure landfill	12	7	5
Restoration of third-party assets	5	5	-
Employee leaving indemnity and other benefits	2	3	(1)
Finance leases	1	1	-
Total	**20**	**16**	**4**

The increase in the item "Discounting of provisions and financial leases" in the amount of 4 million Euros is due almost exclusively to the increase in financial expenses from discounting post-closure funds for the Group's landfills.
This increase is due to the combined effect of lowering the discount rate used, to reflect current market conditions, as well as rescheduling the cash flows associated with future payments to cope with the post-closure charges.

"Finance expenses from factoring" refers to the sale of receivables developed by the parent company and aimed at optimizing the management of the Group's working capital.

The item "Charges from the valuation of financial liabilities at depreciated cost" represents the breakdown (depreciation) of the costs associated with financial liabilities (e.g. fees, investigation costs , etc .) for the entire duration of the loans using the effective interest method. The 7 million euro decrease as compared to the previous year is mainly due to the operation of offset of derivatives that took place on 28 May 2015 (see note 19 "Derivative Financial Instruments"). In particular, the withdrawal of the hedge for the derivatives in question, previously classified as "fair value hedges", resulted in the reclassification of the positive fair value adjustments previously associated with the underlying loan to depreciated cost.

"Devaluation of financial assets" mainly relate to the associated company Sei Spa following the assessments related to the company's future prospects.

For the item "Other financial income", the decrease is mainly due to the decrease in bank interest income received by the parent company Hera Spa, in the amount of 6 million Euros.

"Other financial costs" includes capital loss associated with the sale of the company Elettrogorizia Spa, amounting to 3 million Euros.

11 Taxes

This item is made up as follows:

	2015	2014	Change
Current taxes (Ires, Irap and substitute tax)	122	113	9
Deferrred tax	(14)	(22)	8
Prepaid taxes	6	22	(16)
Total	**114**	**113**	**1**

The tax burden for the year 2015 amounted to 114 million Euros, compared to 113 million Euros for the previous year. The tax rate is thus 36.9% as compared to the 38.3% of the previous year.

Income taxes include positive effects in the amount of approximately 3 million Euros related to the exemption, through a substitute tax, from the higher amounts implicit in controlling shares as a result of extraordinary operations of acquisition completed during the financial year, pursuant to and for the purposes of Article. 15, paragraph 10-ter, del Legislative Decree 29/11/2008 no. 185, expressed in Article 23, paragraph 12 of Legislative Decree no. 98/2011. Depreciation expenses for most valuable assets will be deducted beginning in the 2018 financial year. In the 2014 financial year, following similar exemption operations, the positive tax effect achieved was equal to 9.3 million Euros.. The last element to note are negative effects on the value of taxes for the year in the amount of approximately 9 million Euros, related to the adjustment of IRES deferred taxes as a result of future reductions in tax rates, as established by Article 1 paragraph 61 of Law no. 208 from 28/12/2015, published in Gazzetta Ufficiale no. 302 from 30/12/2015 (Italian Stability Law 2016).

With the exclusion of these extraordinary effects, the significant improvement in the tax rate for 2015 is attributable to the IRAP deduction of the costs for employees hired under permanent contracts, the elimination of the IRES tax, the so-called Robin Hood tax, in relation to the Group's energy companies, as well as the benefit of the "Patent box" and the credit for research and development, as established by the 2015 Stability Law, as well as the "maxi depreciation" established by the 2016 Stability Law.

Current taxes are broken down as follows:

Current taxes	2015	2014	Change
Ires	91	64	27
Irap	27	40	(13)
Substitute tax	4	9	(5)
Total	**122**	**113**	**9**

The statutory tax rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 27.50%; the reconciliation with the effective rate is shown below.

	2015		2014	
	Income statement amount	Effect in percentage	Income statement amount	Effect in percentage
Pre-tax profit	308		295	
Ires				
Ordinary rate	(85)	-27.5%	(81)	-27.5%
Robin Tax surcharge			(6)	-2.0%
IRAP deductions	1	0.3%	6	2.0%
Participation exemptions and investments impairment	(2)	-0.6%	(3)	-1.0%
Tax holidays and incentives	4	1.3%		
Deferred taxation adjustment (nominal rate)	(9)	-2.9%		
Ires previous years			4	1.4%
Other increases/decreases			(2)	-0.7%
IRAP and other current taxes				
Irap	(25)	-8.1%	(40)	-13.6%
Franked invesment income	2	0.6%	9	3.1%
Effective rate	**(114)**	**-36.9%**	**(113)**	**-38.3%**

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 "Exemption" includes the substitute tax reported in the financial period and the release of the relevant amount of substitute tax associated with operations carried out in previous years.

The prepaid and deferred taxes relating to the year 2015 refer to the following variations between taxable income and profit recorded in the financial statements.

Deferred tax assets	2015			2014		
	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals
Deferred tax assets with effects on the income statement and on the statement of comprehensive income:						
Allowance for bad debt	52	12		54	15	
Provisions for risks and charges	128	28		130	32	
Provisions for employee benefits	16	4		16	5	
Depreciation and amortisation	249	61		217	61	
Non-controlling interests	60	17		37	12	
Tax loss carry forward	-	-		11	3	
cash flow hedge	2	-		3	1	
Other	36	8		28	6	
Total tax effect	**543**	**130**	**1**	**496**	**135**	**9**
Amount credited (charged) to the statement of comprehensive icome		**-**			**2**	
Amount credited (charged) to the income statement		**(6)**			**(22)**	

Deferrred tax liabilities	2015			2014		
	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals	Temporary differences	Tax effect (IRES + IRAP)	acquisitions / disposals
Deferred tax assets with effects on the income statement and on the statement of comprehensive income:						
Provisions for risks and charges	55	16		59	19	
Provisions for employee benefits	4	1		5	1	
Amortisation and depreciation (FTA - fair value as deemed cost)	209	59		168	54	
Leases	7	2		8	3	
Capital gains recognized on installments	1	-		1	-	
Other	26	6		29	8	
Total tax effect	**302**	**84**	**13**	**270**	**85**	**32**
Amount credited (charged) to the statement of comprehensive icome		**-**			**-**	
Amount credited (charged) to the income statement		**14**			**22**	

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by law no. 244 from 24 December 2007, and associated implementational decrees, Ministerial Decree. from 1 April 2009, no. 48 and Ministerial Decree 8 June 2011, to coordinate international accounting standards with the rules to determine the taxable base for IRES and IRAP purposes, as per article 4, paragraph 7-quarter,of . Legislative Decree 38/2005. 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 IFRS 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"

Report on the "tax moratorium"

The appeal filed by Hera Spa aimed at obtaining the interest charged by the tax authorities in relation to the years under examination (1998 and 1999) was granted by the Provincial Tax Commission of Bologna. However, in its ruling, the Commission only liquidated the higher interest unduly paid for the year 1998, failing to specify this difference for 1999, in the amount of 1,412 thousand Euros. On the basis of this factual error, a request to correct this ruling was filed on 10 January 2014. At the hearing held on 17 March 2014, the Commission granted this request for correction, indicating in addition the amount of interest to be returned with reference to the 1999 assessment: the interest therefore totaled 2,707 thousand Euros. It should be noted that, on 19 March 2014, the Office notified Hera Spa of an appeal for the partial reform of said judgment. On 20 March 2014, the Company therefore filed a counter-appeal in which it was also proposed a cross appeal in relation to this ruling. In the hearing held September 2014, the Regional Tax Commission of Bologna rejected the request to suspend the provisional execution of the ruling promoted by the Office. As of the current moment, the final hearing has yet to be scheduled.
Except for the case described above, aimed solely at recovering what has already been paid, the entire "tax moratorium" situation shall be considered concluded, since future disbursements which create financial impacts on the Group's accounts are not expected.

Report on the assessment notices issued in 2010 to Hera Spa: management fee Ferrara and Forlì-Cesena

On 29 December 2010 Hera S.p.A. received three assessment notices for IRES, IRAP and VAT related to the financial year 2005, following a tax audit which ended with a tax audit report by the Finance Police, Bologna's tax police unit, dated 1 October 2010. The tax audit report brought to light findings related to intercompany services (general management expenses and expenses related to use of the trademark) provided by Hera S.p.A., in its capacity as parent company of the Hera Group, to the operating subsidiary of Forlì-Cesena, Hera Forlì-Cesena S.R.L. On 18 February 2011, the company filed a tax settlement proposal, pursuant to Art. 6, paragraph 2, of Legislative Decree no. 218 of 1997 with the Emilia Romagna General Directorate of the Revenue Agency, Large Taxpayers Office, which concluded negatively for the company. Therefore, on 20 May 2011, the related appeals were submitted to the Provincial Tax Commission of Bologna. Following said appeals presented by the company, the Tax Authorities, by means of act notified on 17 August 2011, partially cancelled the payment orders already issued in respect of the IRES component regarding royalties for use of the trademark, and for the entire recovery effected for VAT purposes. Pending the tax proceedings, the company was notified of a tax payment request on 4 January 2012, for the provisional recording of Euro 653 thousand, which the company paid on 29 February 2012. The hearing was held before the Provincial Tax Commission of Bologna on 19 September 2012 and the rulings, which were all entered on 31 October 2012, are all in favour of the Company, for IRES, IRAP and VAT purposes. Following these decisions, on 19 November 2012, the General Directorate of the Revenue Agency for Emilia Romagna notified the company about the cancellation of the entries made while a decision was pending and in December 2012, the Company received a refund of the sum disbursed when the original entries were made for Euro653 thousand. On 29 April 2013, notice was received of the appeals filed by the General Directorate of the Revenue Agency against the first instance rulings and on 26 June 2013 the company filed its counterclaims and appeal. At the current moment, the hearing has not yet been scheduled for negotiating with the General Directorate of the Revenue Agency for Emilia Romagna.
In relation to this dispute, which currently amounts to 1,598 thousand Euros, having consulted with the Group lawyers as well, it was decided that there is no need to proceed with any provision to the risks fund, as the alleged violations are considered unfounded.

Disclosure of ICI assessment notices served in 2012 and 2015 to Herambiente Spa and Hera Spa

On 24 April 2012 Herambiente was notified of an assessment notice by the municipality of Ferrara for failure to report and non-payment of ICI for the 2009 tax year with regard to the Ferrara incinerator. The established amount, including penalties and interest, amounts to 718 thousand Euros. On 7 January 2014 it was served with the associated payment order, amounting to 766 thousand Euros, while on 21 January 2014 it was notified that the entry of the assessment notice had been suspended. On 24 April 2012, Hera Spa received notification of two assessments, once again from the municipality of Ferrara, for failure to report and non-payment of ICI relating to the tax years 2008 and 2009, with reference once again to the incinerator in Ferrara. The established amounts, including penalties and interest, amount to 1,461 and 723 thousand Euros, respectively. On 7 January 2014, the company was served with the associated payment order, amounting to 2,332 thousand Euros and on 21 January 2014 it was notified that measures had been taken to suspend the entry of the assessments. The notices of assessment, all challenged by the appeal filed 23 July 2012, resulting from the land registry reclassification initiated in late 2001 by the Ferrara Territorial Agency which had carried out a reclassification for the incinerator of Ferrara from category E9 - exempt from taxation for properties "with the purpose of meeting particular public needs and/or serving the public interest" as proposed by the Company, to category D1, "Industrial Factories", resulting in an amount due in terms of municipal property tax (now IMU) for the contested properties. The 2016 rulings by the court of Ferrara were all in favor of the Company.

During the 2015 financial year, regarding the same plant, Herambiente Spa received notives for the years 2010 to 2013 of tax assessments for non-payment of ICI/IMU amounting to 1,470 thousand Euros for the 2010 year, 1,432 thousand Euros for the 2011 years, 1,496 thousand Euros for the 2012 year and 1,415 thousand Euros for the 2013 year. The company filed appeals against these assessment notices.

At the end of 2015, moreover, tax assessment notices were received in relation to the Via Baiona 182 and via Romea Nord plants in Ravenna for partial failure to pay ICI in 2010, in the amount of 81 thousand Euros, and in 2011, in the amount of 219 thousand Euros. The company, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.

Reporting on specific tax audits

Hera Spa

For a report on the tax assessments concerning the holding company Hera SpA, please refer to the section of the separate financial statement

Herambiente Spa

On 7 March 2012, an audit was initiated at Herambiente by the Revenue Agency - Emilia Romagna Regional Department - Large Taxpayers Office. The audit covered the 2009 fiscal year and focused mainly on the amount the company owed in relation to the IRAP subsidy as per nos. 2), 3) and 4) of paragraph 1, letter a) of art. 11 of Legislative Decree no. 446/97, the so-called "tax wedge". On 22 May 2012 the formal notice of assessment was received, after which the company, on 19 July 2012, presented defensive comments contesting the entire content of the notice in question. On 21 and 22 October 2014 it was served with the associated assessment notices, against which the company appealed and, on 24 December 2014, provisionally paid a third of the amount due, that is, 100 thousand Euros. Regarding this, it should be noted that the Provincial Tax Commission found in favor of the Company on 10 June 2015 in relation to the "tax wedge" deduction. On January 5, 2016, the Inland Revenue Office served notice of the appeal and on 4 March 2016 the Company filed a cross appeal.

On 12 November 2014 a further tax audit was concluded in relation to IRAP for 2010 and 2011, again focused on the amount the company owed in relation to the IRAP subsidy as per the "Tax wedge, as well as, for 2011, the incorrect application of IRAP given that, according to the interpretation the office presented, that company had not applied the 4.20% rate relative to the concessionary companies. On 24 January 2015 comments were submitted on the tax assessment report. On 29 April 2015 an assessment notice was served in relation to 2010, against which an appeal was filed on 10 June 2015. Through a decree dated 22 June 2015 a stay of execution was granted, then revoked at the closed-doors hearing held 12 October 2015; the Company therefore provisionally paid a third of the tax assessment , in the amount of 178 thousand Euros, on 12 October 2015. On 15 December 2015 an assessment notice was served in relation to 2011, against which an appeal was filed on 5 February 2016; while awaiting the outcome of its request for a stay of execution, the company did not provisionally pay a third of the amount.

Hera Trading Srl

The Inland Revenue Office also contested the company's application of the increased IRAP rate for the production and distribution of electricity, gas and heat as per article 1 of Emilia Romagna Regional Law no. 19/2006. In this regard, the tax authorities sent the company the following in relation to the tax periods in question.

- 2008: On 3 February 2012, a payment order for a total of 126,625 Euros, which the company appealed. The hearing on the merits of the case was held on 15 May 2013. The ruling, handed down on June 20, 2013, was unfavorable; the amount was then paid and, simultaneously, an appeal was filed on 31 January 2014.
- 2009: On 10 October 2012 a notice of irregularity for 282,385. Euros, against which an appeal was filed on 7 December 2012. The Bologna CTP handed down its ruling on 28 May 2014, in which it ruled against the company's appeal; a counter-appeal was filed on 8 January 2015. On 13 May 2013, the payment order was delivered, including penalties and interest, in the amount of 376,353 Euros, against which an appeal was filed on 5 July 2013 before the CTP of Bologna and Trieste. On 25 November 2013, the amount was paid in that, in the meantime, the stay of execution request that had been initially granted was not confirmed. On 17 November 2014, the CTP of Bologna ruled against the Company, which has lodged an appeal, filed on 10 July 2015; the hearing has yet to be scheduled. On 16 June 2015, the CTP of Trieste ruled against the Company, which has lodged an appeal, filed on 10 February 2016; the hearing has yet to be scheduled.

- 2007: On 28 December 2012, following the notice contained in the above-mentioned tax assessment report, the company received an assessment notice in the amount of 110,246 Euros, against which the Company filed an appeal on 26 February 2013. Through its decree of 27 June 2013, the CTP of Bologna rejected the stay of execution request and the Company provisionally paid a third of the tax and interest amount due. The CTP Bologna handed down a ruling on 22 July 2014, unfavorable to the Company; on 30 April 2015 the company provisionally paid a third of the requested amount, that is 21,842 Euros, while on 20 March 2015 it filed an appeal.
- 2011: On 10 February 2015 an assessment notice was served in the amount of 131,306 thousand Euros, paid on 13 February 2015.

On 28 January 2015 a tax audit was initiated at Hera Trading Srl by the Finance Police - Bologna tax police unit and initially concerning the 2013 tax period but then extended to periods still open to investigation (financial years from 2010 to 2014). This investigation, which ended with the notification of preliminary findings on 9 July 2015, was focused on the correct handling, for the purposes of direct taxation, of the costs the company incurred in relation to subjects residing in the so-called black list countries, pursuant to Article 110, paragraphs 10 et seq of the Italian Income Tax Code, as well as the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates for the purposes of calculating IRES, in addition to the company's alleged violation of the increased IRAP amount as established by Emilia-Romagna Regional Law for the 2013 tax period. The Company prepared comments on the above PVC, which were filed on 7 September 2015.
On 27 July 2015, the Emilia-Romagna Regional office of Inland Revenue served the company with a questionnaire regarding the black list costs in 2010 and 2011 requiring proof of the so-called exemptions, to which the company replied on 23 October 2015. Following these proceedings, the Inland Revenue served notice of a sanction for failure to separately indicate these costs as a single item, which was resolved on 31 December 2015 with the payment of 31 thousand Euros.
On 5 February 2016, the Friuli Venezia Giulia Regional office of Inland Revenue served the company with a similar questionnaire regarding the black list costs in 2012 and 2013, to which the company is preparing a reply.

Hera Comm Srl

Regarding the application of the increased IRAP rate established for the production and distribution of electricity, gas and heat as per article 1 of Emilia-Romagna Regional Law no. 19/2006, the company received the following from the Inland Revenue Office in relation to the respective tax periods:

- 2008: On 13 March 2012, a payment order for a total of 129,940 Euros, which the company appealed. The hearing for the stay of execution of the act took place 16 January 2013 (the company paid the amount in arrears), while the hearing on the merits of the case was held 15 May 2013. The ruling, handed down on 20 June 2013, was unfavorable. An appeal was therefore filed on 31 January 2014.
- 2009: On 11 October 2012, communication of irregularities in the amount of 376,175 Euros ,against which an appeal was presented 7 December 2012. On 19 April 2013 the payment order was received, including penalties and interest, for 485,808 thousand Euros, against which the Company filed an appeal on 3 May 2013. On 4 April the discussion hearing was held and on 28 May 2014 the ruling was handed down, which was unfavorable to the company, which proceeded to pay the payment order. An appeal was then filed on 8 January 2015.
- 2010: communication of irregularities in the amount of 564,338 Euros, against which the Company filed an appeal on 19 July 2013. The CTP of Bologna handed down its ruling on 2 February 2015, unfavorable to the Company. The terms for filing an possible appeal are pending. On 31 March 2014 a payment order was served for 713,478 Euros, including penalties and interest, against which an appeal was filed on 16 May 2014. On 30 May 2014, a stay of execution was granted by Presidential Decree until 16 June 2014. On 17 June 2014, the stay of execution was rejected by order of the Commission of Bologna, and the company thus proceeded to pay the payment order in question.
- 2011: On 16 December 2016 a notice of irregularity was served in the amount of 922,147 Euros, paid on 15 January 2015.

The Group did not make any provision for the disputes in question, considering the allegations as baseless.

12 Earnings per share

million euros	2015	2014
Profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (A)	180	165
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
- basic (B)	1,473,737,913	1,441,419,249
- diluted (C)	1,473,737,913	1,441,419,249
Earnings (loss) per share (euro)		
- basic (A/B)	**0.123**	**0.114**
- diluted (A/C)	**0.123**	**0.114**

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 2014, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	31 Dec 15	including assets held on the basis of lease finance arrangments	31 Dec 14	including assets held on the basis of lease finance arrangments	Change
Land and buildings	567	17	558	17	9
Plants and machinery	1,263	8	1,307	17	(44)
Other moveable assets	114	1	118	1	(4)
Assets under construction	84	-	81	-	3
Total	**2,028**	**26**	**2,064**	**35**	**(36)**

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	Change in the scope of consolidation	Impairments	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 2014										
Land and buildings	535	19	(2)	(16)	9	-	13	558	703	(145)
Plants and machinery	1,345	48	(2)	(122)	5	(5)	38	1,307	2,433	(1,126)
Other moveable assets	117	22	(2)	(28)	3	-	6	118	414	(296)
Assets under construction	108	37	(2)	-	2	-	(64)	81	81	-
	2,105	**126**	**(8)**	**(166)**	**19**	**(5)**	**(7)**	**2,064**	**3,631**	**(1,567)**
31 Dec 15										
Land and buildings	558	9	(3)	(17)	11	-	9	567	730	(163)
Plants and machinery	1,307	33	(3)	(117)	17	(1)	27	1,263	2,496	(1,233)
Other moveable assets	118	16	(2)	(27)	3	-	6	114	403	(289)
Assets under construction	81	51	(1)	-	1	-	(48)	84	84	-
	2,064	**109**	**(9)**	**(161)**	**32**	**(1)**	**(6)**	**2,028**	**3,713**	**(1,685)**

The breakdown and main changes within each category are commented on below.

"Land and buildings", totaling 567 million Euros, consisted of 115 million Euros in land and buildings and 452 million Euros in buildings. These are mainly company-owned properties on which the majority of the sites and production plants stand. The 3 million euro decrease is mainly related to the demolition of a building being used as office space.

"Plant and machinery", amounting to 1,263 million Euros, is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system and, therefore: district heating, electricity in the Modena area, waste disposal, waste treatment, purification and composting, material recovery and chemical-physical treatment, anaerobic digesters, and special waste treatment plants.

"Other moveable assets", equal to 114 million Euros, include the equipment, waste disposal bins for 58 million Euros, moveable assets, furniture and electronic machines for 15 million Euros, and vehicles and cars for 40 million Euros.

"Assets under construction and advance payments", amounting to 84 million Euros, include mainly investment for development of district heating and electricity distribution and periodic replacement of waste-to-energy plant components.

"Other changes" mainly 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

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

14 Intangible assets

	31 Dec 15	31 Dec 14	Change
Industrial patents and intellectual property rights	51	48	3
Concessions, licences, trademarks and similar rights	107	111	(4)
Public services under concession	2,445	2,370	75
Intangible assets under construction and public services under concession	140	134	6
Intangible assets under construction	48	54	(6)
Other	105	80	25
Total	**2,896**	**2,797**	**99**

Intangible assets are stated net of their accumulated amortisation and are broken down below with details of the changes during the year:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	Impairments	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
31 Dec 14										
Industrial patents and intellectual property rights	38	6	-	(19)	2		21	48	271	(223)
Concessions, licences, trademarks and similar rights	114	1	-	(13)	6		3	111	381	(270)
Public services under concession	2,140	102	(1)	(124)	164		89	2,370	3,645	(1,275)
Intangible assets under construction and public services under concession	143	79	-	-	-		(88)	134	134	-
Intangible assets under construction	48	28	-	-	1		(23)	54	54	-
Other	47	3	-	(9)	44	(3)	(2)	80	158	(78)
	2,530	**219**	**(1)**	**(165)**	**217**	**(3)**	**-**	**2,797**	**4,643**	**(1,846)**
31 Dec 15										
Industrial patents and intellectual property rights	48	5	-	(21)	-	-	19	51	295	(244)
Concessions, licences, trademarks and similar rights	111	1	-	(13)	7	-	1	107	389	(282)
Public services under concession	2,370	115	(3)	(131)	-	-	94	2,445	3,850	(1,405)
Intangible assets under construction and public services under concession	134	86	-	-	-	-	(80)	140	140	-
Intangible assets under construction	54	26	(4)	-	-	-	(28)	48	48	-
Other	80	2	-	(11)	34	-	-	105	195	(90)
	2,797	**235**	**(7)**	**(176)**	**41**	**-**	**6**	**2,896**	**4,917**	**(2,021)**

The breakdown and main changes within each category are commented on below.

"Industrial patents rights and know-how," in the amount of 51 million Euros, mainly refers to costs incurred in purchasing and implementing corporate information systems and related applications.

"Concessions, licenses, trademarks and similar rights," amounting to 107 million Euros, primarily comprises the value of the rights relating to the activities of gas distribution and integrated water management, classified as intangible assets even before the IFRIC 12 - service agreements interpretation was first applied.

"Public services under concession", amounting to 2,445 million Euros, consists of the goods related to the activities of gas and electricity distribution (in the Imola area), integrated water management and public lighting provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC interpretation 12.

"Intangible assets under construction and advance payments for public services under concession," amounting to 140 million Euros, refers to investments related to the these same contracts that have yet to be concluded at year-end.

"Intangible assets in progress and advance payments", equal to 48 million Euros, essentially comprises IT projects that are still incomplete.

The item Other, amounting to 105 million Euros, refers mainly to use rights for networks and infrastructures for the passage and laying down of telecommunication networks, as well as multi-year contractual rights and customer lists acquired through business combinations.

"Other changes" include the reclassifications of the assets under construction to the specific categories once these have entered service during the financial year and other reclassifications to property, plant and equipment.

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

15 Goodwill

The item Changes in the scope of consolidation reflects mainly:

- the integration resulting in the creation of Hera S.p.A. in 2002, 81 million Euros;
- acquisition of control through the merger of Agea Spa, effective beginning 1 January 2004, 42 million Euros:
- acquisition of control over Gruppo Meta which took place at the end of the 2005 financial year, as a result of the merger of Meta Spa into Hera Spa, 118 million Euros;
- Integration of Geat Distribuzione Gas into Hera Spa, effective beginning 1 January 2006, 12 million Euros;
- acquisition of control over Sat Spa through the merger into Hera Spa, effective beginning 1 January 2008, 55 million Euros:
- acquisition of control over the Marche Multiservizi Spa Group, 21 million Euros;
- acquisition of control over the Hera Comm Marche Srl, 5 million Euros;

As required by the reference accounting standards (IAS 36) goodwill undergoes impairment testing. The following table shows the allocation of this item to the cash generating unit or group of units in accordance with the maximum aggregation limits that may not exceed the business segment identified, as per IFRS 8.

	31-dic-15
Gas	107
Electricity	43
Water	41
Waste management	175
Other Services	8
Headquarters	4
Total	**378**

The impairment test was applied to the following cash-generating units (CGU): gas, electricity, integrated water management, the environment and other services (Public lighting and telecommunications) that are consistent with the business areas used for internal periodic reporting and with the sector-based reporting in the annual financial report in accordance with the provisions of IFRS 8 - operating areas.

The recoverable amount of the CGU for which individual goodwill amounts have been allocated was verified 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 2016 - 2019 business plan approved by the Board of Directors of the parent company at its meeting of 11 January 2016.

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 2016-2019 Business Plan consistent with those used in previous plans and, on the basis of the final reported values, forecasts were defined that had been internally processed through reference to the most authoritative and up external sources available wherever necessary.

Revenues for regulated business areas were developed on the basis of the evolution of the rates deriving from industry regulations and/or agreements with the Area Authority. In particular, revenues from energy distribution were forecasted according to the principles of the AEEGSI 573/13 (RTDG), 367/14 (RTDG) and 199/11 (TIT) resolutions for gas and electricity respectively, and taking into account the respective WACC values approved, effective from 2016, through Resolution no. 583/15. 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 at the date the Plan and the application of the Water Rate method (MTI) set forth by AEEGSI resolution no. 643/13, taking into account the new parameters underlying the coverage of approved financial and fiscal costs, effective from 2016, through Resolution no. 664/15. For urban sanitation, the hypothesis formalized involved achieving full rate coverage over all the areas served within the duration of the plan, consistent with the provisions of rules currently in effect.

Price trends for electric energy and gas bought and sold in the open market were worked out on the basis of business considerations consistent with the energy scenario under which the business plan was prepared, considering the forecasts provided by a panel of institutional observers.

The development of plants for the disposal and recycling of waste is consistent with the forecasts of the provincial plans in which the Hera Group operates. The investment schedule and the subsequent start of new plants is the result of the best estimate of the managers in charge.

Group costs are expected to increase in line with the forecasted trend for the rate of inflation estimated on the basis of the Government's Economic Planning Document and forecasts by the Bank of Italy and the European Commission. Labour costs, instead, were assumed to grow in line with the labour agreements in place.

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 by the CGU were determined using the forecasted data for the 2016 - 2019 period as a base. In particular, the Net Profit Margin was used, from which taxes were deducted, depreciation and provision were added and the maintenance investments planned for each year of the plan were deducted.

Following the last year of the plan, "normalized" Cash Flows ("normalized Free Cash Flows" or "normalized FCF") 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 2020-2035 period (20 years total). For regulated services, these flows are brought into line with the expected continuation of market share following the completion of the expected calls for tenders.

These flows are supplemented by the current value of perpetuity, calculated as follows:

- For activities under market (gas and electricity sales, waste disposal and telecommunication), the cash flow resulting from the application of the perpetuity criterion for the last year (2035) was considered, assuming an average factor growth of 2%;
- for assets under contract, the terminal value was established by considering the cash flow resulting from the application of the perpetuity criterion weighted by the percentage of competitive bidding processes that the Group is expected to win at the end of the contract periods (100% for gas distribution services, integrated water management and public lighting in the CGU "Other 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 VNC 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.

The cash flows were discounted using discount rates represented by the WACC, net of taxes, differentiated according to the specific characteristics and consequent risks characterizing business areas: in particular, 5.74% for the environment and 5.03 % for other business areas.

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 characteristic of 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 CGU, hypothesizing a 5% decrease that would result in a reduction in the cash flows developed in the years covered by the plan and subsequent years. In this context, the values obtained are much higher than those accounted for, therefore this analysis has further confirmed the carrying values for all CGUs.

It is worth noting that the outcome of the above mentioned procedures has been specially approved by the Board of Directors of the Parent Company, as recommended by provisions set forth by Consob, Bank of Italy and ISVAP.

An impairment test was also carried out on the activities related to electricity generation. Please refer to note 16 "Equity Investments" for the results of this test.

16 Equity investments

	31 Dec 15	31 Dec 14	Change
Joint Venture			
Elettrogorizia Spa		3	(3)
Enomondo Srl	13	11	2
EstEnergy	11	9	2
Total	**24**	**23**	**1**
Associated			
Aimag Spa	44	43	1
Set Spa	36	36	-
Sgr Servizi Spa	21	19	2
Other minor associated	2	2	-
Total	**103**	**100**	**3**
Susidaries, joint ventures and non-consolidated associated companies			
Energo doo	5	5	-
Other minor	1	2	(1)
Totale	**6**	**7**	**(1)**
Other companies			
Calenia Energia Spa	7	7	-
Galsi Spa	12	12	-
Other minor	5	4	1
Total	**24**	**23**	**1**
Total equity investments	**157**	**153**	**4**

The changes in joint ventures and associated companies as compared to 31 December 2014 take into account the pro-quota profits/losses reported by the respective companies (including the other components of the comprehensive income statement) as well as the reduction of the value for any dividends that were distributed.

It should be noted that, on 21 December 2015, the 50% share in Elettrogorizia Spa was sold off to third parties, and it thus left the Group's scope of consolidation. The divestiture involved a capital loss in the amount of approximately 3 million Euros.

The change in "Other minor companies" concerning subsidiaries, joint ventures and affiliated companies refers to the write down of investments in the associate company Sei Spa, amounting to 1 million Euros

It should be noted that, in November of 2015, the European Commission confirmed that the Methane Pipeline to be constructed between Italy and Algeria, the construction project for which the company Galsi S.p.A was formed, will be included among “projects of common interest”, including this project in the so-called “Union List.”

Below are presented the main aggregate values of jointly controlled companies (Enomondo Srl and EstEnergy Spa):.

ASSETS	31 Dec 15
Non-current assets	
Property, plant and equipment	43
Intangible assets	-
Non-controlling interests	-
Financial assets	-
Deferred tax assets	4
Total non-current assets	**47**
Current assets	
Inventories	1
Trade receivables	67
Current tax assets	1
Other current assets	6
Cash and cash equivalents	4
Total current assets	**79**
Total assets	**126**

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec 15
Share capital and reserves	
Share capital	16
Reserves	19
Profit / (loss) for the year	13
Group equity	**48**
Non-current liabilities	
Non-current financial liabilities	12
Post-employment benefits	-
Provisions for risks and charges	-
Financial instruments - derivatives	-
Total non-current liabilities	**12**
Current liabilities	
Current financial liabilities	14
Trade payables	42
Current tax liabilities	-
Other current liabilities	10
Total current liabilities	**66**
Total equity and liabilities	**126**

INCOME STATEMENT	31 Dec 15
Revenue	160
Other operating revenues	7
Use of raw materials and consumables	(77)
Service costs	(54)
Personnel costs	(4)
Amortisation, depreciation, provisions	(12)
Other operating costs	(1)
Operating profit	**19**
Financial income	4
Financial expense	(1)
Total financial operations	**3**
Pre-tax profit	**22**
Taxes for the year	(9)
Net profit for the period	**13**

Below are presented the main aggregate values of companies with signficant influence (Aimag Spa, Ghirlandina Solare Srl, Q.Thermo Srl, Set Spa, Sgr Servizi Spa, Sosel Spa, and Tamarete Energia Srl):

ASSETS	31 Dec 15
Non-current assets	
Property, plant and equipment	419
Intangible assets	46
Non-controlling interests	11
Financial assets	9
Deferred tax assets	12
Total non-current assets	**497**
Current assets	
Inventories	4
Trade receivables	201
Other current assets	28
Cash and cash equivalents	26
Total current assets	**259**
Total assets	**756**

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec 15
Share capital and reserves	
Share capital	88
Reserves	178
Profit / (loss) for the year	21
Group equity	**287**
Non-controlling interests	10
Total equity	**297**
Non-current liabilities	
Non-current financial liabilities	234
Post-employment benefits	6
Provisions for risks and charges	30
Deferrred tax liabilities	1
Total non-current liabilities	**271**
Current liabilities	
Current financial liabilities	24
Trade payables	119
Current tax liabilities	13
Other current liabilities	32
Total current liabilities	**188**
Total liabilities	**756**

INCOME STATEMENT	31 Dec 15
Revenue	455
Other operating revenues	4
Use of raw materials and consumables	(257)
Service costs	(84)
Personnel costs	(35)
Amortisation, depreciation, provisions	(31)
Other operating costs	(12)
Operating profit	**40**
Financial income	-
Financial expense	(1)
Total financial operations	**(1)**
Pre-tax profit	**39**
Taxes for the year	(17)
Net profit for the period	**22**
Attributable to:	
Shareholders of the Parent Company	21
Non-controlling interests	1

Impairment of electricity generation assets

In relation to the electricity generation market, in view of various impairment indicators and in keeping with the previous financial year, a detailed assessment was carried out on the recoverable value of the shares held by the Group, as well as the associated financial activities operating in this sector. In particular, this analysis was conducted through the appropriate use of discounted cash flows, developed over a period of time in keeping with the useful life of the facilities, for the companies Calenia Energia Spa, Set Spa and Tamarete Energia Srl in order to verify the recoverability of financial assets (investments and financial receivables) reported in the financial statement in relation to these companies (in the amount of 7 million Euros, 75 million Euros and 31 million Euros, respectively).

It should be noted the downturn associated with the electricity generation market continues. While showing signs of recovery in the medium/long term, this market is still burdened by the combination of multiple economic factors on both demand and supply sides. The main drivers of current price dynamics are to be found in the:

- attainment of full operational capability of the plants built in the recent cycle of investment in new thermoelectric capacity (period until 2010/2011);
- introduction of significant production capacity in renewable energy in the past few years (about 32GW of installed power at the end of 2013);
- low levels of energy demand caused by the negative economic cycle of the past few years, with the resulting impact on the reserve margin of the system which has reached a historical high.

The current economic condition is expected to change in the medium/long term, particularly due to:

1. lack of financial sustainability, over this period, of the current spark spread levels for single-technology operators (CCGT) not integrated along the value chain (particularly in the absence of end customers) which, if the negative margins generated by their assets continued, will be faced with two alternative strategies: a) new capital injections to continue to operate in generation to benefit from higher margins in the long terms (not easy to implement, due to unfavourable financial market conditions and, in the case of foreign operators engaging in Italy, subject to the need for cross-border optimization of investment portfolios); b) exit from the generation market, with a resulting reduction of capacity on the supply side and price rise;
2. lack of productive investments in the expansionary phase, due to current overcapacity, which discourages the construction of new generation plants (currently there seem to be no new projects under way);
3. lawmakers' interventions intended to reduce economic incentives for new renewable power, with the ensuing slowdown in investment growth in the sector;
4. the progressive return of demand for electricity toward pre-crisis levels, with consequent reduction of the system's reserve margin.

That said, future cash flows determined on the basis of a medium/long-term energy scenario - consistent with growth expectations for energy demand, installed power and the system's expected reserve margin - discounted to present value at an after-tax rate of 5.03% will give rise to amounts for the investments and related financial assets greater than their carrying amounts for Calenia Energia Spa, Set Spa and Tamarete Energia Srl, therefore, no adjustment was made to their carrying amounts.

A sensitivity analysis was also carried out by reducing the curve of the spark spread by 2 Euros/MWh compared to the medium/long-term scenario suggested above. In this case as well, the adequacy of the amounts recorded for equity investments and related financial assets in Calenia Energia Spa, Set Spa and Tamarete Energia Srl was confirmed.

17 Current and non-current financial assets

	31 Dec 15	31 Dec 14	Change
Receivables for loans	78	50	28
Portfolio securities	3	2	1
Other financial receivables	44	31	13
Total non-current financial assets	**125**	**83**	**42**
Receivables for loans	17	28	(11)
Portfolio securities	6	9	(3)
Other financial receivables	12	8	4
Total current financial assets	**35**	**45**	**(10)**
Cash and cash equivalents	**541**	**834**	**(293)**
Total financial assets, Cash and cash equivalents	**701**	**962**	**(261)**

"Loan receivables" comprises non-interest bearing loans or loans regulated at market rate, made to the following companies:

	31 Dec 15			31 Dec 14		
	non current portion	current portion	Total	non current portion	current portion	Total
Enomondo Srl	-	4	4	-	5	5
Aloe Spa	10	-	10	-	-	-
Set Spa	32	7	39	14	3	17
Tamarete Energia Srl	29	3	32	33	2	35
Other minor companies	7	3	10	3	18	21
Total	**78**	**17**	**95**	**50**	**28**	**78**

Compared to 31 December 2014, the following changes should be noted:

- enhancement of the loan made to the former Hera subsidiary Energia Rinnovabili Spa, now Aloe Spa, previously eliminated due to the full consolidation of the company;
- repayment of the interest-bearing loan granted to the jointly controlled company in the amount of 7 million Euros;
- write-down of the loan granted to the associate company Sei Spa (included in "Other Minor companies") for 6 million euro; in this regard, see Note 10 "Financial income and expenses"
- disbursement of a 21 million euro tranche to the associated company Set Spa following the granting of a new line of funding to last until 2027.

The item "Portfolio Securities" includes, in the non-current section, bonds issued by BPer in the amount of 2 million Euros to replace and reconstitute the sum to guarantee the post-closure of the landfill managed by the subsidiary Asa Scpa.
Investment policies, bonds and certificates of deposit classifiable as Assets available for Sale are recorded in the current section, the book value of which is essentially in line with their fair value at the end of the financial year.

For "Other financial receivables", the non-current section includes the following financial positions regulated at market rates in relation to:

- The City of Padua, concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 17 million Euros;
- The "Collinare" Consortium of Municipalities in the amount of 11 million Euros represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- Municipality of Padua, following the deferral of payment over ten years for supplying electricity for street lighting systems in the amount of 1 million Euros;
- Acosea Impianti Srl, regarding a security deposit in the amount of 12 million Euros

For "Other financial receivables", the current section mainly includes:

- public grant receivables to be received from various different subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region, among others) by the subsidiary AcegasApsAmga Spa, in the amount of over 6 million Euros;
- advance payments to cover expenses paid by several GRoup companies as gas distribution service operators in view of the imminent commencement of the calls for tender, in the amount of 2 million Euros;
- Receivables for contingent consideration related to the divestiture of the investment in Hera Energie Rinnovabili Spa to be paid to Agave Srl (now Aloe Spa) in the amount of 1 million Euros.

The item "Cash and cash equivalents" included cash, cash equivalents, and bank cheques and drafts held in the cashier office at headquarters and at other companies for a total of E2 million Euros; the deposit accounts at banks and credit institutions, generally available for current operations, as well as post office bank accounts in the amount of 539 million Euros. To better understand the financial dynamics taking place during the 2015 financial year, see the financial statement and the comments shown in the Directors' report.

18 Deferred tax assets and liabilities

	31 Dec 15	31 Dec 14	Change
Differred tax assets	130	135	(5)
Compensazione fiscalità differita	(60)	(70)	10
Substitute tax credit	3	3	0
Total net deferred tax assets	**73**	**68**	**5**
Deferred tax liabilities	84	85	(1)
deferred taxation offset	(60)	(70)	10
Total net deferred tax liabilities	**24**	**15**	**9**

"Deferred tax assets" arise from timing differences between reported profit and taxable profit, mainly in relation to bad debt provisions, risks and expenses funds, and instances of civil depreciation that are greater than those relevant for tax purposes.

"Deferred tax liabilities" arise from timing differences between reported profit and taxable profit, mainly in relation to greater tax deductions taken in previous years for provisions and amounts of property, plant and equipment not relevant for tax purposes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets with the corresponding current tax liabilities.

The item "Substitute tax credits" as an advance payment on current taxes, represents the amount paid for the release of goodwill reported in prior years for tax purposes.
The change as compared to the previous year is also related to the reporting of current and deferred tax assets as a result of business combination operations. Please refer to the specific section in the introduction to these notes.
For more details about the composition and dynamics of deferred tax assets and liabilities, see note 11 "Income taxes for the year"

19 Financial instruments - derivatives

Non current assets/liabilities							
Underlying	Fair Value Hierarchy	31 Dec 15			31 Dec 14		
		Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate and foreign exchange derivatives							
Loans	2	1.000 mln	93		1.000 mln	103	
Loans	2	26,5 mln		34	39,3 mln		37
Total Interest rate and foreign exchange derivatives			**93**	**34**		**103**	**37**
Exchange rate derivatives (financial transactions)							
Loans	2	20 bln JPY	15		20 bln JPY		1
Total non-current derivatives			**108**	**34**		**103**	**38**

Current assets/liabilities							
Underlying	Fair Value Hierarchy	31 Dec 15			31 Dec 14		
		Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate and foreign exchange derivatives							
Loans	2		-	-	90,0 mln	-	2
Commodity derivatives							
Foreign Gas Hubs	3	85.553 MWh	1	-	570.578 MWh	1	-
Crude oil	2	10.200 Bbl	-	-	33.200 Bbl	1	-
Refined oil/coal	2	5.900 Ton	1	-	22.900 Ton	4	-
Electric energy formulas	2	4.848.966 MWh	5	-	5.199.021 MWh	18	-
Foreign Gas Hubs	3	1.383.464 MWh	-	8	855.927 MWh	-	2
Crude oil	2	141.000 Bbl	-	2		-	-
Refined oil/coal	2						
Electric energy formulas	2	6.371.525 MWh	-	12	7.025.620 MWh	-	28
Total commodity derivatives			**7**	**22**		**24**	**30**
Exchange rate derivatives (commercial transactions)							
EUR/USD exchange rate	2		-	-	6,0 mln Usd	-	-
Total current derivatives			**7**	**22**		**24**	**32**

Derivative financial instruments classified under non-current liabilities amounted to 108 million Euros (103 million Euros as at 31 December 2014); they refer to interest rate derivatives for 93 million and to derivatives on exchange rates for 15 million. Derivative financial instruments classified under non-current assets amounted to 34 million Euros (38 million Euros as at 31 December 2014) 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. The derivative financial instruments classified as current assets amounted to 7 million Euros (24 million as at 31 December 2014) and refer entirely to commodity derivatives. The derivative financial instruments classified as current assets amounted to 22 million Euros (32 million as at 31 December 2014) and likewise refer entirely to commodity derivatives.

With regard to derivatives on current and long-term interest rates in the form of Interest Rate Swaps (IRS) as at 31 December 2015, the Group's net exposure was positive by 59 million Euros, compared with a positive exposure of 64 million Euros as at 31 December 2014. The slight decrease in the fair value as compared to the previous year, in view of interest rate curves that were depressed and mainly stable rates over the financial periods, is due to the achievement of the positive differential of the derivatives for that period and the effect an operation to restructure the derivatives portfolio that was completed during the financial year (see the following paragraphs).

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 15 million Euros as at 31 December 2015, as compared to an assessment that was negative, amounting to 1 million Euros, as at 31 December 2014. The positive change in fair value in the amount of 16 million Euros is due prevalently to the exchange rate, since the Japanese yen gained considerably on the euro during the year, particularly with respect to the exchange rate set by the CCS.

At 31 December 2015 the net fair value of commodity and currency derivatives was negative for 15 million Euros, as compared to a negative fair value of 6 million Euros at 31 December 2014. The decrease in absolute terms of the fair value of assets and liabilities, compared to 31 December 2014, was linked - especially in relation to the contracts related to special price arrangements ("Formule Energia Elettrica"), which constitute the majority of the company's contracts - to a decrease in the volumes subject to swap/forward operations. The total net exposure decrease is likewise attributable mainly to contracts indexed to the "Formule Energia Elletrica" and reflects the dynamics of the SNP (Single National Price) as of the reference date of the balance sheet.

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 valuation of non-performance risk, if this is considered relevant All derivative contracts entered into by the Group are with leading institutional counterparties.

During the 2015 financial year, there were no transfers between the different levels of fair value indicated above.

Interest rate and foreign exchange derivative instruments held as at 31 December 2015, subscribed in order to hedge loans, can be classed into the following categories (figures in millions of Euro):

Interests exchange rate derivatives (financial transactions)							
Type	Underlying	31 Dec 15			31 Dec 14		
		Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
- Cash Flow Hedge	Loans	26,5 mln	-	2	129,3 mln	-	5
- Fair Value Hedge	Loans	149,8 mln	15	29	1.149,8 mln	103	35
- Non Hedge Accounting	Loans	1.000 mln	93	3	-	-	-
Total fair value			**108**	**34**		**103**	**40**
Type	Underlying	31 Dec 15			31 Dec 14		
		Income	Expense	Net effect	Income	Expense	Net effect
- Cash Flow Hedge	Loans	-	1	(1)	-	5	(5)
- Fair Value Hedge	Loans	26	8	18	106	40	65
- Non Hedge Accounting	Loans	32	29	3	-	-	-
Total Income / expense		**58**	**38**	**20**	**106**	**45**	**60**

Interest rate derivatives identified as cash flow hedges show a residual notional amount of 26.5 million Euros (129.3 million Euros as at 31 December 2014) against variable rate loans of the same amount. Charges associated with this class of derivatives predominantly refer to cash flows realised, or to the recording of shares of future flows, which shall have a financial impact in the following period.

As at 31 December 2015, the breakdown of net charges relating to derivatives classified as cash flow hedges, amounting to 1 million Euros, have no relevance in relation to other classes:

The derivatives on interest rates and exchange rates, identified as fair value hedges of liabilities reported in the balance sheet (fair value hedges) have a residual notional value of 14 million Euros as compared to a positive fair value of 68 million Euros, as at 31 December 2014. The significant decrease in this period, amounting to 82 million Euros, is mainly due to the offsetting of derivatives to hedge two bonds maturing in 2019 and 2021 (both with a notional amount of 500 million Euros). In this regard, it should be noted that, during the year, the Group decided to restructure its portfolio of derivatives as part of a move to review the balance between debt at fixed rates and debt at variable rates. This restructuring resulted in revoking certain hedging relationships and signing new derivative contracts that do not qualify for hedge accounting under IAS 39. The new derivative contracts, despite being classified as non-hedge accounting, have as their main objective to provide coverage from interest rate fluctuations and have no impact on the income statement (mirroring).

The derivatives on interest rates, identified as non-hedge accounting hedges, have an overall fair value of 90 million Euros and represent the above-mentioned offsetting operation.

As of 31 December 2015, the breakdown of income and expenses associated with derivatives classified as fair value hedges, non-hedge accounting and related underlying liabilities, as adjusted for the income and losses attributable to the hedged risk, are as follows:

Fair Value Hedges	31 Dec 15			31 Dec 14		
	Income	Expense	Total	Income	Expense	Total
- Derivates valuation	21	-	21	73	(21)	52
- Accrued Interest	-	-	-	-	-	-
- Cash inflow	4	(8)	(4)	33	(19)	14
- Ineffective portion	-	-	-	-	-	-
Total derivatives effectFair Value Hedges	**25**	**(8)**	**17**	**106**	**(40)**	**66**

Non Hedge Accounting Hedges	31 Dec 15			31 Dec 14		
	Income	Expense	Total	Income	Expense	Total
- Derivates valuation	2	(14)	(12)	-	-	-
- Accrued Interest	-	(1)	(1)	-	-	-
- Cash inflow	30	(15)	15	-	-	-
- Ineffective portion	-	-	-	-	-	-
Total derivatives effectNon Hedge Accounting	**32**	**(30)**	**2**	**-**	**-**	**-**

Underlying	31 Dec 15			31 Dec 14		
	Income	Expense	Total	Income	Expense	Total
Financial liabilities valuation	8	(21)	(13)	14	(66)	(52)

The positive economic effect associated with the assessment of this type of hedge as compared to the previous financial year, reflects changes in the fair value of the financial instruments described above. No significant ineffective portions were found in the financial year.

Commodity derivative instruments held as at 31 December 2015 can be classed into the following categories (figures in millions of Euros):

Commodity/change rate derivatives (commercial transactions)							
Type	Underlying	31 Dec 15			31 Dec 14		
		Fair Value Assets	Fair Value Liabilities	Net effect	Fair Value Assets	Fair Value Liabilities	Net effect
- Non Hedge Accounting	Transactions on commodities	7	22	(15)	24	30	(6)
Type	Underlying	31 Dec 15			31 Dec 14		
		Income	Expense	Net effect	Income	Expense	Net effect
- Non Hedge Accounting	Transactions on commodities	36	48	(12)	41	40	1

At financial year-end there were no commodity derivatives accounted for as hedges. The commodity derivatives classified as non-hedge accounting also include contracts put in place substantially for hedging purposes, but which, on the basis of the strict requirements set forth by international accounting standards, cannot be formally classified under hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are recognized as operating costs.
Overall, these derivatives, in the 2015 financial year, generated a net income of 12 million Euros, which essentially correspond to respective changes in the opposite direction in the costs of raw materials (gas and electricity) and in all respects form an integral part of this.

Interest rate risk and currency risk on financing transactions

The cost of financing is affected by interest rate fluctuations. In the same way, the fair value of financial liabilities is also subject to interest rate and exchange rate fluctuations.

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 (cash flow hedges, Fair Value Hedges and non-hedge accounting) in relation to a portion of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currencies.
This Risk Mitigation policy is detailed in the management report, which can be consulted for further information on this topic (see in particular the section "Rate Risk " and "Exchange rate risk not connected to the commodity risk")

Sensitivity Analysis - Financial transactions

In conjecturing an instant shift of -15 basis points in the interest rate curve with respect to the interest rates effectively applied for the assessments as at 31 December 2015, at like-for-like exchange rates, the potential increase in fair value of the existing derivative financial instruments on interest rates and exchange rates would amount to roughly 0.4 million Euros. Likewise, conjecturing an instant shift of +15 basis points in the interest rate curve, there would be a potential decrease in fair value of about 0.4 million Euros.
These changes in fair value of financial instruments accounted for as hedges would have no effect on the income statement if it were not for their potential ineffective portion, which moreover is not significant. Likewise, they would not have any appreciable effect on equity, since the derivatives accounted for as cash flow hedges are not significant at the consolidated level.
As to derivatives designated as fair value hedges, any change in fair value would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be essentially offset by a movement in the opposite direction of the hedged liability.
Assuming an instant change of 10% in the euro/yen exchange rate, given the same interest rates, the potential decrease in fair value of the derivative financial instruments in place at 31 December 2015 would amount to approximately 17.9 million Euros. Likewise, assuming an instant reduction of the same amount, the potential fair value increase would be approximately 21.8 million Euros. As exchange rate derivatives related to borrowing transactions are treated as fair value hedges, any change in these fair values would not have any effect on the income statement, other than for the credit adjustment part, as any such change would be offset by a movement in the opposite direction of the hedged liability.

Market risk and currency risk on commercial transactions

Concerning the wholesale business carried on by Hera Trading S.R.L., the Group manages risks related to the misalignment between indexation formulas related to the purchase of gas and electric energy and the indexation formulas related to the sales of the same commodities (including contracts entered into at fixed prices) as well as exchange rate risks in case the trading contracts for the commodities are denominated in currencies other than the euro (essentially U.S. dollar).

With reference to these risks, the Group has set up a number of commodities derivatives aimed at pre-establishing the effects on sales margins irrespective of changes in market conditions.

Although they do not formally fall under the IAS 39 criteria to be accounted for under hedge accounting, these derivatives effectively serve the function of simply hedging for fluctuations in prices and exchange rates on raw materials purchased, and fall within the Risk Mitigation Policy detailed in the management report; please refer to this report for further information (see in particular the section "risks associated with the macroeconomic environment").

Sensitivity Analysis - Commercial transactions

In assuming an instant 10 dollar-per-barrel rise in the Brent price, with no change in the Euro/Dollar exchange rate, and no change in the curve of the national standard price, the potential reduction in the fair value of derivative financial instruments held as at 31 December 2015 would amount to approximately 4.9 million Euros. On the contrary, an instant fall in the same amount would bring about a potential increase in the fair value of the instruments of approximately 4.9 million Euros.
In assuming an instant change in the exchange rate of 0.05 dollars per euro, with no change in the Brent price and a steady pun curve, the potential decrease in the fair value of derivative financial instruments held as at 31 December 2015 would amount to approximately 0.2 million Euros. Similarly, an instant change of the same amount in the opposite direction would bring about a potential decrease in the fair value of the instruments of around Euro 0.2 million.
In assuming an instant +5 Euro/MWh change in the national standard price curve, with no change in the Euro/Dollar exchange rate, and no change in the Brent price, the potential increase in the fair value of derivative financial instruments held as at 31 December 2015 would amount to approximately 3 million Euros. On the contrary, an instant change of -5 Euro/MWh would bring about a potential decrease in the fair value of the instruments of around 3 million Euros.

20 Inventories

	31 Dec 15	31 Dec 14	Change
Raw materials and stocks	85	93	(8)
Materials held for sale and finished products	10	11	(1)
Contract w ork in progress	21	16	5
Total	**116**	**120**	**(4)**

The "Raw materials and stocks", already shown net of an associated obsolescence provision, amount to 85 million Euros. They are comprised mainly of gas stocks, for 53 million Euros (61 million Euros as at 31 December 2014) and replacement parts and equipment used for the maintenance and running of operating plants, equal to 32 million Euros (32 million Euros as at 31 December 2014).

The decrease in stored gas is mainly attributable to the Group's procurement policies, which are linked to trends in the price of the raw material.

The item "Materials held for sale" primarily comprises the value of the GVG - Steam Generator to Grid system (for a total of 7 million Euros) and complementary plant components (for a total of 3 million Euros), classified in previous years under the category fixed assets in course of acquisition in that it was earmarked for the enlargement of the Modena incinerator (as a matter of fact, the Group was interested in constructing a new line of incinerators in the plant area of the current WTE facility). The first authorizations obtained from the relevant authorities guaranteed a financial return that was deemed adequate to cover the investment. In the meantime, the planning context changed, in particular as a result of Resolution no. 103 of 3 February 2014 of the Regional Council, which adopted the "Proposal for a Regional Waste Management Plan pursuant to art. 199 of Legislative Decree 152 of 2006 ". If the plan had been definitively approved, the construction of Line 3 would not have involved the desired economic returns. Under this new framework, the Group decided not to proceed with the construction of this line, as it was not able, among other things, to request an additional time extension for beginning the construction work. Nonetheless, it is believed that the supply can be sold on the market to potential buyers.

The item "Contract work in progress", which at 31 December 2015 amounted to 21 million Euros, includes long-term contracts for plant engineering construction work, mainly in relation to gas, water and public lighting (the latter in the amount of 6 million Euros), as well as for design activities aimed at acquiring commissions in the national and international markets.

21 Trade receivables

	31 Dec 15	31 Dec 14	Change
Trade receivables	1,116	1,114	2
Allow ance for bad debt	(203)	(183)	(20)
Intangible assets under construction	620	533	87
Total	**1,533**	**1,464**	**69**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2015. The provisions for bad debts are considered to be fair in relation to the estimated realizable value of said receivables.

Changes in the provisions for bad debts were as follows:

	Opening balance	Allocations to Provision	Change in the scope of consolidation	Uses and other movements	Closing balance
Year 2014	153	66	5	(41)	183
Year 2015	183	72	2	(54)	203

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the customers (in relation to the age of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the following paragraph "credit risk".

The change in the scope of consolidation mainly reflects the acquisition of control over the company Alento Gas Srl, as outlined in these notes in the paragraph "Changes in the scope of consolidation."

The following table displays these receivables from clients on the basis of bills issued, organized by degree of past-due:

Ageing trade receivables	31 Dec 15	Effect	31 Dec 14	Effect	Change
Not yet due	381	34%	397	36%	(16)
Due 0-30 days	108	10%	128	11%	(20)
Due 31-180 days	131	12%	116	10%	15
Due 181-360 days	80	7%	89	8%	(9)
Due beyond 360 days	416	37%	384	34%	32
Total	**1,116**		**1,114**		**2**

Credit risk

The value of trade receivables reported in the financial statements at December 31, 2015 represents the Group's maximum exposure to credit risk. The procedure in place to govern the granting of loans to customers involves carrying out specific individual evaluations; this approach reduces the concentration and exposure to credit risk posed by both business customers and private ones. With regard to the mass client base, allocations are made to the provision for doubtful receivables on the basis of historic analyses (in relation to the age of the receivables, the type of recovery action undertaken and the status of the creditor). Additionally, analyses are conducted periodically on the individual positions still in place, identifying any critical issues and, if the amounts outstanding are uncollectible, in whole or in part, the receivables are suitably written down.

The carrying amount of trade receivables at year-end approximated their fair value.

22 Current tax assets and liabilities

	31 Dec 15	31 Dec 14	Change
Income tax credits	8	11	(3)
IRES refund credit	21	21	-
Total current tax assets	**29**	**32**	**(3)**
Income tax payable	16	21	(5)
Substitute tax payable	10	9	1
Total current tax liabilities	**26**	**30**	**(4)**

"Income tax credits" refer to the excess advance IRES and IRAP payments over the tax amount payable. The item "IRES refund receivable" refers to requests for IRES refunds due for the 2007 and 2011 years, following the deductibility of IRES from IRAP related to labour costs and the like under Law Decree 201/2011.

"Income tax due" includes provisions for IRES and IRAP made in relation to profit for the period. The item "Substitute tax payable" reflects the remaining tax installments in relation to exemption operations carried out in current and past financial years. The increase as compared to 31 December 2014 is due to the exemption of the higher values of the controlling shares in Waste Recycling Spa and Biogas 2015 Srl which were acquired during the year, net of the installments paid for transactions carried out in previous years.

23 Other current assets

	31 Dec 15	31 Dec 14	Change
Certificates of energy efficiency and emission trading	67	72	(5)
Equalisation fund for the electricity and gas sectors for standardisation and continuity income	32	49	(17)
VAT, excise and additional taxes	30	37	(7)
Prepaid costs	16	18	(2)
Security deposits	11	22	(11)
Receivables related to tariff components	10	1	9
Advances to suppliers/employees	6	11	(5)
Receivables related to other advances	6	7	(1)
Other receivables	48	45	3
Total	**226**	**262**	**(36)**

The breakdown and changes in the main items are described compared with 31 December 2014:

"Energy efficiency bonds and emissions trading", includes:

- Green certificates, 42 million Euros (52 million Euros as at 31 December 2014);
- White certificates, 22 million Euros (18 million Euros as at 31 December 2014);
- Grey certificates, 3 million Euros (2 million Euros as at 31 December 2014);

"Equalisation fund for the electricity and gas sectors for standardisation and continuity income", totaling 32 million Euros (49 million Euros as at 31 December 2014). The decrease is mainly attributable to a lower credit for the equalization of gas distribution and the electricity sector for the year, resulting from a thermal trend during the financial year that led to billing sellers at a significantly higher amount than the previous year.

"VAT, excise and additional taxes", amounting to 30 million Euros (37 million Euros at 31 December 2014), is comprised of tax credits payable to the treasury for value added tax in the amount of 24 million Euros and for excise and additional taxes in the amount of 6 million Euros. The change as compared to 31 December 2014 is attributable to an increase of 14 million Euros in receivables for value added tax (10 million Euros at 31 December 2014) and a decrease of 21 million Euros in receivables for excise and additional taxes (27 million Euros as at 31 December 2014). These changes should be interpreted together with the same change shown in the liability item "Other current liabilities" in Note 29. In particular, with regard to excise duties and the components of 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/debit positions with differences that can be significant even between one period and another.

"Prepaid costs" are costs incurred for insurance policies, surety, bank fees and charges, fees due and concession fees for network services, external services and activities, taxes and taxes prepaid as of the reference date.

The change in the item "Receivables for tariff components" was due to the time lag in billing between sales companies and distribution companies as well as a variability in the asset/liability balance due in part to the seasonal effect between one financial period and the other.

The item "Other receivables" groups together residual items including receivables for grants, various tax credits, fees for network service concessions and receivables from asset companies. In relation to 31 December 2014, it should be noted that this item decreased by 5 million Euros due to the cashing of receivables that Marche Multiservizi Spa was owed by INPS which accrued during the 2014 financial year following conciliation report no. 433/14 of 18/07/2014 released by the Magistrates' Court of Pesaro granting a refund on TBC, ENAOLI, CUAF, severance pay and sick leave contributions paid but not due, up to the period 31 August 2000, that is, before the company was transformed from a municipally owned company and consortium into an S.p.a.

24 Share capital and reserves

Compared to 31 December 2014, shareholders' equity increased by 44 million Euros due to the combination of the following effects:

- the distribution of dividends in the amount of 142 million Euros;
- acquisition of a minority share in the amount of 33 million Euros;
- increase due to transactions on treasury shares, in the amount of 10 million Euros;
- increase in the share capital of minority shareholders of consolidated companies in the amount of 9 million Euros;
- overall revenues for the period in the amount of 200 million Euros.

The statement of changes in equity is shown in section 2.01.05 of these consolidated financial statements.

Share capital

The share capital as at 31 December 2015 amounted to 1,474 million Euros, made up of 1,489,538,745 ordinary shares with a nominal value of 1 euro each and is fully paid-up.

The treasury shares, whose nominal value at 31 December 2015 was 15 million Euros, and the costs associated with the new share issues, net of the relevant tax effects, are deducted from share capital.

Reserves

This item, amounting to 704 million Euros, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 737 million Euros, cumulative loss in the other comprehensive income (OCI) reserve for 26 million Euros and reserves for operations on negative treasury shares in the amount of 7 million Euros. These latter items reflect transactions carried out on treasury shares as at 31 December 2015. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 5 million Euros.

Non-controlling interests

This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. In particular, it includes minority equity interests in the Herambiente Group and the company Marche Multiservizi Spa.

25 Current and non-current financial liabilities

	31 Dec 15	31 Dec 14	Change
Financing	2,920	3,089	(169)
Other financial liabilities	6	7	(1)
Financial leasing payables	18	25	(7)
Total non-current financial assets	**2,944**	**3,121**	**(177)**
Loans	285	302	(17)
Other financial debt	68	69	(1)
Financial leasing payables	2	3	(1)
Overdrafts and interest expense	129	176	(47)
Total non-current financial assets	**484**	**550**	**(66)**
Total financial liabilities	**3,428**	**3,671**	**(243)**

The main changes in the items related to "Financing" are due to:

- reclassification of the Eurobond due to mature in February 2016 with a residual value of 195 million Euros from "non-current" to "current";
- signing of two new financing agreements by the subsidiary Sinergie Spa for an overall value of 9 million Euros, both two expire in 2019;
- signing of a new loan with a nominal value of 100 million Euros granted by the European Investment Bank (EIB), to mature in 2030;
- entry of the Waste Recycling Spa Group into the scope of consolidation, for an effect totaling 5 million Euros.
- repayment of the loan amounting to 180 million Euros from the European Investment Bank (EIB) to the subsidiary Herambiente Spa;
- repayment of a tranche of the loan granted to the subsidiary AcegasApsAmga Spa by Banca Intesa, in the amount of 46 million Euros;
- repayment of the loan granted to the subsidiary AcegasApsAmga Spa by Dexia Crediop, in the amount of 26 million Euros;
- repayment of the loans issued by Unicredit Bulbank to the subsidiary Rilagas AD for a total of 37 million Euros.

At 31 December 2015, the item "Other financial debt" includes, for the portion due after the close of the financial year, the debt amounting to 5 million Euros owed to the municipal pension fund of the City of Trieste by AcegasApsAmga Spa.
The current portion mainly includes debt to municipalities for TARI payments in the amount of 35 million Euros and a debt to Mediocredito Italiano to repay white certificates in the amount of 28 million Euros.

At 31 December 2015, the Hera Group provided the following security interests for certain bank loans. Specifically:

- mortgages and special liens on property, plant and equipment by the Hera Group to the syndicate of banks that extended a loan to the subsidiary Fea S.r.l. whose nominal amount outstanding is now 30 million Euros;
- mortgages on buildings in Pesaro and Urbino held by a bank that provided a loan to the subsidiary Marche Multiservizi Spa with a nominal outstanding value of 3 million Euros.
- mortgages securing the loan granted to the subsidiary AcegasApsAmga Spa, with a nominal outstanding value of 2 million Euros.

The table below shows the bonds, loans and various debts and those associated with finance leases as at 31 December 2015, with an indication of the portion expiring within the financial year, within 5 years and after 5 years:

Type	Residual amount 31-Dec-15	Portion due within the year	Portion due within 5° year	Portion due beyond 5° year
Bond	2,550	195	538	1,817
Loans	655	90	219	346
Other financial liabilities	74	68	6	-
Financial leasing payables	20	2	8	10
Overdrafts and interest expense	129	129	-	-
Total loans and financial liabilities	**3,428**	**484**	**771**	**2,173**

The following shows the total bonds outstanding as at 31 December 2015:

Bonds		Duration (year)	Maturity	Nominal value (mln)		Coupon	Annual interest rate
Eurobond	Luxembourg Stock Exchange	10	15-feb-16	195.0	EUR	Fixed, annual	4.125%
Eurobond	Luxembourg Stock Exchange	10	03 Dec 19	500	EUR	Fixed, annual	4.500%
Green Bond	Luxembourg Stock Exchange	10	04 Jul 24	500	EUR	Fixed, annual	2.375%
Bond Aflac	Unlisted	15	05 Aug 24	20,000	JPY	Fixed, six monthly	2.925%
Bond	Luxembourg Stock Exchange	10	22-May-23	68	EUR	Fixed, annual	3.375%
Bond	Luxembourg Stock Exchange	12	22-May-25	15	EUR	Fixed, annual	3.500%
Bond	Unlisted	15/20	14-May-27/32	103.0	EUR	Fixed, annual	5.250%
Bond	Luxembourg Stock Exchange	15	29-Jan-28	700	EUR	Fixed, annual	5.200%
Bond	Luxembourg Stock Exchange	8	04-Oct-21	500	EUR	Fixed, annual	3.250%

At 31 December 2015, the total bonds outstanding, with a nominal value of Euro 2,731 million, had a fair value of 3,185 million Euros, as determined on the basis of market quotations, when available.
There are no covenants on the debt except that, for one loan, 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.

The item "Financial lease payables" represents the recording of payables arising from accounting for leasing transactions using the financial method.
The decrease as compared to 31 December 2014 is due, in addition to payment of the matured capital shares, to the deconsolidation of the company Hera Energie Rinnovabili Spa following the sale of the controlling interest.
The value of the lease payments still due on 31 December 2015 amounted to 22 million Euros.

Liquidity risk

Liquidity risk concerns the inability to meet the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done through the centralised management of cash inflows and outflows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

Current cash and lines of credit, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, at 31 December 2014 unused lines of credit amounted to approximately 1,000 million Euros while available committed credit lines amounted to 395 million Euros.

The analysis of cash flows, broken down by maturity date, related to borrowings outstanding at the balance sheet date is illustrated in the Report on operations in the section 1.06.03, “Financial policy and rating”.

26 Post-employment and other benefits

This includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the matured receivables of the employee at the presumed date of leaving the company.

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly solely to settle payments made to eligible retirees. The item "tariff reduction provision" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The table below shows the changes in the above provisions during the year.

	31 Dec 14	Increases	Actuarial gains/ losses	Uses and other movements	31 Dec 15
Employee leaving indemnity	145	1	(8)	(7)	131
Tariff reduction	8	1	-	-	9
Premungas	5	-	-	(1)	4
Gas discount	5	-	-	(1)	4
Total	**163**	**2**	**(8)**	**(9)**	**148**

"Increases" represents the amounts associated with the financial year related to service cost economic components and net interest cost.

"Actuarial gains/(losses)" reflects the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recognized directly in the comprehensive income statement(paragraph 2.01.02 of these Notes).

The item "Uses and other movements" mainly includes the amounts paid to employees during the financial year, amounting to 12 million Euros, and changes in the scope of consolidation associated with business combination operations carried out during the financial year, amounting to 5 million Euros

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

	31 Dec 15	31 Dec 14
Annual discount rate	1.31%	1.05%
Annual rate of inflation	1.50%	1.60%
Annual salary increases	2.80%	2.80%
Annual rate of increase of employee leaving indemnity	2.18%	2.24%
Annual employee departure for reasons other than death	1.00%	1.00%
Annual usage rate of employee leaving indemnity	3.00%	2.75%

In interpreting said assumptions, account is taken of the following:

- for probabilities of death, those relating to Istat SIMF 2014 tables;
- In the actuarial valuations, account was taken of the new effective dates for pensions under Law Decree 6 December 2011, no. 201 entitled "Urgent measures for growth, equity, and the consolidation of public finances", as amended by Law 22 December 2011 no. 214, as well as the regulation for adjusting requirements for accessing the pension system in view of increased life expectancies in accordance with Article 12 of Legislative Decree no. 78 of 31 May 2010, converted with amendments by Law n. 122 of 30 July 2010;
- For the probability of leaving employment for reasons other than death, an average leaving rate of 1% per annum 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. As for the amount, the maximum allowed by law, that is 70%, was used, while as for the incidence, specific parameters were established for each company (the average value for the Group came to 3%).

Actuarial projections were made on the basis of the Euro Composite AA yield curve.

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 2015, 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 5.1 million Euros. Likewise assuming a reduction of this rate of 50 bps, there would be an increase in the present value of the liabilities of about 5.5 million Euros.

Assuming a 50 bps increase in the in the rate of inflation compared to that actually applied to value the liabilities at 31 December 2015, 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 2.7 million Euros. Likewise assuming a reduction of this rate of 50 bps, there would be a decrease in the present value of the liabilities of about 2.6 million Euros.

Changes in the remaining actuarial assumptions would produce significantly lower or higher effects on the present value of the liabilities of the defined-benefit plans reported in the statement of financial position.

27 Provisions for risks and charges

	31 Dec 14	Allocation to provisions	Financial expense	Uses and other movements	Changes in the scope of consolidation	31 Dec 15
Provisions for landfill post-closure and closure expenses	108	5	12	(15)	6	116
Provision for restoration of third-party assets	143	14	5	-	-	162
Provisions for labour disputes	28	8	-	(11)	-	25
Other provisions for risks and charges	58	10	-	(9)	3	62
Total	**337**	**37**	**17**	**(35)**	**9**	**365**

The provision for landfill closure and post-closure expenses, equal to 116 million Euros, represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently in use. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting and provision procedure due to changes in the assumptions on future outlays, following the change in estimates both on current and closed landfills. Uses represent the effective outlays during the year. Changes in estimated closure and post-closure costs in relation to active or new landfills, which entailed adjustments to property, plant and equipment for the same amount, were classified under "Other movements".

"Uses and other movements" decreased by a net amount of 15 million Euros due to actual cash outlays for the management of landfills, of which 6 million Euros refer to internal costs (see note 2 for further details);

The" provision for restoration of third-party assets", totaling 162 million Euros, includes provisions made in relation to law and contractual requirements for Hera S.p.A. and Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. The provision reflects the present value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted to present value, and the financial charges for the period associated with the cash flows discounted to present value.

The "provision for legal cases and disputes brought by personnel", amounting to 25 million Euros, reflects the outcomes of lawsuits and disputes brought by employees. The provision includes 6million Euros relating to the dispute with INPS (9.0 million Euros as at 31 December 2014), mainly connected to the subsidiary AcegasApsAmga Spa. It should be noted that some Group companies have participated in proceedings against INPS relating to the finding that there is no obligation to pay INPS contributions for the redundancy fund (CIG), the extraordinary redundancy fund (CIGS), unemployment benefits, involuntary unemployment benefits, sick leave and the total non-payment of family (CUAF) and maternity benefits. In the third quarter of 2015, with reference to the subsidiary AcegasApsAmga, Equitalia requested, without the possibility of paying in multiple installments, the payment of the INPS folders for the Trieste office in the amount of 6 million Euros. The existing provision was therefore used for the same amount and, at the same time, a further 3 million euro were set aside in view of a possible similar request for the Padua office. As concerns Hera Spa and certain Group companies, the dispute has been permanently closed following an agreement signed 25 January 2013 with INPS and Equitalia, and the payment of the premiums and contributions payable with associated interest. Civil penalties remain to be paid, for which an extension has been requested. Following the agreement, however, INPS issued a number of payment notices for limited lots not included in the above agreement, to definitively settle all liabilities. Meanwhile, following the conclusion of certain cases, the Hera Group was found to have some credit positions in relation to to INPS. In relation to the above, since it proved impossible to define the extent of the sums due in agreement with INPS, a lawsuit was initiated against this agency in April 2015. GIven this, on the basis of currently available information and taking into account the likely development of litigation and legal opinions accumulated over time, the provision is considered adequate.

The item "Other provisions for risks and charges", amounting to 62 million Euros, comprises provisions made against sundry risks. Below, there is a description of the main items:

- 11 million Euros, due to the potential liability related to existing obigations (guarantee on financial exposure given by Acegas S.p.A.) in case of abandonment of the operations run by the foreign subsidiaries Rilagas (Bulgaria) and Sigas (Serbia).
- 8 million Euros for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill. During the year, 2 million Euros were reclassified to the item "provision for closure and post-closure landfill costs" for the occurrence of the negative event mentioned below;
- 7 million Euros, for the future decommissioning of the WTE plants of Trieste and Padua.
- 4 million Euros, 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, and determination of the adjustment amount of CEC for 2011", which introduced new procedures for the determination of the component of avoided fuel cost (CEC) for 2010, 2011 and 2012;

- 2 million Euros, related to the provisions made to cover actual losses considering the future prospects of Oikothen Scral in liquidation;

The item "Uses and other movements" decreased by 9 million Euros, as follows:

- uses for 2 million Euros, mainly represented by the costs incurred for the disposal of waste deposited at the end of the previous year;
- de-provisioning for 5 million Euros due to the annulment of liability for which the provision was established;
- reclassification for a total of 2 million Euros due to the item "provision for closure and post-closure landfill costs", due to the post-management costs associated with the landfill of Ponte San Nicolò (Padua).

Regarding changes in the scope of consolidation, see the dedicated paragraph in the introduction of these notes.

28 Trade payables

	31 Dec 15	31 Dec 14	Change
Trade payables	531	609	(78)
Trade payables – invoices receivable	590	585	5
Total	**1,121**	**1,194**	**(73)**

The majority of trade payables are the result of transactions carried out in Italy.

29 Other current liabilities

	31 Dec 15	31 Dec 14	Change
Capital grants	133	129	4
Payables due to advances to the Equalisation Fund	105	26	79
Security deposits	98	93	5
Equalisation Fund	54	41	13
Due to social security institutions	40	33	7
Personnel	38	45	(7)
Employee w itholding	17	16	1
Revenues paid in advance other expense	14	16	(2)
VAT, excise and additional taxes	11	19	(8)
Other payables	75	76	(1)
Total	**585**	**494**	**91**

"Plant investment grants" refers mainly to investments made in the water and environment sector; this item has decreased in proportion to the amount of depreciation calculated on the fixed assets in question.

"Payables for advances to the equalization fund", comprising the following:

- 103 million Euros (24 million Euros as at 31 December 2014) for the debt recorded in relation to the non-interest-bearing advances granted by the electricity sector Equalization Fund in accordance with the integration mechanism stipulated by AEEG resolutions no. 370 of 20 September 2012 and no. 519 of 6 December 2012, in relation to past due and uncollected receivables owed by customers covered by the safeguard regime, up to 31 December 2013.
- 2 million Euros, related to the debts associated with the APR mechanism for re-negotiating multi-year contracts for natural gas.

"Security deposits" reflect the amount paid by customers for gas, water and electricity provision contracts.

"Equalisation Fund for the Electricity and Gas Sectors", reflects the debt positions for equalization on the gas distribution/measurement, some components of the gas service system and equalization of the electricity service.

"Payables to social security institutions", relates to contributions owed to these institutions for the month of December.
"Personnel" includes the vacation time accrued and not used as of 31 December 2015, as well as the productivity bonuses accounted for by department.

"VAT, excise and additional taxes", amounts to 2 million Euros of VAT (16 million Euros at 31 December 2014), with a decrease of 14 million Euros. This item includes, additionally, 9 million Euros of excise and additional taxes (3 million Euros as at 31 December 2014) with an increase of 6 million Euros as compared to the previous financial year. As illustrated in note 23, "Other current assets", this increase must be understood taking into account the factors that regulate financial relations with the Inland Revenue Office, which can generate credit/debit positions with differences that can be significant even between one financial period and another.

"Other payables" includes payables to shareholders for dividends in the amount of 3 million Euros, payables for tariff components in the amount of 2 million Euros, and payables related to the obligation to return Energy Efficiency Certificates for 2 million Euros, comprising almost entirely gray certificates, to the competent authorities.

30 Comments to the consolidated cash flow statement

Investments in companies and business operations

During the 2015 year control was acquired over the Waste Recycling Group, the sales company Alento Gas Srl, Biogas 2015 Srl and the "Geonova" business unit. Smaller investments were also made in non-consolidated subsidiaries of a non-relevant size. The table below details the main cash disbursements and cash holdings acquired:

Transactions leading to acquisition of control	
Cash consideration for acquisition of Gruppo Waste Recycling	(34)
Cash consideration for acquisition of business unit "Geo Nova"	(20)
Cash consideration for acquisition of Biogas 2015	(8)
Cash consideration for acquisition of Alento Gas	(6)
Investment in non-consolidated subsidiaries	
Other minor investment	(1)
Total cash outlays	**(69)**
Cash and cash equivalents from Gruppo Waste Recycling	1
Cash and cash equivalents from Alento Gas	1
Total Cash and cash equivalents obtained	**2**
Investments in companies and business units net of cash and cash equivalents	**(67)**

Disposals of equity investments

During the year 2015, controlling shares in the company Hera Energie Rinnovabili Spa and Trieste Onoranze e Trasporti Funebri Srl, as well as shares in the joint venture Elettrogorizia Spa, were sold off. Divestitures were also carried out in non-consolidated subsidiaries of a non-relevant size. The table below details the receipts and cash holdings disposed of:

million euros	
Divestments of consolidated companies	
Cash received sale of Hera Energie Rinnovabili Spa	3
Divestment of unconsolidated companies	
Other minor transactions	
Total cash received for sale of investments	**3**
Cash and cash equivalents of companies sold	(2)
Cash and cash equivalent retaled to other minor transactions	-
Total cash and cash equivalents transferred	**(2)**
Divestments net of cash and cash equivalents	**1**

Acquisition of Interests in consolidated companies

The amount refers to the following cash outlays related to the purchase of minority shares in companies included in the scope of consolidation:

- 27 million Euros for the purchase of the entire minority shareholding of Akron Spa, equal to 42.5% of the share capital;
- 3 million Euros for the purchase of the entire minority shareholding of Romagna Compost Srl, equal to 40% of the share capital;
- 3 million Euros to purchase a 3.2% share in Marche Multiservizi Spa;

31 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 19.

31 Dec 15	Income statement Fair value	Amortised cost	Held to maturity	Available for sale	Total
Financial assets valued at fair value				3	3
Receivables and loans		78			78
Financial receivables		44			44
Non-current assets		**122**		**3**	**125**
Trade receivables		1,533			1,533
Financial assets valued at fair value				6	6
Receivables and loans		17			17
Financial receivables		12			12
Other assets	45	210			255
Current assets	**45**	**1,772**		**6**	**1,823**

31 Dec 14	Income statement Fair value	Amortised cost	Held to maturity	Available for sale	Total
Financial assets valued at fair value			2		2
Receivables and loans		50			50
Financial receivables		31			31
Non-current assets		**81**	**2**		**83**
Trade receivables		1,464			1,464
Financial assets valued at fair value				9	9
Receivables and loans		28			28
Financial receivables		8			8
Other assets	55	239			294
Current assets	**55**	**1,739**		**9**	**1,803**

With respect to "non-current assets" reference is made to note 17
With respect to "current assets" reference is made to notes 17, 21, 22 and 23.

The table below illustrates the composition of the Group's liabilities, using the current and non-current distinction. Details of the fair value of derivatives are provided instead in note 19

31 Dec 15	Income statement Fair value	Underlying (fair value hedge)	Amortised cost	Total
Receivables and loans		135	2,791	2,926
Financial leasing payables			18	18
Non-current liabilities		**135**	**2,809**	**2,944**
Trade payables			1,121	1,121
Receivables and loans			482	482
Financial leasing payables			2	2
Other liabilities	2		609	611
Current liabilities	**2**		**2,214**	**2,216**

31 Dec 14	Income statement Fair value	Underlying (fair value hedge)	Amortised cost	Total
Receivables and loans		1,199	1,897	3,096
Financial leasing payables			25	25
Non-current liabilities		**1,199**	**1,922**	**3,121**
Trade payables			1,194	1,194
Receivables and loans			547	547
Financial leasing payables			3	3
Other liabilities	1		523	524
Current liabilities	**1**		**2,267**	**2,268**

With respect to "non-current liabilities" reference is made to note 25.
With respect to "current liabilities" reference is made to notes 22, 25, 28 and 29.

Guarantees

	31 Dec 15	31 Dec 14
Sureties and bank guarantees	923	923
Sureties and insurance guarantees	243	218
Total	**1,166**	**1,141**

Sureties and bank guarantees, the value as at 31December 2015 comprises the following:

- 349 million Euros for guarantees made to public institutions (the Ministry of the Environment, the Region of Emilia Romagna, other provinces and municipalities) and private entities to guarantee the suitable management of plants for treating waste, landfills and dumps, for the suitable provision of waste disposal services, for reclamation work and management and operational activities, including post-closure ones, and for the proper fulfillment of contractual commitments;
- 574 thousand Euros for guarantees and comfort letters issued to guarantee timely payment for the supply of raw materials

"Guarantees and insurance guarantees", as at 31 December 2015 this item refers to guarantees issued to public entities (various provinces and municipalities that are part of Emilia Romagna and the Marche, the Ministry of the Environment) and third parties to guarantee the suitable management of public utility and waste disposal services, the proper execution of the work to lay company pipelines across roads owned by private individuals, reclamation work, managing waste treatment systems and related activities including the post-closure of landfills;

	31 Dec 15	31 Dec 14
Real guarantees to third parties	169	169

The item "Real guarantees to third parties" has not changed as compared to the previous year, including:

- Special mortgages and privileges on land, plants and machinery pledged by the subsidiary Frullo Energia Ambiente Srl to the banking syndicate that underwrote financing in the amount of 150 million Euros;
- mortgages on the buildings of the Pesaro and Urbino headquarters of Gruppo Marche Multiservizi in relation to the bank that underwrote financing in the amount of 19 million Euros;

IFRS 8

Income statement for 2015

	Gas	Electricity	Water	Waste management	Other Services	Headquarters	Total
Direct revenues	1,560	1,547	773	834	96	8	4,818
Infracyclical revenues	45	64	5	53	30	35	232
Total direct revenues	**1,605**	**1,611**	**778**	**887**	**126**	**43**	**5,050**
Indirect revenues	14	4	18	7	-	(43)	-
Total revenue	**1,619**	**1,615**	**796**	**894**	**126**	**-**	**5,050**
EBITDA	**296**	**105**	**232**	**230**	**21**	**-**	**884**
Amortization, depreciation and direct provisions	104	61	100	129	15	33	442
Amortization, depreciation and indirect provisions	11	5	16	1	-	(33)	-
Total amortization, depreciation and provisions	**115**	**66**	**116**	**130**	**15**	**-**	**442**
Operating result	**181**	**39**	**116**	**100**	**6**	**-**	**442**

Income statement for 2014

	Gas	Electricity	Water	Waste management	Other Services	Headquarters	Total
Direct revenues	1,448	1,367	746	832	95	26	4,514
Infracyclical revenues	13	68	8	58	29	48	224
Total direct revenues	**1,461**	**1,435**	**754**	**890**	**124**	**74**	**4,738**
Indirect revenues	20	7	26	20	1	(74)	-
Total revenue	**1,481**	**1,442**	**780**	**910**	**125**	**-**	**4,738**
EBITDA	**276**	**111**	**217**	**242**	**22**	**-**	**868**
Amortization, depreciation and direct provisions	88	65	95	132	16	31	427
Amortization, depreciation and indirect provisions	10	5	15	1	-	(31)	-
Total amortization, depreciation and provisions	**98**	**70**	**110**	**133**	**16**	**-**	**427**
Operating result	**178**	**41**	**107**	**109**	**6**	**-**	**441**

Reclassified financial position 2015

	Net working capital	Net non-current assets	Provisions	Equity	Net borrowings	Consolidated Financial Statements
Total Assets	**1,911**	**5,535**	**-**	**-**	**810**	**8,256**
Cash and other liquid assets					810	810
Tax assets	62	73				135
Unallocated Group assets	-	448				448
Area assets	**1,849**	**5,014**	**-**	**-**	**-**	**6,863**
- of which:						
GAS	638	1,425				2,063
Electricity	540	621				1,161
Water	237	1,587				1,824
Waste management	372	1,270				1,642
Other Services	62	111				173
Total liabilities	**1,754**	**24**	**513**	**2,503**	**3,462**	**8,256**
Financial liabilities and loans					3,462	3,462
Tax liabilities	56	24				80
Unallocated Group assets		-	14	2,503		2,517
Area liabilities	**1,698**	**-**	**499**	**-**	**-**	**2,197**
- of which:						
GAS	500		146			646
Electricity	439		25			464
Water	304		109			413
Waste management	393		212			605
Other Services	62		7			69
Comprehensive total	**157**	**5,511**	**(513)**	**(2,503)**	**(2,652)**	**-**

Reclassified financial position 2014

	Net working capital	Net non-current assets	Provisions	Equity	Net borrowings	Consolidated Financial Statements
Total Assets	**1,902**	**5,464**	**-**	**-**	**1,067**	**8,433**
Cash and other liquid assets					1,067	1,067
Tax assets	72	68				140
Unallocated Group assets		444				444
Area assets	**1,830**	**4,952**	**-**	**-**	**-**	**6,782**
- of which:						
GAS	626	1,402				2,028
Electricity	520	650				1,170
Water	245	1,542				1,787
Waste management	382	1,247				1,629
Other Services	57	111				168
Total liabilities	**1,749**	**18**	**500**	**2,459**	**3,707**	**8,433**
Financial liabilities and loans					3,707	3,707
Tax liabilities	67	15				82
Unallocated Group assets		3	13	2,459		2,475
Area liabilities	**1,682**	**-**	**487**	**-**	**-**	**2,169**
- of which:						
GAS	506		139			645
Electricity	459		26			485
Water	272		106			378
Waste management	383		207			590
Other Services	62		9			71
Comprehensive total	**153**	**5,446**	**(500)**	**(2,459)**	**(2,640)**	**-**

2.03.02 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CONSOB RESOLUTION 15519 OF 2006

Management of the services

The Hera Group, through Parent Company Hera S.p.A., has public service concession arrangements in place (distribution of natural gas via local gas pipelines, integrated water service and waste management services, including sweeping, collection, transport and waste recovery and disposal) in a large part of the area where it operates and in almost all of the shareholder municipalities (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service is carried out in Modena and Imola. Other public utility services (including district heating, heat management and public lighting) are provided at arm's length, through special agreements with the local authorities concerned. Through special agreements with local authorities, Hera S.p.A. is responsible for the waste treatment and disposal service excluded from the regulatory activity carried out by the local competent authority Atersir. According to regional and national regulations for the sector, Atersir is responsible for awarding contracts, planning and controlling integrated water and urban hygiene services. In accordance with the cited regional and national regulations of reference, the Hera Group entered into several agreements with Atersir which govern the management of water and urban hygiene services.

Water sector

The water service managed by Hera in its area of competence is carried out on the basis of agreements entered into with Atersir, of varying duration, normally twenty years. The assignment to Hera of management of the integrated water service includes all activities involving the capture, purification, distribution of drinking water for civil and industrial use, and the sewerage and purification service. The agreements also provide for the operator's execution of new network design and construction activities and the building of new plants to be used in managing the service. The management of the service is assigned exclusively to Hera for the different area municipalities involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property to lay pipelines without the prior consent of the company.

The agreements regulate the economic aspects of the contractual relationship, the forms of management of the service, as well as service and quality standards.

Starting from 2012, the Government granted the AEEGSI competence over tariffs. Within this purview, AEEGSI adopted a transitory tariff period for 2012-2013 and a consolidation period for 2014-2015. In 2014, AEEGSI approved tariffs for 2014-2015 and the related economic and financial plans. The tariffs per unit applied in 2015 are those approved by AEEGSI.

The local authorities awarding the concession give the manager the right, free of charge as well, to use the network and plants for the provision of integrated water supplies. In the majority of the cases concerning the areas managed by Hera, the local authorities have conferred the ownership of networks and plants to special asset companies. At the end of the concession, Hera is obliged to hand over the assets used to provide the service to the asset companies, or to the municipal authorities.

Any works carried out to upgrade or expand the networks must be compensated at the end of concession with the payment of the residual value of the assets in question. Hera's relations with users are regulated by sector laws and by the provisions set out by the regional councils, sector agencies and the AEEGSI itself; The duties of the operator in terms of service quality and resources and the users' rights are illustrated in the specific Service Charters drafted by the operator based on templates approved by Atersir.

Waste management sector

Hera manages urban waste management services. The agreements signed with Atersir cover the exclusive management of collection, transportation, street sweeping and cleaning, waste transportation to recovery

and disposal etc. The agreements signed with the Atersir regulate the economic aspects of the contractual relationship but also the methods of organization and management of the service and the quantitative and qualitative levels of services provided. The payments due to the operator for the services rendered has been defined annually, in accordance with the provisions of Presidential Decree 158/1999, setting the tariff, as supplemented, starting in 2013, by the rule first on Tares and then on Tari.
The Hera Group has provincial authority to operate urban waste treatment plants. For 2015, the Group's subsidiary Herambiente signed a service agreement with Atersir, in accordance with article 16 of Regional Law 23/2011 for the disposal of unsorted urban waste.

Management of the networks, plants and equipment

The infrastructure required for the provision of services whose management has been assigned to Hera, including local gas pipelines and waterworks and sewage systems, are partly owned by Hera and partly owned by third parties (municipalities, asset companies owned by local authorities). Specifically, the asset companies own the capital assets used to manage services following their direct contribution by the Municipalities (generally Hera shareholders) or following the assignment to the asset companies of business "asset" units which took place, in almost all cases, at the time of business combinations involving companies in the Emilia-Romagna region with Seabo Spa (then Hera Spa).
In the case of assets owned by local entities and asset companies, relations between the service operator and the owners are governed by service award agreements or business unit lease contracts and, for anything not covered thereunder, by prevailing industry rules.
As regards the financial aspect, business unit lease contracts fix the amount due from the operator to the owners for the use of networks and plants. On the basis of these contracts Hera must carry out, at its own cost and expense, routine and non-routine maintenance as well as the expansion of the networks, as provided for in the investment plans agreed with the asset companies and, where relevant, by the area plans defined by Atersir.
Upon expiry of the lease contracts, provision is made for the handover of the business units to the owner, in a normal state of repair. All works performed by Hera, involving expansion and extraordinary maintenance, will be similarly handed over to local authorities in return for the payment to the operator of compensation/supplement equal, as a general rule, to the net book value or residual value of the associated assets.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report on operations. Hera S.p.A. has longer residual terms than those set out for managing entities 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. Tariffs for the distribution of gas are set pursuant to the regulations in force and Aeegsi's periodic resolutions. The territory in which Hera carries out the gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers.

The tariff regulation in force at the date of approval of the annual consolidated financial statements, to which this report is attached, is represented mainly by Resolutions 645/2015/R/gas ("Tariff update for gas distribution and metering services for 2016 and changes to the RTDG") by TUDG and RTDG.

In fact, on 1 January 2014 the new "Regulation of tariffs for gas distribution and metering services for the regulation period 2014-2019 (RTDG 2014-2019)"came into force, approved with resolution 567/2014/R/GAS, taking into account

subsequent modifications and additions.. Pursuant to article 28 of the RTDG 2014-2018, the mandatory natural gas distribution and metering tariffs are broken down in accordance with six different geographical areas:

- North-West tariff, for the regions of Valle d'Aosta, Piedmont and Liguria;
- North-East tariff, for the regions of Lombardy, Trentino Alto Adige, Veneto, Friuli Venezia Giulia, Emilia Romagna;
- Central Italy tariff, for the regions of Tuscany, Umbria and Marche;
- Central/South-East tariff, for the regions of Abruzzi, Molise, Apulia, Basilicata;
- Central/South-West tariff, for the regions of Lazio and Campania;
- Southern tariff, for the regions of Calabria and Sicily.

The amount of the components under paragraph 27.3, sub-paragraphs c), d), e), f), g), e) and h) of the RTDG 2014-2019 is set by the Authority and is subject to a quarterly update.

As for mandatory tariffs for distributing and metering natural gas and other gas tariff options in force for the year 2015, these tariffs were approved by the relevant Authority through Resolution 634/201 /R/gas. In keeping with the provisions of article 40, paragraph 9, of the RTDG, the fixed components of mandatory tariff associated to the distribution and metering services have been divided into three tranches, on the basis of the class of metering group.

In the case of electricity, the purpose of the concessions (30 years in duration and renewable according to current regulations) is energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives and measurement. A suspension or expiry of the concession may be ordered by the authority regulating the sector if the concession holder is found to be inadequate or to be in breach of regulations in force, in such a way as to prejudice provision of the electricity distribution and metering service in a serious and far-reaching manner. The concessionaire is required to apply the tariffs set by regulations in force and resolutions adopted by the sector Authority. The tariff regulation in force at the date of approval of the annual consolidated financial statements, to which this report is attached, is represented mainly by Resolutions 654/2015/R/eel ("Tariff update for electricity transmission, distribution and metering services for the regulatory period 2016 -2023") that replaced the previous AEEG ARG/e resolution no. 199/2011 and subsequent amendments and additions ("Provisions of AEEG for providing electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions regarding the economic conditions regulating the provision of the connection service") in force until 31/12/2015. The mandatory tariff for the distribution service covers the cost of transporting electric energy on distribution networks is applied to all end-customer, except low-tension residential customers for whom a reform was initiated with resolution 582/2015/R/EEL that will take effect 1/1/2018 . The tariff has a three-pronged structure, which is expressed in eurocents per delivery point per annum (fixed component), eurocents per KW per annum (power component) and eurocents per KWh used (energy component). The Authority updates the mandatory tariff for the distribution service every year.

2.04 NET BORROWINGS

2.04.01 Consolidated Net Borrowings

million euros		31 Dec 15	31 Dec 14
a	**Cash and cash equivalents**	**541**	**834**
b	**Other current financial receivables**	**35**	**45**
	Current bank debt	(129)	(176)
	Current portion of bank debt	(285)	(302)
	Other current financial liabilities	(68)	(69)
	Finance lease payables due within 12 months	(2)	(3)
c	**Current financial debt**	**(484)**	**(550)**
d=a+b+c	**Net current financial debt**	**92**	**329**
	Non-current bank debt and bonds issued	(2,845)	(3,021)
	Other current financial liabilities	(6)	(7)
	Finance lease payables due after 12 months	(18)	(25)
e	**Non-current financial debt**	**(2,869)**	**(3,053)**
f=d+e	**Net financial position - CONSOB Communication No 15519 of 28/07/2006**	**(2,777)**	**(2,724)**
g	**Non-current financial receivables**	**125**	**84**
h=f+g	**Net non-current financial debt**	**(2,652)**	**(2,640)**

2.04.02 Borrowings –Consob resolution 15519/2006

million euros		31 Dec 15	A	B	C	D	31 Dec 14	A	B	C	D
a	**Cash and cash equivalents**	**541**					**834**				
	of which Related parties										
b	**Other current financial receivables**	**35**					**45**				
	of which Related parties			**14**	**2**	**1**			**20**	**1**	
	Current bank debt	(129)					(176)				
	Current portion of bank debt	(285)					(302)				
	Other current financial liabilities	(68)		(1)	(14)		(69)		(1)	(32)	
	Finance lease payables due within 12 months	(2)					(3)				
c	**Current financial debt**	**(484)**					**(550)**				
	of which Related parties			**(1)**	**(14)**	**0**			**(1)**	**(32)**	
d=a+b+c	**Net current financial debt**	**92**					**329**				
	of which Related parties			**13**	**(12)**	**1**			**19**	**(31)**	
	Non-current bank debt and bonds issued	(2,845)					(3,021)				
	Other current financial liabilities	(6)			(5)		(7)			(6)	
	Finance lease payables due after 12 months	(18)					(25)				
e	**Non-current financial debt**	**(2,869)**					**(3,053)**				
	of which Related parties				**(5)**					**(6)**	
f=d+e	**Net financial position - CONSOB Communication No 15519 of 28/07/2006**	**(2,777)**					**(2,724)**				
	of which Related parties			**13**	**(17)**	**1**			**19**	**(37)**	
g	**Non-current financial receivables**	**125**					**84**				
	of which Related parties			**64**	**20**	**25**			**49**	**19**	
h=f+g	**Net non-current financial debt**	**(2,652)**					**(2,640)**				
	of which Related parties			**78**	**3**	**26**			**68**	**(18)**	

Key of headings:

Group A - Related parties non-consolidated subsidiaries and joint ventures

Group B - Related parties associated companies and joint ventures:

Group C - Related parties with significant influence

Group D - Other related parties:

2.05 EQUITY INVESTMENTS

2.05.01 List of consolidated companies

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Parent Company: Hera Spa	**Bologna**	**1,489,538,745**			
Acantho Spa	Imola (BO)	23,573,079	77.36%		77.36%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasAps Service Srl	Padova	180,000		100.00%	100.00%
Amga Calore & Impianti Srl	Udine	119,000		100.00%	100.00%
Amga Energia & Servizi Srl	Udine	600,000		100.00%	100.00%
ASA Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Biogas 2015 Srl	Bologna	1,000,000		75.00%	75.00%
Black Sea Technology Company AD	Varna (Bulgaria)	15.905.235 Lev		99.97%	99.97%
Black Sea Gas Company o.o.d	Varna (Bulgaria)	5.000 Lev		99.97%	99.97%
Esil Scarl	Bologna	10,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	2,430,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Fucino Gas Srl	Luco dei Marsi (AQ)	10,000		100.00%	100.00%
HeraAmbiente Spa	Bologna	271,648,000	75.00%		75.00%
Herambiente Servizi Industriali Srl	Bologna	1,748,472		75.00%	75.00%
Hera Comm Srl	Imola (BO)	53,536,987	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		72.01%	72.01%
Hera Luce Srl	San Mauro Pascoli (FC)	1,000,000	100.00%		100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		57.89%	57.89%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Insigna Srl	Padova	10,000		100.00%	100.00%
Marche Multiservizi Spa	Pesaro	13,484,242	49.59%		49.59%
Medea Spa	Sassari	4,500,000	100.00%		100.00%
New eco Srl	Santa Croce sull'Arno (PI)	100,000		75.00%	75.00%
Rew Trasporti Srl	Santa Croce sull'Arno (PI)	99,000		75.00%	75.00%
Rila Gas EAD	Sofia (Bulgaria)	32.891.000 Lev		100.00%	100.00%
SiGas d.o.o	Pozega (Serbia)	162.260.058 Rsd		95.78%	95.78%
Sinergie Spa	Padova	11,168,284		100.00%	100.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Srl	Padova	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

Jointly Controlled Companies

Name	Registered office	Share capital	% held direct	% held indirect	Total interest
Enomondo Srl	Faenza (RA)	14,000,000		37.50%	37.50%
Estenergy Spa	Trieste	1,718,096		51.00%	51.00%

Associated Companies

Name	Registered office	Share capital	% held direct	% held indirect	Total interest
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
Ghirlandina Solare Srl	Concordia Sulla Secchia (MO)	60,000	33.00%		33.00%
Q.Thermo Srl	Firenze	10,000		39.50%	39.50%
Set Spa	Milano	120,000	39.00%		39.00%
So.Sel Spa	Modena	240,240		26.00%	26.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

* The Company's share capital is composed of € 67,577,681 of ordinary shares and € 10,450,000 of related shares

2.05.02 KEY FINANCIAL AND OPERATING DATA OF CONSOLIDATED AND ASSOCIATED COMPANIES

Key operating and financial data of Subsidiaries pursuant to article 2429, last paragraph, of the Italian Civil Code

thousand euros	Acantho SpA	AcegasApsAmga SpA	AcegasAps Service Srl	Amga Calore & Impianti Srl	Amga Energia & Servizi Srl	Asa ScpA	Biogas 2015 Srl	Black Sea Technology Company AD	Black Sea Gas Company	Esil Scarl
ASSETS										
Non-current asse	56,600	984,981	440	4,675	378	4,800	5,296	424	23,687	
Working capital	32,791	218,900	19,995	7,360	43,808	13,987	2,453	1,008	1,347	583
Total assets	**89,391**	**1,203,881**	**20,435**	**12,035**	**44,186**	**18,787**	**7,749**	**1,432**	**25,034**	**583**
LIABILITIES										
Share capital	23,574	284,677	180	119	600	1,820	1,000	3	8,132	10
Reserves	1,931	147,863	352	2,658	4,398	622	5,512	536	5,233	
Net Profit /(Loss)	3,089	19,550	972	323	3,940		(368)	63	1,302	
Provisions	57	22,641		45	976	14,956			242	
Post-employmen	611	24,989		506	592	128	57			
Debt	60,129	704,161	18,931	8,384	33,680	1,261	1,548	830	10,125	573
Total liabilities	**89,391**	**1,203,881**	**20,435**	**12,035**	**44,186**	**18,787**	**7,749**	**1,432**	**25,034**	**583**
INCOME STATEMENT										
Value of the production	50,475	407,510	31,783	9,159	107,240	4,746	497	1,900	16,339	751
Production costs	(44,002)	(351,908)	(30,303)	(8,563)	(100,998)	(5,399)	(584)	(1,831)	(14,663)	(751)
Financial expense / (Income)	(1,241)	(18,851)	31	(82)	(146)	673		(5)	(230)	
Extraordinary income / (expenses)	(306)				54		(299)			
Income tax for th	(1,837)	(17,201)	(539)	(191)	(2,210)	(20)	18	(1)	(144)	
Net Profit /(Loss)	**3,089**	**19,550**	**972**	**323**	**3,940**	**-**	**(368)**	**63**	**1,302**	**-**

thousand euros	Frullo Energia Ambiente Srl	Fucino Gas Srl	Feronia Srl	Herambiente SpA	Herambiente Servizi Industriali Srl	Hera Comm Srl	Hera Comm Marche Srl	Hera Luce Srl	Hera Servizi Energia Srl	Hera Trading Srl
ASSETS										
Non-current asse	74,725	2	801	927,578	1,199	89,491	3,659	10,132	9,523	5,142
Working capital	19,435	1,228	10,588	217,482	28,348	746,335	32,506	35,629	26,392	433,007
Total assets	**94,160**	**1,230**	**11,389**	**1,145,060**	**29,547**	**835,826**	**36,165**	**45,761**	**35,915**	**438,149**
LIABILITIES										
Share capital	17,139	10	2,430	271,600	1,748	53,537	1,977	1,000	1,110	22,600
Reserves	21,518	201	71	39,006	679	22,796	4,942	5,090	8,824	4,657
Net Profit /(Loss)	3,185	117	(657)	28,666	100	61,953	5,983	(887)	1,025	1,527
Provisions	4,584	10	5,063	83,433	843	2,809	303	21,179	109	45
Post-employmen	1,460	12		9,896	435	5,091	237	701	392	392
Debt	46,274	880	4,482	712,459	25,742	689,640	22,723	18,678	24,455	408,928
Total liabilities	**94,160**	**1,230**	**11,389**	**1,145,060**	**29,547**	**835,826**	**36,165**	**45,761**	**35,915**	**438,149**
INCOME STATEMENT										
Value of the production	33,404	2,309	1,356	387,100	33,420	1,828,362	76,426	38,582	31,559	1,867,937
Production costs	(27,577)	(2,124)	(1,967)	(340,500)	(33,092)	(1,742,855)	(67,471)	(37,133)	(29,977)	(1,864,229)
Financial expense / (Income)	(1,015)	(2)	(6)	(16,426)	23	9,164	98	85	(33)	(486)
Extraordinary income / (expenses)	108		5				(185)	(39)		
Income tax for th	(1,735)	(66)	(45)	(1,508)	(251)	(32,718)	(2,885)	(608)	(524)	(1,695)
Net Profit /(Loss)	**3,185**	**117**	**(657)**	**28,666**	**100**	**61,953**	**5,983**	**887**	**1,025**	**1,527**

Company	Hestambiente Srl	Insigna Srl	Marche Multiservizi SpA	Medea SpA	Neweco Srl	Rew Trasporti Srl	Rila Gas AD	Sigas d.o.o	Sinergie SpA	Sviluppo Ambiente Toscana Srl
ASSETS										
Non-current assets	114,040	5,788	132,800	13,892	2	116	53,151	928	65,233	1,384
Working capital	22,671	13,987	72,563	2,921	401	1,721	1,412	219	47,897	175
Total assets	**136,711**	**19,775**	**205,363**	**16,813**	**403**	**1,837**	**54,563**	**1,147**	**113,130**	**1,559**
LIABILITIES										
Share capital	1,010	10	13,484	4,500	100	99	16,817	2,253	11,168	10
Reserves	16,040	3,608	25,672	99	178	610	(4,882)	(1,104)	32,412	220
Net Profit /(Loss)	3,024	(1,495)	9,091	660	36	125	(3,142)	(85)	2,267	(165)
Provisions	6,903		47,275				7			
Post-employment benefits	1,358	17	8,576	167		309			1,546	
Debt	108,376	17,635	101,265	11,387	89	694	45,763	83	65,737	1,494
Total liabilities	**136,711**	**19,775**	**205,363**	**16,813**	**403**	**1,837**	**54,563**	**1,147**	**113,130**	**1,559**
INCOME STATEMENT										
Value of the production	25,576	9,003	129,025	7,680	2,846	2,854	4,249	134	47,647	
Production costs	(19,221)	(10,146)	(117,392)	(6,403)	(2,786)	(2,793)	(5,621)	(215)	(43,431)	(100)
Financial expense / (Income)	(1,420)	(352)	643	(286)	(7)	13	(1,771)	(4)	(1,025)	(65)
Extraordinary income / (expenses)			3,683		(1)	87				
Income tax for the year	(1,911)		(6,868)	(331)	(16)	(36)	1		(924)	
Net Profit /(Loss)	**3,024**	**(1,495)**	**9,091**	**660**	**36**	**125**	**(3,142)**	**(85)**	**2,267**	**(165)**

Company	Tri-Generazione Srl	Uniflotte Srl	Waste Recycling Spa
ASSETS			
Non-current assets	5,326	68,780	18,144
Working capital	1,085	15,219	16,125
Total assets	**6,411**	**83,999**	**34,269**
LIABILITIES			
Share capital	100	2,254	1,100
Reserves	(8)	4,394	12,708
Net Profit /(Loss)	90	3,813	808
Provisions		20	1,903
Post-employment benefits	3	2,803	740
Debt	6,226	70,715	17,010
Total liabilities	**6,411**	**83,999**	**34,269**
INCOME STATEMENT			
Value of the production	2,296	47,198	34,161
Production costs	(1,989)	(39,080)	(32,091)
Financial expense / (Income)	(178)	(2,044)	128
Extraordinary income / (expenses)			(617)
Income tax for the year	(39)	(2,261)	(773)
Net Profit /(Loss)	**90**	**3,813**	**808**

Key operating and financial data of Joint Ventures pursuant to article 2429, last paragraph of the Italian Civil Code.

Company	Enomondo Srl	EstEnergy SpA
ASSETS		
Non-current assets	43,064	3,477
Working capital	12,934	66,117
Total assets	**55,998**	**69,594**
LIABILITIES		
Share capital	14,000	1,718
Reserves	9,096	10,897
Net Profit /(Loss)	3,442	9,456
Provisions	283	161
Post-employment benefits	45	142
Debt	29,132	47,220
Total liabilities	**55,998**	**69,594**
INCOME STATEMENT		
Value of the production	20,184	146,236
Production costs	(14,165)	(134,768)
Financial expense / (Income)	(988)	3,876
Extraordinary income / (expenses)	21	
Income tax for the year	(1,610)	(5,888)
Net Profit /(Loss)	**3,442**	**9,456**

Key operating and financial data of Associated Companies pursuant to article 2429, last paragraph of the Italian Civil Code.

Company	Aimag SpA	Ghirlandina Solare Srl	Q.Thermo Srl	Set Spa	So.sel SpA	Sgr Servizi Spa	Tamarete Energia Srl
ASSETS							
Non-current assets	199,209	2,445	3,081	169,039	3,862	2,661	83,463
Working capital	58,617	441	501	43,080	8,156	88,811	10,445
Total assets	**257,826**	**2,886**	**3,582**	**212,119**	**12,018**	**91,472**	**93,908**
LIABILITIES							
Share capital	78,028	60	10	120	240	5,982	3,600
Reserves	49,817	86	3,309	73,016	2,535	23,823	1,264
Net Profit /(Loss)	5,732	11	(54)	(833)	808	11,070	201
Provisions	25,295	36			2,766	38	982
Post-employment benefits	3,611			260		808	
Debt	95,343	2,693	317	139,556	5,669	49,751	87,861
Total liabilities	**257,826**	**2,886**	**3,582**	**212,119**	**12,018**	**91,472**	**93,908**
INCOME STATEMENT							
Value of the production	86,783	423		79,314	14,537	166,998	19,868
Production costs	(79,265)	(304)	(67)	(71,619)	(13,420)	(150,566)	(15,772)
Financial expense / (Income)	1,187	(77)		(3,459)	35	53	(3,593)
Extraordinary income / (expenses)	(247)	(2)		(1,399)	63	(60)	
Income tax for the year	(2,726)	(29)	13	(3,670)	(407)	(5,355)	(302)
Net Profit /(Loss)	**5,732**	**11**	**(54)**	**(833)**	**808**	**11,070**	**201**

2.06 TABLE PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUERS REGULATION

thousand euros	Provider	31 Dec 15
Services provided to certify the Financial Statements	PricewaterhouseCoopers	301
	Deloitte	227
Provision of other services for the issue of an attestation (unbundling)	PricewaterhouseCoopers	152
	Deloitte	2
Other services rendered	PricewaterhouseCoopers	535
	Deloitte	305
Total		**1,522**

2.07 ATTESTATION PURSUANT TO ARTICLE 154 BIS OF LEGISLATIVE DECREE 58/98

1 – The undersigned Mr. Stefano Venier in his capacity as Managing Director, and Mr. Luca Moroni in his capacity as Manager in Charge of the preparation of the corporate accounting documents of Hera Spa, hereby certify, also in consideration of the provisions of article 154 bis, paragraphs 3 and 4, of the Legislative Decree no. 58 dated 24 February 1998

- the adequacy with reference to the nature of the company; and
- the actual application of the administrative and accounting procedures for the preparation of the Consolidated financial statements for 2015.

2 – We also declare that:

2.1 – the Consolidated Financial statements:

a. were prepared in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to Regulation 1606/2002 (EC) of the European Parliament and the Council of 19 July 2002;
b. are consistent with the data contained in the accounting books and entries;
c. provide a true and accurate representation of the balance sheet and income statement of the issuer and of all its consolidated companies.

2.2 – The Directors' Report includes a reliable analysis of the trend and of the operating profit, the situation of the issuer and of all the consolidated companies together with the description of the major risks and uncertainties to which they are exposed.

The Managing Director	The Manager in charge of the corporate accounting statements
Stefano Venier	Luca Moroni

Bologna, 22 March 2016

2.08 REPORT BY INDEPENDENT AUDITING FIRM AND BOARD OF STATUTORY AUDITORS

2.08.01 REPORT BY AUDITING FIRM

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 AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010**

**To the Shareholders of
HERA S.p.A.**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hera S.p.A. and its subsidiaries (the "Hera Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these 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 n° 38/2005.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, n° 3, of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Hera Group as at December 31, 2015, and of its financial performance and 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 n° 38/2005.

Other Matter

The consolidated financial statements of Hera Group for the period ended as of December 31, 2014 have been audited by other auditors that on April 3, 2015 expressed an unmodified opinion on those consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Hera S.p.A., with the consolidated financial statements of the Hera Group as at December 31, 2015. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of the Hera Group as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
April 4, 2016

This report has been translated into the English language solely for the convenience of international readers.

2.08.02 REPORT BY BOARD OF STATUTORY AUDITORS

Report by the Board of Auditors on the Consolidated Financial Statements of the Company Hera Spa (art. 41 of Legislative Decree 4 April 1991, n. 127)

To the Shareholders' Meeting of the Company Hera Spa,

The consolidated financial statements as at 31 December 2015 of the Company Hera Spa, including the income statement, comprehensive income statement, statement of financial position, cash flow, statement of changes in equity and explanatory notes, which are placed at your disposal as information, were delivered to us according to the law and comply with the provisions that govern their drafting methods and were prepared in application of Regulation (EC) No. 1606/2002 of 19 July 2002, in observance of the IAS/IFRS International Accounting Standards approved by the European Commission, supplemented by the relevant interpretations of the International Financial Reporting Interpretation Committee (Ifrs Ic), as well as the provisions enacted in implementing art. 9 of Legislative Decree no. 38/2005.

The consolidated financial statements of the company Hera Spa have been submitted to legal auditing by the Independent Auditing Firm Deloitte & Touche Spa, which released its report on 4 April 2016, attached to the financial statements. The Board of Auditors points out that it results from the report of the Independent Auditing Firm that the financial statements under review were prepared in observance of the IAS/IFRS International Accounting Standards approved by the European Union, were clearly drafted and represent in a correct and truthful way the assets and liabilities, the financial position, the economic results and the cash flows of the Hera Group for the financial year ended 31 December 2015.

The consolidated financial statements present, for the purpose of comparison, the corresponding information found in the consolidated financial statements of the preceding year.

Our examination of the consolidated financial statements was conducted in compliance with the indications found in the applicable legislative regulations, taking into account the recommendations issued by the Italian Board of Professional Accountants and Auditors.

The Board of Directors has illustrated the consolidated business activities of the Group and the summary of the global profit and loss trends in its consolidation report and in the explanatory notes.

The Independent Auditing Firm, with which the Board of Auditors was in contact, confirmed that it ascertained the regularity and agreement of the statement of financial position and income statement deriving from consolidation with the accounting results of the company and with the information sent by the subsidiary companies included in the consolidation, and to have also ascertained that there is full correlation between the contents of the consolidated financial statements and the information and clarifications that can be drawn from the explanatory notes and Directors' Report.

As for what falls within our province, we can state the following:

- The consolidated financial statements of the Hera Group include the financial statements as at 31 December 2015 of the parent company Hera Spa and those of its subsidiaries.

- In drafting the present consolidated financial statements, the same principles and criteria applied in the preceding financial year were followed, taking into account the new accounting principles.

- All of the information contained in the consolidated financial statements and in the relevant accompanying documents refer to calendar year 2015.

- As far as the evaluation criteria are concerned, they comply with the statutory rules and are however fully explained in the explanatory notes.

The consolidated financial statements close with a net profit of EUR 194 million and net equity amounting to EUR 2,503 million.

The Shareholders' Meeting must take the consolidated financial statements and its accompanying documents into account only for information purposes as they form a document not subject to approval.

However, in our opinion these financial statements correctly express the statement of financial position and income statement of the Group for the financial period ended 31 December 2015, in conformity with the rules that govern the drawing up of consolidated financial statements.

Bologna, 4 April 2016

The Board of Auditors

Chairman, Board of Auditors	Sergio Santi
Standing auditor	Antonio Gaiani
Standing auditor	Marianna Girolomini

CHAPTER 4

REMUNERATION REPORT

REPORT ON REMUNERATION

Introduction

Section I

Section II

Introduction

INTRODUCTION

This document was drafted in compliance with the regulations of Article 6 of the Code of Self Discipline for listed companies issued by Borsa Italiana Spa, as well as with Article 123-ter of Legislative Decree 58/1998 (Testo Unico della Finanza, TUF), which requires listed companies to make available to the public at least 21 days before the date of the shareholders' meeting held to approve the financial statement, a Remuneration Report prepared on the basis of the regulations laid out in article 84-quater and Annex 3A, Schedule 7-bis of the Regulation implementing the TUF adopted by Consob through resolution no. 11971 of 14 May 1999 (the "Issuer's Regulation").
In compliance with the provisions of article 84-quater, paragraph 4 of the Issuers' Regulation, this report also provides evidence of the investments held, either directly or through subsidiaries, trust companies or individual nominees, by the members of the Board of Directors, the members of the Board of Statutory Auditors, the General Managers or spouses not legally separated and the minor children of such persons.

SECTION I

1 Introduction

The first section of this report outlines the principles and basic characteristics of the remuneration policy as applied to the top figures of the Hera Group. It should be noted that the Group manager holding strategic responsibilities is the General Manager of Operations.

The fundamental principle which underpins the Group's culture and directs its choices is its commitment to combining economic and social value with the ultimate goal of satisfying the legitimate expectations of all stakeholders. Hera seeks to be a business that withstands the test of time and to improve society and the environment for future generations to come.

The sense of responsibility that is the hallmark of its corporate culture and mission translates into an approach to remuneration that is similarly responsible. The remuneration policy was conceived as a factor that contributes to improving corporate performance and the creation of value in the medium to long-term.

With a view to responsible reward and in keeping with the recommendations contained in Article 6 of the Borsa Italian SpA Code of Conduct, the Board of Directors, with the support of the Remuneration Committee, has therefore defined the remuneration policy for 2015.

. Pursuant to paragraph 6 of article 123-ter of the TUF, the meeting is called on to decide on this "Section I" of the Remuneration Report.

2 Scope of application

In compliance with the provisions of Annex 3A for the implementation of the TUF adopted by Consob through Resolution no. 11971 of 14 May 1999 (Issuers' Regulation), the remuneration policy described in this document applies to the members of the administrative bodies and to the General Manager.

The table below lists the members, currently in office, of the Board of Directors and the Board of Statutory Auditors of Hera Spa, appointed at the Shareholders' Meeting of 23 April 2014, as well as the General Manager.

BOARD OF DIRECTORS	
Name and surname	**Office held**
Tomaso Tommasi di Vignano	Executive Chairman
Stefano Venier	CEO
Giovanni Basile	Vice president (independent)
Mara Bernardini	Director (independent)
Forte Clò	Director (independent)
Giorgia Gagliardi	Director (independent)
Massimo Giusti	Director (independent)
Riccardo Illy	Director (independent)
Stefano Manara	Director (independent)
Danilo Manfredi	Director (independent)
Luca Mandrioli	Director (independent)
Tiziana Primori	Director (independent)
Cesare Pillon	Director
	Director (independent)
BOARD OF STATUTORY AUDITORS	
Name and surname	**Office held**
Sergio Santi	Chairman
Antonio Gaiani	Standing Auditor
Marianna Girolomini	Standing Auditor
Valeria Bortolotti	Alternate Auditor
Violetta Frasnedi	Alternate Auditor
MANAGERS WITH STRATEGIC RESPONSIBILITIES	
Name and surname	**Office held**
Roberto Barilli	Hera Spa General Manager of Operations

3 Governance Model

3.01 Remuneration policy definition and approval process

The Shareholders' Meeting decides the value of the fees for the Board of Directors.
The remuneration policy for Executive Directors is proposed to the Board of Directors by the Remuneration Committee. The Board of Directors then approves any type of supplementary remuneration.
The Chairman proposes policies for Group directors to the Remuneration Committee, which expresses its opinion and presents the policies to the Board of Directors.
This process is supported, as far as the technical aspects are concerned, by the Group Director of Human Resources and Organisation, who takes care of the implementation of these policies.

3.02 Role, composition and responsibilities of the Remuneration Committee

The Remuneration Committee has the task of formulating proposals to the Board of Directors for the remuneration of the Chairman, Vice President, CEO and the General Manager, as well as based on the suggestions put forward by the CEO, for the adoption of general remuneration criteria for managers.
The Committee also regularly evaluates the adequateness, overall consistency and concrete application of the general policy adopted for the remuneration of Executive Directors and the General Manager.
In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.
This Committee, initially set up at the meeting of the Board of Directors on 4 November 2002 and most recently renewed, in its latest format, on 28 April 2014, comprises the following non-executive, independent directors: Giovanni Basile acting as Chairman, Mara Bernardini, Luca Mandrioli and Cesare Pillon. Note that at least one of the members of the Committee has experience in accounting and finance, deemed suitable by the Board of Directors at the time of appointment. The Chairman of the Board of Directors and the Group CEO may attend the Committee meetings upon express invitation of the Chairman of the Committee.
The Remuneration Committee met 3 times during 2015, and two of the meetings were attended by all members of the committee while one meeting was attended by the majority of the members. The meetings of the Remuneration Committee lasted, on average, of one hour and thirty minutes.

During the meetings held in the 2015 financial year, all regularly recorded in the minutes, the following subjects were discussed:

- Remuneration and top managers' contracts
- Updates on remuneration and top managers' contracts
- Variations in the 2014 financial statement, corporate objectives component.
- Accounting for 2014 variable remuneration for company heads
- Indicators for 2015 variable remuneration for company heads
- Salary guidelines for 2015.

4 Hera group remuneration policy

4.01 Aims and Fundamental Principles

The Company defines and applies a General Policy on Remuneration designed to attract, motivate and retain resources which possess the professional qualities needed to effectively pursue the Group's objectives.

The Policy is defined in such a way as to align the interests of management with those of shareholders, with the main goal being the creation of sustainable value in the medium to long-term, through the consolidation of the link between reward and performance, both of individuals and the Group.

Within this context of responsible rewards, the guiding principles adopted for defining the remuneration policy for the top management are:

- constant reference to the external market, for the reference sector as well, in order to check the consistency of the company's remuneration scheme, with the dual purpose of retaining directors and keeping costs down;
- focus on internal consistency between the level of remuneration offered and the complexity of the role performed;
- the use and constant updating of the methodology for evaluating offices, with the objective of guaranteeing standardised remuneration comparisons and analyses that are consistent with the development of the Group's organisational framework over time.

4.02 Correlation between remuneration, risk profile and company performance

The Hera Group has defined an integrated risk management and internal control system in relation to the financial information process pursuant to the provisions of Article. 123-bis, paragraph 2, letter b) of the TUF.

This system is aimed at identifying, evaluating, managing and monitoring the main risks that could compromise the achievement of the objectives of dependability, accuracy, reliability and timeliness of financial information. The Hera System takes its inspiration from the internationally recognised CoSO Framework reference model, for the analysis, implementation and evaluation of the risk management and internal control system.

In relation to the industry to which it belongs, the risk profile of the Hera Group occupies an intermediate position, between operators that concentrate more on regulated activities and operators involved in the more risky business of production activities. Overall, the risk profile is very conservative.

The remuneration currently offered is directed at preventing management from behaving in a way that would expose the company to excessive risks or the non-sustainability of the Group's results in the medium to long-term, in line with the risk profile undertaken.

In order to underline congruence with the risk profile, the current remuneration policy involves a annual incentive plan (variable remuneration) based on a balanced scorecard system, with the objective of balancing the various perspectives of company stakeholders (reference shareholders, the market, institutional investors, customers, employees, the territory, etc.) with regard to the creation of value, sustainable performance and development as well as dividend policy;

4.03 Balancing remuneration elements

The fundamental components of remuneration for Hera Group Directors are:

- Fixed remuneration
- short-term variable remuneration
- non-monetary benefits

Consistent with its highly conservative risk profile, Hera has chosen not to proceed with granting highly volatile financial instruments, such as, for example, option rights, or other similar instruments. For the relative stability of business results and ex-post risks, the Company is not currently planning to include a long-term variable component.

The performance targets, based on which the variable remuneration components are assigned, are put to the Board of Directors by the Remuneration Committee. In the proposal, the Committee differentiates between short-term indicators and performance sustainability indicators and provides details concerning the correlation between variation in results and variation in remuneration.

The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable components, taking the specific risk profile of the company into account.

5 Remuneration of Directors and the General Manager

5.01 Non-executive Directors

The following different types of directors can be found within the Board of Directors:

- Executive Directors holding specific offices to whom specific powers are delegated;
- Non-executive Directors (hereinafter referred to as "Non-executive Directors").

The current breakdown of the Hera Spa Board of Directors is as follows:

- Executive Directors: the Chairman of the Board of Directors Tomaso Tommasi di Vignano and the CEO Stefano Venier;
- Non-executive Directors: the Vice President of the Board of Directors Giovanni Basile, and Directors Mara Bernardini, Forte Clò, Giorgia Gagliardi, Massimo Giusti, Riccardo Illy, Stefano Manara, Luca Mandrioli, Danilo Manfredi, Cesare Pillon, Tiziana Primori, and Bruno Tani.

With regard to Non-executive Directors, following their appointment, the Shareholders' Meeting on 23 April 2014 established that they would receive a gross annual payment of Euro40 thousand, in addition to reimbursement of living expenses sustained while carrying out their office.
The Board of Directors, with regard to the offices held by Directors in Group companies, as well as in the HERA Group committees (Executive Committee, Remuneration Committee, Control and Risks Committee and Related Parties Transactions Committee) decided to award these Directors a total sum of Euro 20 thousand gross per year.
The same Board of Directors decided, on 14 May 2014, to award the Vice President a fixed annual sum of Euro 85 thousand for the duration of his office, a reduced sum in relation to the previous compensation of Euro 100 thousand, which includes the indemnity due as a director and any other fees for offices held in Group companies.
Note that, in line with best practices and the instructions in the Corporate Governance Code, there are no provisions for a variable component in the payment of Non-executive Directors.
In line with best practices, they also receive D&O Liability insurance coverage against civil responsibility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

5.02 Executive Directors and the General Manager

On 14 May 2014, the Board of Directors resolved that the Chairman and CEO will be paid a fixed compensation in the amount of Euro 350 thousand gross each for the entire length of their terms, to include all services/offices held in the Hera Group's subsidiary and associate companies as well.
The Chairman, CEO and General Manager come under the scope of the remuneration policies defined for the top management of the company, whose methodology is based, as stated previously, on the weighting methods for the positions, market comparisons and an incentive scheme based on the Balanced Scorecard system.

In terms of the variable component of the remuneration, on 13 May 2015, for the 2015 financial year the Board of Directors confirmed a variable compensation linked to the achievement of Group performance objectives, outlined as follows:

a. if 100% of the established targets are achieved, a variable compensation in the amount of 30% of the total gross fixed compensation will be paid (a bonus the level of which had already been reduced for the 2012 financial year reported in 2013 and the 2013 financial year reported in 2014);
b. if performance exceeds 100% of the established targets, the bonus amount will be increased a maximum of 20%, thus generating a maximum variable compensation equal to 36% of the total gross fixed compensation.

The degree of achievement of these objectives, likewise determines the rate of weighting that is applied to the achievement of individual results by directors and executives covered by the balanced scorecard system.

a variable payment equal to 25% of the total gross fixed fees on reaching 100% of the targets is established for the General Manager of Operations. Individual performance is subsequently weighted through a company results profile, which takes into account the performance recorded by the Group with reference to the current year. The weighting involves a maximum increase of individual results in the amount of 20%, thus generating a maximum variable compensation equal to 30% of the total gross fixed compensation.

In relation to non-monetary benefits, in addition to the insurance policies outlined previously in point 5.01, the company car is available for use.

6 Remuneration components

Currently, the typical remuneration components in Hera are:

6.01 Fixed remuneration

The fixed component of remuneration is usually determined by the professional specialisation and the organisational role along with related responsibilities. It is therefore a reflection of technical, professional and managerial skills.
Remuneration levels are decided based on a weighting system for positions and comparisons with the market. On the whole, the remuneration level is in the medium band for the market (first quartile/median). These market references, combined with performance evaluation, form the basis of individual remuneration reviews.

6.02 Short-term variable remuneration - The Balanced Scorecard system (BSC)

Recipients

The scope of the Balanced Scorecard system extends to include all Hera S.p.A. and Group subsidiary company Directors and Executives. The scope includes 56 Directors and 89 Executives. A similar evaluation form is planned for the Chairman and the CEO.

Incentive and objective definition process

The short-term incentive system includes an individual Balanced Scorecard for each of the recipients. Each BSC includes a series of objectives belonging to three evaluation areas:

- objective-oriented projects, defined according to the Group's Strategic Map;
- economic objectives of the individual Budget Units, evaluated through economic-financial type indicators;
- discretionary evaluation, based on the extent of the adoption of the nine types of behaviour set out in the leadership model adopted by the Group.

Each area is divided into a series of pre-set objectives, each with a specific performance indicator. The relative weight of each area under the scope of the individual BSC is different for Directors and Executives, and corresponds to the total of the weight of the individual objectives belonging to the same area.

Performance measurement

A target is defined for each objective. The amount of the reward to be paid to each recipient is determined according to whether the set targets are actually reached (result) and the specific weight of the individual objective.
The result of the evaluation carried out using the aforementioned individual Balanced Scorecard system is weighted through a company results profile, which takes into account the performance recorded by the Group with reference, for 2015, to four parameters:

- EBITDA
- Net Profit
- Net Financial Position (PFN)
- Customer Satisfaction Index (ICS)

The weighing percentage to be applied to each individual result is defined according to the performance profile achieved by the company within a range between 40% and 120%.
The maximum bonus, expressed in percentage terms of gross annual fixed remuneration of directors/managers, varies according to the results of the incentive system and the office held by the manager, specifically:

- Directors
  a variable payment equal to 30% of the total gross fixed fees.
- Managers
  two different levels of variable maximum compensation, equal to 20% and 26% respectively of the total gross fixed fees.

The table below illustrates the mechanism for measuring accrued bonuses:

A	Gross Annual Salary
B	Target Bonus (% Gross Annual Salary)
C	Individual objectives achieved (% Target Bonus)
D	Weighting coefficient (corporate performance)
E	% Bonus paid out = B x C x D (%)
€	Value of the Bonus paid out = A x E

With regard to transactions of strategic importance of an exceptional nature, with significant effects on the results of the company, the Board of Directors, following the proposal of the Remuneration Committee, can award discretionary bonuses to executive directors and management with strategic responsibilities.

7 Compensation for cases of resignation, lay-off or termination of the employment relationship

For Executive Directors, in case of removal from office(except for cases of just cause), he or she will be paid an amount, as compensation for damages, comprehensive of any other claim, equal to the sum he or she would have received as remuneration, pursuant to art. 2389 of the Civil Code, beginning the date the termination takes effect until the end of the mandate as originally scheduled.
In case the Director is removed from office and/or renounces the mandate conferred by the Board of Directors (except for cases of just cause, such as demonstrated health problems or serious familial issues), he or she is required to pay the company an amount, as compensation for damages, equal to the sum he or she would have received as remuneration, pursuant to art. 2389 of the Civil Code, beginning the date the termination takes effect until the end of the mandate as originally scheduled.

SECTION II

Introduction

This second section of the report outlines the items that make up the remuneration of members of the administrative and control bodies, as well as the General Director, with the aim of highlighting the consistency with the General Policy described in Section I.

With reference to the policies for directors' remuneration, it should be noted that, with respect to the positions held by the directors (excluding the Chairman, Chief Executive Officer and Vice President) in the Group companies, in the Remuneration and Risks and Controls Committees well as the Executive Committee, the directors involved are awarded a total salary of Euro 20 thousand gross per year to be added to the remuneration established by the Shareholders' Meeting of Euro 40 thousand.

The value of the bonus received in 2015 by each figure is also indicated, in relation to the degree of achievement of the targets set in the previous year.

1 Description of the compensation paid to Directors and General Managers

This section contains the details of payments made during 2015, with reference, as far as the variable part is concerned, to the accrual criterion.

The following aspects are highlighted:

Chairman

The fixed compensation for Mr. Tomaso Tommasi di Vignano is composed exclusively of wages associated with his relationship as director. The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies. Note that during 2015 he received a bonus with regard to the results of the previous year, equal to Euro111,300, following the achievement of an overall performance index of 106%.

CEO

The fixed compensation paid to Mr. Stefano Venier is composed exclusively of gross annual remuneration as a Group executive and also includes all services/offices held in the Hera Group's subsidiary and associate companies. Note that during 2015 he received a bonus with regard to the results of the previous year, equal to Euro111,300, following the achievement of an overall performance index of 106%..

Vice President

Mr. Giovanni Basile received a fixed payment of Euro 85 thousand as the fixed annual gross salary for the office of Vice President.

Non-executive Directors

For the office of non-Executive Director of the company Mara Bernardini, Forte Clò, Giorgia Gagliardi, Massimo Giusti, Riccardo Illy, Stefano Manara, Luca Mandrioli, Danilo Manfredi, Cesare Pillon, Tiziana Primori e Bruno Tani received a fixed payment for the office of Director and a further payment for their involvement in Committees or in Boards of Directors of subsidiaries or associated companies, as set out in the Group remuneration policy.

General Managers

The General Manager of Operations, Mr. Roberto Barilli, received compensation of Euro338,615 in the form of gross annual remuneration. Note that during 2015 he received a bonus with regard to the results of the previous year, equal to Euro 85,125, following the achievement of an individual performance index of 93.8% and a Group performance index of 106%.
Furthermore, for the year 2015 the General Manager of Operations received a non-recurring allowance of Euro 20 thousand gross.

Statutory Auditors

The members of the Board of Statutory Auditors received fixed compensation for the office of Auditor determined by the Shareholders' Meeting.

Compensation received in Group companies

Remuneration for the Executive Directors, Directors, General Manager and Managers for positions held within Group company structures and/or committees, are redirected in their entirety to Hera SpA. The total redirected to the Parent Company for the year 2015 was approximately 737,688 Euros.

The cost of the Board of Directors of Hera Spa for the year 2015 was Euro 707,312, net of remuneration amounting to Euro 737,688 (for a gross total amount of Euro 1,445,000) received by Hera for the participation of directors / managers in administrative bodies of its affiliates, as compared to a 2014 cost of Euro 780,069, net of remuneration amounting to Euro 845,223 received by Hera (for a gross total amount of Euro 1,625,292). Consequently, costs were reduced for the 2015 as well following a decrease in the number of Hera Spa Board members, from 20 to 14 and a reduction in the compensation paid to them, as well as the presence of the directors and managers of the Group in the administrative bodies of Hera Spa affiliate companies.

Bologna, 22 march 2016

The Chairman of the Board of Directors:

(Tomaso Tommasi di Vignano

TABLE 1: Compensation paid to members of administrative and control bodies, General Managers and other management with strategic responsibilities.

Administrative body

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Tomaso Tommasi di Vignano	*Chairman*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				350,000		111,300		6,471	1,819	469,590		
(II) Compensation from subsidiaries and associated companies												
(III) Total				350,000		111,300		6,471	1,819	469,590		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Venier	*CEO*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				350,000		111,300		16,947	4,471	482,718		
(II) Compensation from subsidiaries and associated companies												
(III) Total				350,000		111,300		16,947	4,471	482,718		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Giovanni Basile	*Vice President*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				85,000				4,070		89,070		
(II) Compensation from subsidiaries and associated companies												
(III) Total				85,000				4,070		89,070		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Mara Bernardini	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			776		60,776		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			776		60,776		
Notes					I) as a member of the Remuneration Committee							

Name and surname	**Office**	**Period during which office was held**	**Expiry of term of office**	**Fixed compensation**	**Compensation for participation on committees**	**Variable non-equity compensation**		**Non-monetary benefits**	**Other compensation**	**Total**	**Fair Value of equity compensation**	**Retirement or employment termination indemnity**
						Bonuses and other incentives	**Profit sharing**					
Forte Clò	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000				1,421		41,421		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				1,421		61,421		
Notes				II) for offices held in Group companies								

Name and surname	**Office**	**Period during which office was held**	**Expiry of term of office**	**Fixed compensation**	**Compensation for participation on committees**	**Variable non-equity compensation**		**Non-monetary benefits**	**Other compensation**	**Total**	**Fair Value of equity compensation**	**Retirement or employment termination indemnity**
						Bonuses and other incentives	**Profit sharing**					
Giorgia Gagliardi	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000				537		40,537		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				537		60,537		
Note				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Massimo Giusti	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			754		60,754		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			754		60,754		
Notes					I) as a member of the Control and Risk Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Riccardo Illy	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			1,647		61,647		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			1,647		61,647		
Notes					I) as a member of the Executive Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Danilo Manfredi	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			599		60,599		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			599		60,599		
Notes					I) as a member of the Control and Risk Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Tiziana Primori	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000				864		40,864		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				864		60,864		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Luca Mandrioli	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			417		60,417		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			417		60,417		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Cesare Pillon	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000	20,000					60,000		
(II) Compensation from subsidiaries and associated companies (CEO of AcegasApsAmga S.p.A.)				200,000				5,517	2,186	207,703		
(III) Total				240,000	20,000			5,517	2,186	267,703		
Notes					I) as a member of the Remuneration Committee							

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Bruno Tani	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000				1,750		41,750		
(II) Compensation from subsidiaries and associated companies				20,000						20,000		
(III) Total				60,000				1,750		61,750		
Notes				II) for offices held in Group companies								

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Stefano Manara	*Director*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				40,000	20,000			724		60,724		
(II) Compensation from subsidiaries and associated companies												
(III) Total				40,000	20,000			724		60,724		
Notes					I) as a member of the Control and Risk Committee							

Control body

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Sergio Santi	*Chairman of the Board of Statutory Auditors*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				120,000				3,158		123,158		
(II) Compensation from subsidiaries and associated companies												
(III) Total				120,000				3,158		123.158		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Marianna Girolomini	*Standing Auditor*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				80,000				347		80,347		
(II) Compensation from subsidiaries and associated companies												
(III) Total				80,000				347		80,347		
Notes												

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Antonio Gaiani	*Standing Auditor*	01.01.2015 - 31.12.2015	Annual Financial Report approval as of 31.12.2016									
I) Compensation in the company preparing the financial statements				80,000				365		80,365		
(II) Compensation from subsidiaries and associated companies												
(III) Total				80,000				365		80,365		
Notes												

General Managers

Name and surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees	Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair Value of equity compensation	Retirement or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Roberto Barilli	*General Manager of Operations*	01.01.2015 - 31.12.2015										
I) Compensation in the company preparing the financial statements				338,615		104,125		16,750	4,476	463,966		
(II) Compensation from subsidiaries and associated companies												
(III) Total				338,615		104,125		16,750	4,476	463,966		
Notes												

Table 3B: Monetary incentive plans for members of the administrative body, General Managers and other management with strategic responsibilities.

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Tommasi di Vignano Tomaso	Chairman		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	111,300						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			111,300						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Stefano Venier	CEO		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	111,300						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			111,300						

Surname and Name	Office	Plan	Bonus for the year			Bonus for previous years			Other Bonuses
Barilli Roberto	General Manager of Operations		(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferment Period	Non longer to be paid	Payable / Paid	Still deferred	
Payments in the company preparing the financial statements		Balanced Scorecard system (related approval date)	84,125						
		Plan B (related approval date)							
		Plan C (related approval date)							
Payments from subsidiaries and associated companies		Plan A (related approval date)							
		Plan B (related approval date)							
Total			84,125						

Surname and Name	Offices in Hera Spa	subsidiary	No. shares held at the end of the preceding financial year	No. shares purchased	No. shares sold	No. shares held at the end of the current financial year
Tomaso Tommasi di Vignano (1)	Chairman	Hera Spa	31,764	-	-	31,764
Stefano Venier	CEO	Hera Spa	-	-	-	-
Giovanni Basile	Vice President	Hera Spa	-	-	-	-
Mara Bernardini	Director	Hera Spa	18,424	-	-	18,424
Forte Clò	Director	Hera Spa	-	-	-	-
Giorgia Gagliardi	Director	Hera Spa	-	-	-	-
Massimo Giusti	Director	Hera Spa	-	-	-	-
Riccardo Illy	Director	Hera Spa	-	-	-	-
Luca Mandrioli	Director	Hera Spa	-	-	-	-
Danilo Manfredi	Director	Hera Spa	-	-	-	-
Cesare Pillon	Director	Hera Spa	-	-	-	-
Tiziana Primori	Director	Hera Spa	-	-	-	-
Bruno Tani	Director	Hera Spa	138,970	-	-	138,970
Stefano Manara	Director	Hera Spa	-	-	-	-
Sergio Santi (2)	Chairman of the Board of Statutory Auditors	Hera Spa	29,752	-	-	29,752
Antonio Gaiani	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Marianna Girolomini	Member of the Board of Statutory Auditors	Hera Spa	-	-	-	-
Roberto Barilli	General Manager of Operations	Hera Spa	-	-	-	-

(1) indirect possession through spouse (2) of the 29,752 shares held, 1,652 of which are held through subsidiaries, trust companies or third parties.

Approved by the Hera Spa BoD on

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