Consolidate half-year financial report

as at
30 June 2019

GRUPPO HERA

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Introduction

Governance and control bodies

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice Chairman	Giovanni Basile
Director	Francesca Fiore
Director	Giorgia Gagliardi
Director	Massimo Giusti
Director	Sara Lorenzon
Director	Stefano Manara
Director	Danilo Manfredi
Director	Alessandro Melcarne
Director	Erwin P.W. Rauhe
Director	Duccio Regoli
Director	Federica Seganti
Director	Marina Vignola
Director	Giovanni Xilo
Board of Statutory Auditors	
Chairman	Myriam Amato
Standing Auditor	Antonio Gaiani
Standing Auditor	Marianna Girolomini
Control and Risk Committee	
Chairman	Giovanni Basile
Member	Erwin Paul Walter Rauhe
Member	Duccio Regoli
Member	Sara Lorenzon
Remuneration Committee	
Chairman	Giovanni Basile
Member	Francesca Fiore
Member	Massimo Giusti
Member	Stefano Manara
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giovanni Basile
Member	Stefano Venier
Member	Alessandro Melcarne
Ethics and Sustainability Committee	
Chairman	Massimo Giusti
Member	Federica Seganti
Member	Mario Viviani
Member	Filippo Maria Bocchi
Independent auditing firm	
	Deloitte&Touche Spa

Corporate structure

The structure of the Hera Group (the Group) developed out of a complex rationalisation process that began in 2002 after the incorporation of the 11 companies out of which it was first created. The Group has since evolved, adapting over time to meet legislative changes and unbundling its activities into separate companies. The Group operates principally in the waste management, energy and water sectors and consists of the companies Hera Spa, Herambiente Spa, Hera Comm Srl, Hera Trading Srl, Marche Multiservizi Spa 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 operating activities.

Herambiente Spa, 75% of which is owned by Hera Spa, was established in 2009 as a waste disposal spin-off, ensuring coordinated plant management across the nation. Herambiente Spa in turn established the company Herambiente Servizi Industriali Srl, targeted at an industrial customer base.

Hera Comm Srl, 99.89% controlled by Hera Spa and having 2.6 million customers, represents the Group on national energy markets.

Hera Trading Srl, 100% controlled by Hera Spa, manages trading and procurement of wholesale energy commodities, following a flexible supply rationale on international markets.

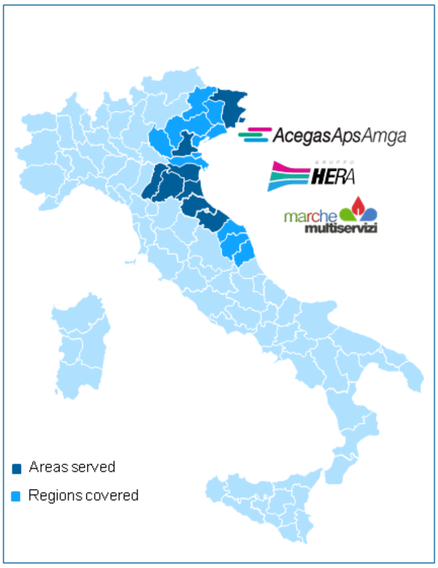
Inrete Distribuzione Energia Spa, 99.09% controlled by Hera Spa, manages energy distribution activities in Emilia Romagna, following a rationale based on efficiency and making the most of scale economies in preparation for the beginning of tenders for gas concession renewals.

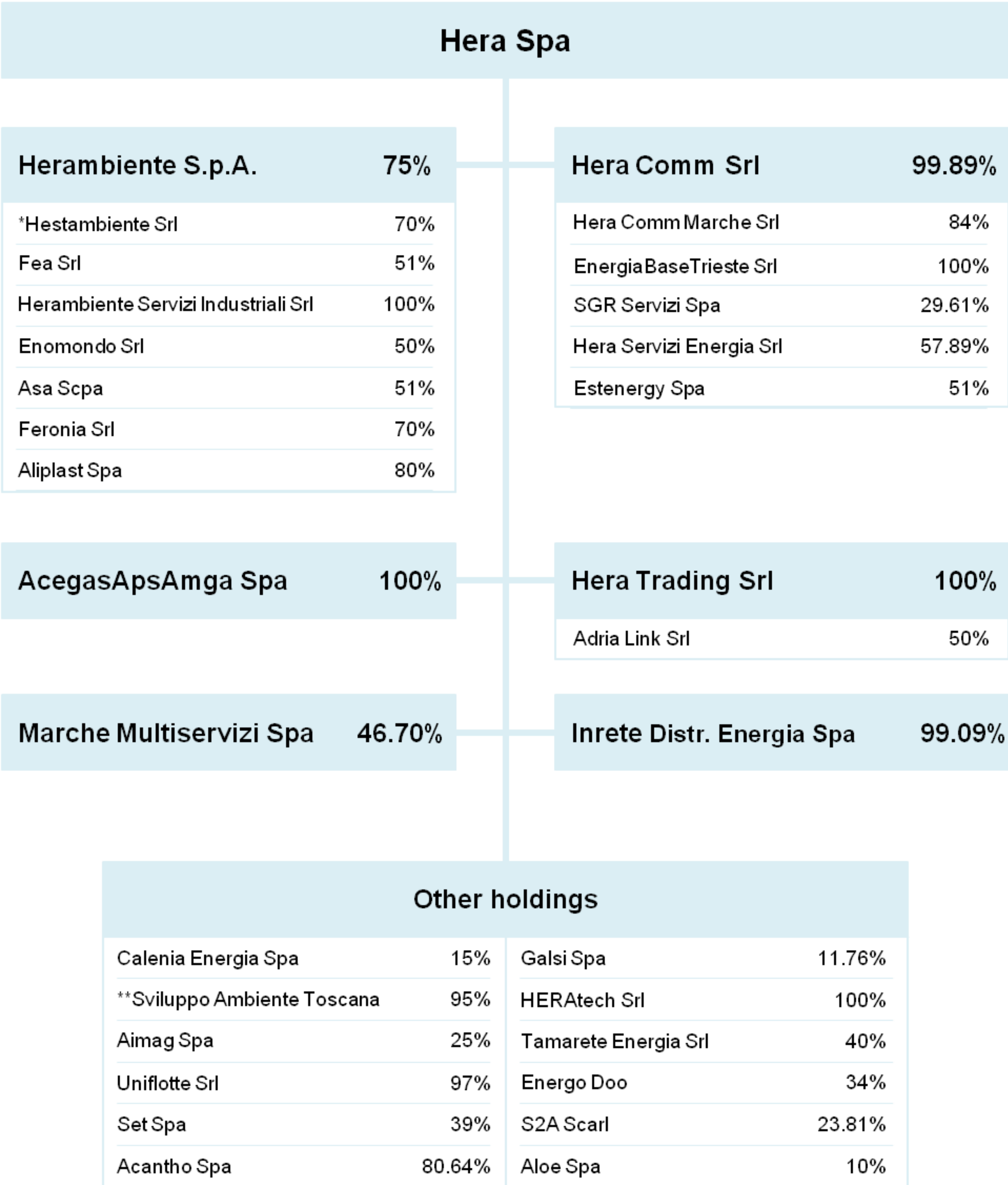
Over the years, the Group’s external expansion has resulted in the integration of over a dozen other multi-utility companies. In order to produce synergies, exploit scale economies and convey know-how, these transactions have been concluded as mergers through incorporation into the holding company.

Marche Multiservizi Spa and **AcegasApsAmga Spa** are multi-utility companies operating respectively in the Marche and Triveneto regions, which have maintained their own corporate structure even after being 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.

Free market activities

Regulated activities





* Over 30% held by AcegasApsAmga Spa.
** Over 5% owned by Herambiente. Sviluppo Ambiente Toscana Srl, in turn, has a 40% holding in Q.tHermo Srl.
AcegasApsAmga Spa's holdings are: Black Sea Company for Gas Compressed Eood, Centro Idrico di Novoledo Srl, Hera Luce Srl, La Dolomiti Ambiente Spa, Ase Spa and AresGas Ead.
Aliplast Spa's holdings are: Aliplast France Recyclage Sarl, Aliplast Iberia Sl and Aliplast Polska Spoo.
The merger by incorporation of Waste Recycling Spa into Herambiente Servizi Industriali Srl was completed with effective date 01/07/2019.
The merger by incorporation of Blu Ranton Srl and Società Sangroservizi a Responsabilità Limitata Srl into Hera Comm Marche Srl will be completed with effective date 01/10/2019.
The following corporate events have furthermore been foreseen:

- a transfer of the shares held by AcegasApsAmga Spa in Sigas Doo and of Hera Comm Srl's holding in So.Sel Spa;
- mergers of Alimpet Srl into Aliplast Spa and of A Tutta Rete Srl into Inrete Distribuzione Energia Spa;
- the voluntary dissolution of Cosea Ambiente Spa, 100% held by Hera Spa.

Mission

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

For Hera, being the best is a way of creating pride and trust for: 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 area, because economic, social and environmental wealth represent the promise of a sustainable future; and suppliers, key elements in the value chain and partners for growth.

1

Directors' Report

1.01
Overview of Group management performance and definition of alternative performance measures

Operating APMs and investments

Operating APMs and investments (mn€)	June 19	June 18	Abs. change	% change
Revenues	**3,371.6**	**2,966.7**	**+404.9**	**+13.6%**
Ebitda	**545.9**	**523.6**	**+22.3**	**+4.3%**
Ebitda/revenues	16.2%	17.6%	-1.4 p.p.	
Ebit	**288.9**	**273.6**	**+15.3**	**+5.6%**
Ebit/revenues	8.6%	9.2%	-0.6 p.p.	
Net profit	**173.9**	**167.2**	**+6.7**	**+4.0%**
Net profit/revenues	5.2%	5.6%	-0.4 p.p.	
Net investments *	**207.0**	**177.8**	**+29.2**	**+16.4%**

* for the data used in calculating investments, see notes 13, 14, 15 and 16 of the explanatory notes and paragraph 1.01.02 of the Overview of Group management performance.

Financial APMs

Financial APMs (mn€)	June 19	Dec 18	Abs. change	% change
Net non-current assets	6,064.1	5,905.1	+159.0	+2.7%
Net working capital	59.8	115.4	-55.6	-48.2%
Provisions	(599.9)	(588.2)	+11.7	+2.0%
Net invested capital	5,524.0	5,432.3	+91.7	+1.7%
Net debt	**(2,685.2)**	**(2,585.6)**	**+99.6**	**+3.9%**

Alternative performance measures (APMs)

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

Operating APMs and investments

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

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

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

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

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

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

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

Financial APMs

Net fixed assets are calculated as the sum of: tangible fixed assets; intangible assets and goodwill; equity investments; deferred tax assets and liabilities. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating the Group's net assets as a whole, also allowing for a comparison with previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

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

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

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

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

Sources of financing are obtained by adding "net financial debt" and "net equity". This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents the breakdown of sources of financing, distinguishing between the company's own equity and that of third parties. It is a measure of the Group's financial autonomy and solidity.

Operating-financial APMs

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

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

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

Roi, return on net invested capital, is defined as the ratio between Ebit, as described above, and net invested capital. Expressed as a percentage, this measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the ability to produce wealth through operating management, thus remunerating equity and capital pertaining to third parties.

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

Cash flow is defined as operating cash flow, net of dividends paid. Operating cash flow is calculated as Ebit (as previously described and net of special items, if present), to which the following are added:
- amortisation, depreciation and provisions for the period, not including provisions for doubtful debts;
- changes in net working capital;
- provisions for the risk fund (net of releases from provisions);
- use of severance pay reserves;
- the difference between changes in taxes paid in advance and deferred taxes;
- operating and financial investments;
- financial charges and financial income (*);
- divestitures
- current taxes.

(*) minus the effects of updating deriving from the application of accounting standards Ias 37 and Ias 19 and the profits coming from associated companies and joint ventures, plus the dividends received from the latter.
This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the company's ability to generate cash flow and therefore its ability to finance itself.

Special item / balance sheet reconciliation

Special financial items	June 19	June 18
Financial operations from financial statements		(34.4)
Total financial operations from special items	-	(4.8)
Financial operations	-	(39.2)
Result from special items	-	4.8

1.01.01

Operating and financial results

At the end of the first half of 2019, the Hera Group achieved operating results that increased over the same period in the previous year. Ebitda came to 545.9 million euro, showing a 4.3% rise, Ebit totalled 288.9 million euro, up 5.6%, and net profits reached 173.9 million euro, up 4.0%.

Constant growth in all indicators

The strategy pursued by the Hera Group, balanced between regulated and free market activities, and attention given to sustainability and the principles of a circular economy, was responsible for the results reached in the first half of 2019. The main drivers consisted in both internal growth, thanks to developments in marketing and organisational simplification, and the opportunities offered by the market, through external development and participation in public tenders pertinent to the activities in which the Group is involved.

The main corporate and business transactions which had an effect on the first half of 2019 are as follows:

- On 26 November 2018, Hera Comm Srl acquired the remaining 51% of Sangroservizi Srl, a gas, electricity and other energy product sales company with approximately 7,000 gas customers served in the Province of Chieti.
- Hera Comm Srl was awarded, in the tenders valid for the period 1 October 2018 – 30 September 2019, 5 portions of the last resort gas service (for customers in public services and those without a supplier) and 7 portions of the default gas distribution service (for customers in arrears), covering all regions of Italy with the exception of Lombardy, Trentino Alto Adige and Veneto.
- Hera Comm Srl was awarded 7 portions out of 10 in tenders for safeguarded electricity services for the 2019-2020 two-year period, called by the Single Purchaser. More specifically, 15 regions were assigned (Liguria, Piedmont, Valle d'Aosta, Trentino Alto Adige, Lombardy, Veneto, Emilia Romagna, Friuli Venezia Giulia, Sardinia, Lazio, Campania, Abruzzo, Apulia, Molise).
- The companies Inrete Spa and Hera Comm Srl, with a document recorded on 17 December 2018, transferred to the third-party company Butan Gas Spa their respective corporate branches involved in LPG distribution and sales. The transfers were effective as of 1 January 2019.
- On 1 February 2019, after winning a public auction, Hera Spa acquired lo 0.5% of Marche Multiservizi Spa form shareholder Unione Montana Alta Valle del Metauro, thus increasing its shareholding from 46.2% to 46.7%.
- On 1 March 2019, the Hera Group merged the natural gas distribution services provided by CMV Servizi, acting through the company A tutta rete Srl, and the energy sales activities carried out by CMV Energia e Impianti Srl. The two companies were owned by the Municipalities of Cento, Vigarano Mainarda, Bondeno, Poggio Renatico, Terre del Reno and Goro. The transaction concerned roughly 25,000 customers (21,300 in gas and 3,500 in electricity) and roughly 30,000 delivery points (26,500 in the Ferrara area and over 3,100 in the Bologna area) for natural gas distribution.
- On 23 April Hera Spa acquired 3.28% of the share capital of Acantho Spa from Aimag Spa, thus increasing its shareholding from 77.36% to 80.64%.
- On 9 May 2019, Hera Spa was definitively awarded the tender for acquiring 100% of the shares of Cosea Ambiente Spa, a company that manages urban and similar waste services in 20 Municipalities on the Tuscan-Emilian Apennine area. Cosea Ambiente Spa is consolidated as of the 2019 half-year report with operating and financial effects backdated to 1 January 2019.

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

Note, lastly, that in light of the transition in the electricity market from protected services to the free market, expected to come about on 1 July 2020, and the ensuing opportunities for expanding the customer base, the Group is developing a series of marketing initiatives, while at the same time updating its management systems in order to carefully monitor the incremental costs linked to the new contracts that will come into effect. As foreseen by accounting standard Ifrs 15, these incremental costs, amounting to roughly 10 million euro and mainly consisting in commissions paid to agents, have been recorded as assets and are amortised according to the churn rate for the customers acquired.

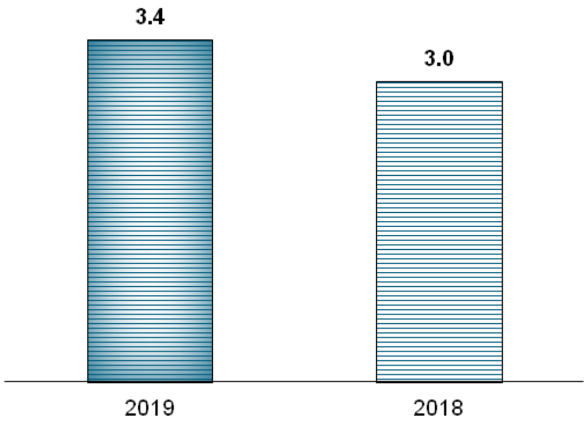
The following table shows operating results at 30 June 2019 and 2018:

Growing results

Income statement (mn€) (mln/euro)	June 19	Inc.%	June 18	Inc.%	Abs. change	% change
Revenues	3,371.6		2,966.7		+404.9	+13.6%
Other operating revenues	249.0	7.4%	209.8	7.1%	+39.2	+18.7%
Raw and other materials	(1,699.2)	-50.4%	(1,327.6)	-44.7%	+371.6	+28.0%
Service costs	(1,075.1)	-31.9%	(1,031.6)	-34.8%	+43.5	+4.2%
Other operating costs	(29.8)	-0.9%	(30.3)	-1.0%	-0.5	-1.7%
Personnel costs	(286.6)	-8.5%	(281.7)	-9.5%	+4.9	+1.7%
Capitalised costs	16.0	0.5%	18.3	0.6%	-2.3	-12.6%
Ebitda	**545.9**	**16.2%**	**523.6**	**17.6%**	**+22.3**	**+4.3%**
Amortisation, depreciation and provisions	(257.0)	-7.6%	(250.0)	-8.4%	+7.0	+2.8%
Ebit	**288.9**	**8.6%**	**273.6**	**9.2%**	**+15.3**	**+5.6%**
Financial operations	(44.9)	-1.3%	(39.2)	-1.3%	+5.7	+14.5%
Pre-tax result	**244.0**	**7.2%**	**234.4**	**7.9%**	**+9.6**	**+4.1%**
Taxes	(70.1)	-2.1%	(72.0)	-2.4%	-1.9	-2.6%
Net result	**173.9**	**5.2%**	**162.4**	**5.5%**	**+11.5**	**+7.1%**
Result from special items	-	0.0%	4.8	0.2%	-4.8	-100.0%
Net profit for the period	**173.9**	**5.2%**	**167.2**	**5.6%**	**+6.7**	**+4.0%**
Attributable to:						
Parent company shareholders	**166.2**	**4.9%**	**158.1**	**5.3%**	**+8.1**	**+5.1%**
Non-controlling interests	7.7	0.2%	9.1	0.3%	-1.4	-15.4%

Revenues came to 3,371.6 million euro, up 404.9 million euro or 13.6%, compared to the 2,966.7 million euro in the same period in 2018. Revenues for the first half of 2019 benefitted from growth in revenues from trading coming to roughly 243 million euro, higher revenues for gas and electricity sales, owing to the higher price for commodities and amounting to roughly 79 million euro, and higher volumes of gas and electricity sold, accounting for roughly 25 million euro. The remainder came from higher revenues in electricity generation, coming to roughly 37 million euro, and higher revenues for waste treatment. The acquisitions of Sangroservizi Srl, Cosea Ambiente Spa and ATR Srl are henceforth considered as changes in the scope of operations, and contributed with an increase in revenues coming to roughly 8 million euro. A decrease was seen in pass-through revenues for volumes transmitted and system charges, amounting to 9 million euro.

Revenues (bn€)



3.4
billion euro in revenues (+13.6%)

Other operating revenues increased over the same period in the previous year by 39.2 million euro or 18.7%. Tale growth is mainly due to higher revenues for Ifric 12 commissions coming to 30 million euro, higher reimbursements and various sorts of contributions amounting to roughly 7 million euro and higher contributions for sorted waste totalling roughly 1.8 million euro.

Costs for raw and other materials rose by 371.6 million euro or 28.0% over 30 June 2018. This increase, not including changes in the scope of operations, which accounted for roughly 1.6 million euro, is due to a larger amount of trading, a rise in the price of electricity as a raw material and higher volumes of gas and electricity sold.

A rise in costs for raw materials linked to higher revenues

Other operating costs rose by 43.0 million euro overall (higher costs for services coming to 43.5 million euro and lower operating expenses amounting to 0.5 million euro). Not including changes in the scope of operations, which accounted for roughly 3.5 million euro, note the roughly 14.0 million euro in higher costs for Ifric 12 commissions, 13 million euro in higher costs for gas trading, roughly 30.0 million euro in higher costs in the activities of the waste management area and higher costs in electricity generation. The higher costs previously noted were only partially offset by lower costs for leasing, following the application of accounting standard Ifrs 16, amounting to roughly 8.6 million euro, lower pass-through costs for service charges and volumes transmitted coming to roughly 9 million euro, and lower costs in the income statement owing to the acquisition of energy customers which are recorded as indicated above.

The cost of personnel rose by 4.9 million euro or 1.7%. This increase is partially due to changes in the scope of operations, amounting to 3.0 million euro, while the remainder results from the increases in remuneration foreseen by the National labour contract, offset by reductions in Inail tariffs.

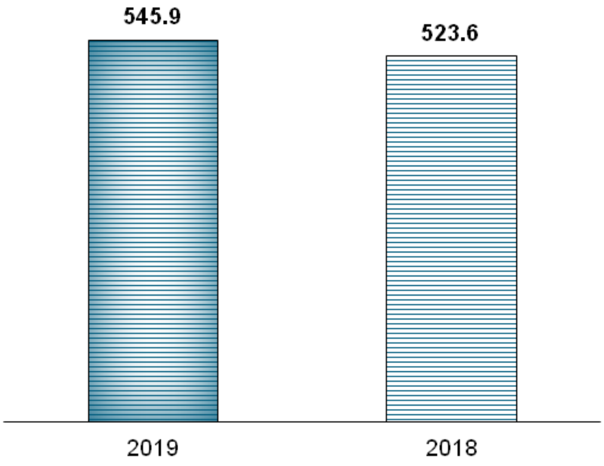
+1.7% growth in the cost of personnel

Capitalised costs at 30 June 2019 fell by 2.3 million euro or 12.6% compared to the same period of the previous year, due to the lower amount of interventions on plants and work on Group assets.

Ebitda settled at 545.9 million euro, up 22.3 million euro or 4.3% compared to June 2018. This growth in Ebitda can be traced to the good performances seen in all business areas. The gas and water cycle areas were mainly responsible for the increase, reaching higher results coming respectively to 7.2 million euro and 10.0 million euro. Next in the order of the amount of growth came the electricity and other services areas, both increasing by 2.3 million euro, while the waste management area showed a 0.4 million euro increase, essentially in line with the same period in 2018.

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

Ebitda (mn€)



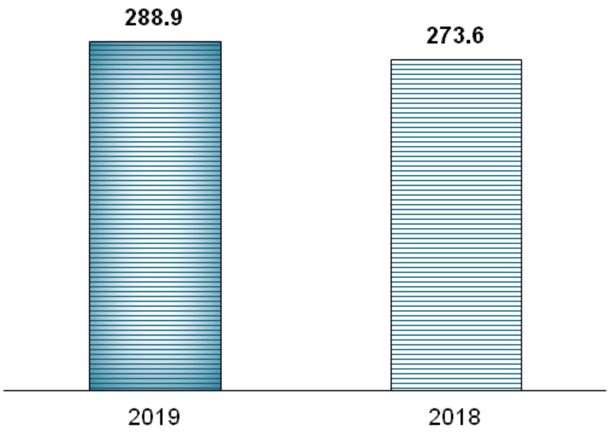
545.9
million euro Ebitda (+4.3%)

Higher amortisation due to application of Ifrs 16 and operating investments

Amortisation, depreciation and provisions rose by 7.0 million euro, going from 250.0 million euro in the first half of the previous year to 257.0 million euro. Amortisation rose on account of new operating investments and by way of the application of accounting standard Ifrs 16, partially offset by the reductions, in the Herambiente Group, caused by lower disposals in landfills and an adjustment in the quotas for the useful life of the plant owned by the company FEA. Allocations to the doubtful debt provision dropped, in particular in the company AcegasApsAmga.

At 30 June 2019, Ebit came to 288.9 million euro, rising by 15.3 million euro or 5.6% over the 273.6 million euro seen at the same date in 2018.

Ebit (mn€)



288.9
million euro Ebit (+5.6%)

Financial operations increase

The result of financial operations came to 44.9 million euro at the end of the first half of 2019, up 5.7 million euro or 14.5% over 30 June 2018. This increase is mainly due to lower income due to the non-recurring dividends paid in 2018 by the subsidiary Veneta Sanitaria Finanza di Progetto, amounting to roughly 2.9 million euro, the application of international accounting standard Ifrs 16 on operating leases, which had a roughly 1.8 million euro impact on charges and, lastly, lower profits from affiliated companies and joint ventures.

Pre-tax results rose by 9.6 million euro, going from 234.4 million euro at 30 June 2018 to 244.0 million euro in the first half of 2019.

Taxes for the first half of 2019 amounted to 70.1 million euro, dropping compared to the 72.0 million seen in the same period of 2018, owing to a decrease in the tax rate, which went from 30.7% in the first six months of 2018 to 28.7% in 2019. This improvement is due to the continuous commitment shown by the Group in sustaining investments in instrumental goods serving a technological and digital transformation along the lines of industry 4.0, which carry benefits in terms of large and extremely large amortisations, alongside the other incentives and tax credits that the Group always seeks to grasp.

Tax rate falls

The net result increased by 7.1%, corresponding to 11.5 million euro, going from 162.4 million euro at 30 June 2018 to 173.9 million euro at the same date in 2019.

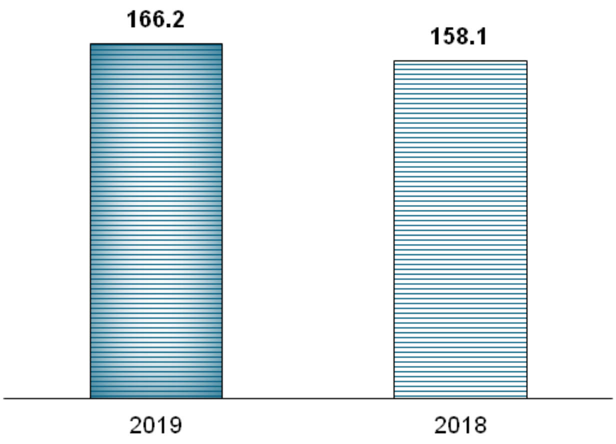
+7.1% Net result

The first half of 2018 saw a result from special financial items coming to 4.8 million euro, involving the capital gain for the transfer of the company Medea to third parties.

Net profit thus rose by 4.0% or 6.7 million euro, going from 167.2 million euro in the first half of 2018 to 173.9 million euro in the same period of 2019.

Profits pertaining to the Group amounted to 166.2 million euro, up 8.1 million euro compared to the figure seen at 30 June 2018.

Net profit post minorities (mn€)



1.01.02

Analysis of the Group's financial structure and investments

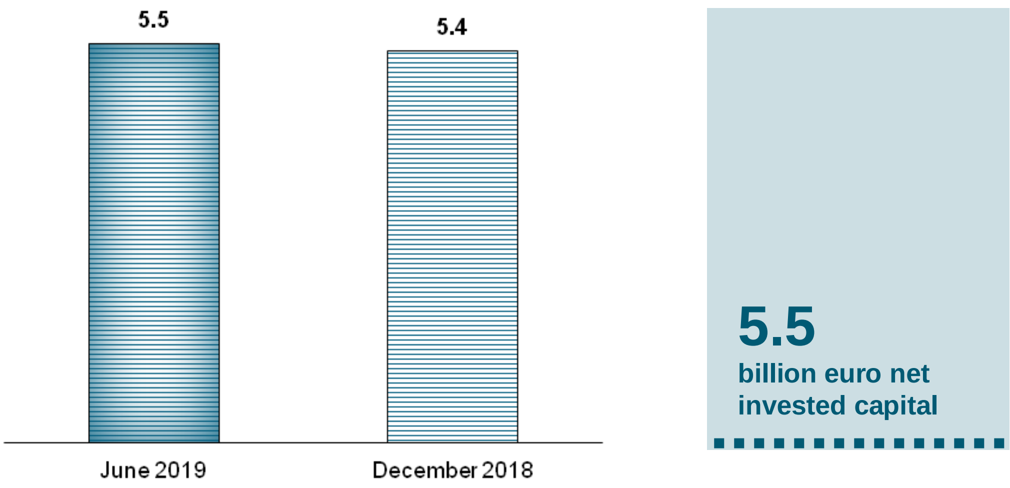
What follows in an analysis of trends in the Group's net invested capital and sources of financing at 30 June 2019.

The Group's solidity increases

Invested capital and sources of financing (mn€)	30 June 19	Inc%	31 Dec 18	% change	Abs. change	Var. %
Net non-current assets	6,064.1	109.8%	5,905.1	108.7%	+159.0	+2.7%
Net working capital	59.8	1.1%	115.4	2.1%	-55.6	-48.2%
(Provisions)	(599.9)	-10.9%	(588.2)	-10.8%	-11.7	-2.0%
Net invested capital	**5,524.0**	**100.0%**	**5,432.3**	**100.0%**	**+91.7**	**+1.7%**
Equity	(2,838.8)	51.4%	(2,846.7)	52.4%	+7.9	+0.3%
Long-term borrowings	(2,754.3)	49.9%	(2,558.8)	47.1%	-195.5	-7.6%
Net current financial debt	69.1	-1.3%	(26.8)	0.5%	+95.9	-357.8%
Net debt	(2,685.2)	48.6%	(2,585.6)	47.6%	-99.6	-3.9%
Total sources of financing	**(5,524.0)**	**100.0%**	**(5,432.3)**	**100.0%**	**-91.7**	**-1.7%**

At 30 June 2019, net invested capital (NIC) amounted to 5,524.0 million euro, with a 1.7% increase over the 5,432.3 million euro seen at the end of 2018. This higher amount is due to a rise in net non-current assets, mainly resulting from the application of accounting standard Ifrs 16 on operating leases, which led the right of use to be recorded, corresponding to 98.9 million euro at 30 June 2019. While only marginally, the increase in NIC also felt the effects of the incorporation of CMV Servizi, CMV Energia e Impianti and Cosea Ambiente.

Net invested capital (bn€)

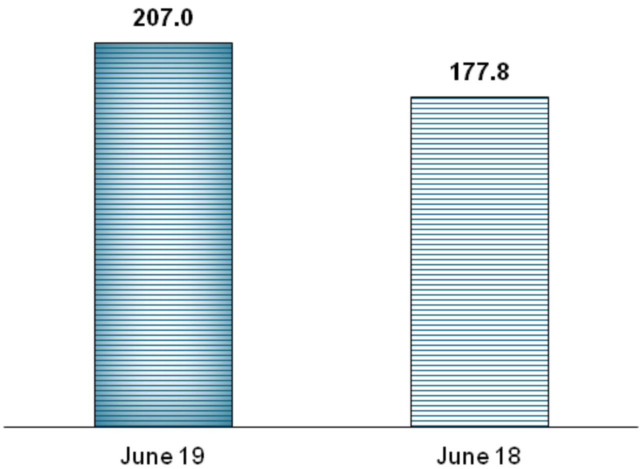


In the first half of 2019, Group investments amounted to 207.0 million euro, rising by 29.2 million euro compared to the same period of the previous year, which included 1.7 million euro in financial holdings in the company Sangroservizi Srl, which then became part of the scope of consolidation within 2018.

Net investments rise to 207.0 million euro, up 29.2 million euro

Capital grants totalled 7.7 million euro, 6.5 million of which consisted in FoNI investments, as foreseen by the tariff method for the integrated water service, and were thus stable on the whole compared to the previous year. Including capital grants, Group investments came to 214.7 million euro.

Total net operating investments (mn€)



207.0
million euro net operating investments (+29.2 million euro)

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

Total investments (mn€)	June 19	June 18	Abs. change	% change
Gas area	52.2	38.2	+14.0	+36.6%
Electricity area	18.8	10.0	+8.8	+88.0%
Integrated water cycle area	74.6	66.9	+7.7	+11.5%
Waste management area	34.7	31.1	+3.6	+11.6%
Other services area	6.4	7.6	-1.2	-15.8%
Headquarters	28.0	30.0	-2.0	-6.7%
Total operating investments	**214.6**	**183.8**	**+30.8**	**+16.8%**
Total financial investments	0.1	1.7	-1.6	-94.1%
Total gross investments	**214.7**	**185.6**	**+29.1**	**+15.7%**
Capital grants	7.7	7.8	-0.1	-1.3%
of which FoNI (New Investments Fund)	6.5	4.1	*+2.4*	+58.5%
Total net investments	**207.0**	**177.8**	**+29.2**	**+16.4%**

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

The Group's operating investments came to 214.6 million euro, up 30.8 million euro over the previous year, and mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale metre substitution, and the purification and sewerage areas.
Remarks on investments in each single area are included in the analysis by business area.
At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures.
Overall, investments in structures decreased by 2.0 million euro compared to the previous year, mainly due to lesser work done on buildings and substitutions in the vehicle fleet.

599.9 million euro provisions

In the first six months of 2019, provisions amounted to 599.9 million euro, showing a slight increase over the figure seen at the end of the previous year. This result is mainly a consequence of an increase in post-mortem landfill provision adjustments and reinstatements of third party goods due to the application of accounting standard Ias 37.

2.8 billion euro equity

Equity went from 2,846.7 million euro in 2018 to 2,838.8 million euro in June 2019, due to a change in the fair values of cash-flow hedge derivatives and, to a lesser degree, the application of accounting standard Ifrs 16 on operating leases.

Reconciliation between separate and consolidated financial statements

	Net result	Equity
Balances as per Parent Company's seperate financial statements	187.1	2,379.4
Excess of equity over the carrying amounts of investments in consolidated companies	(24.2)	190.9
Consolidation adjustments:		
Measurement with the equity method of investments reported at cost in the seperate financial statement	(5.3)	(6.4)
Difference between purchase price and book value of corresponding portion of equity	(3.3)	91.7
Elimination of intercompany transactions	11.9	(8.2)
Total	**166.2**	**2,647.4**
Restoration of third-party assets	7.7	191.4
Balances as per consolidated financial statements	**173.9**	**2,838.8**

1.01.03

Analysis of net cash (net borrowings)

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

A solid financial position

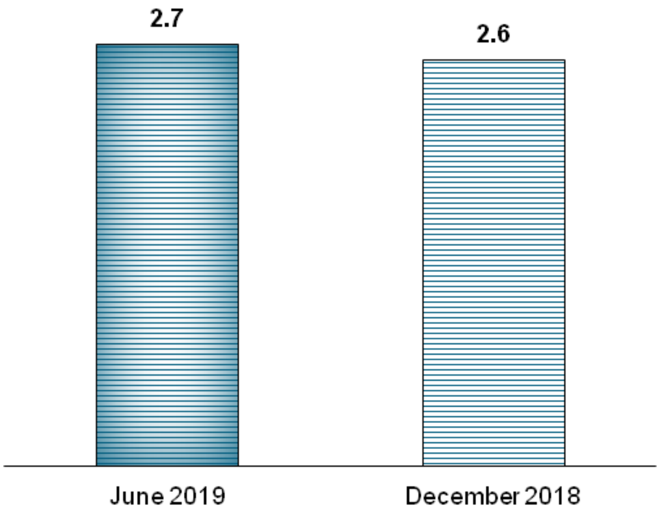
mn€		June 19	Dec 18
a	**Cash and cash equivalents**	**619.4**	**535.5**
b	**Other current financial receivables**	**52.5**	**37.3**
	Current bank debt	(76.8)	(70.3)
	Current part of bank borrowings	(444.5)	(451.5)
	Other current financial liabilities	(63.5)	(76.1)
	Finance lease payments maturing within the following period	(17.9)	(1.7)
c	**Current financial debt**	**(602.7)**	**(599.6)**
d=a+b+c	**Net current financial debt**	**69.2**	**(26.8)**
	Non-current bank debt and bonds issued	(2,772.9)	(2,644.3)
	Other non-current financial liabilities	(20.5)	(20.7)
	Finance lease payments maturing beyond the following period	(93.0)	(12.2)
e	**Non-current financial debt**	**(2,886.4)**	**(2,677.2)**
f=d+e	**Net financial position - Consob communication no. 15519/2006**	**(2,817.2)**	**(2,704.0)**
g	**Non-current financial receivables**	**132.0**	**118.4**
h=f+g	**Net debt**	**(2,685.2)**	**(2,585.6)**

The overall amount of net financial debt came to 2,685.2 million euro, showing an increase of roughly 99.6 million euro over December 2018, largely due to an increase in the carrying amount of leases, coming to 96.6 million euro, following the application of the new Ifrs accounting standard. At 30 June 2019, the Group's financial structure shows current debt coming to 602.7 million euro, of which 58.2 million euro in bank loans reaching maturity within 2019, 394.6 million euro in bonds maturing in December 2019 and 76.8 million euro in current bank debt. The latter consists of usage of current credit lines coming to roughly 26.8 million euro and accruals for passive interest on financing coming to 50 million euro. The amount of non-current bank debt and bonds issued increased over the previous year, owing to withdrawals from medium-term lines of credit coming to

125 million euro. At 30 June 2019, medium- and long-term debt was largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (75% of the total), with repayment at maturity. The total debt shows an average time to maturity of 6 years, with 61.5% maturing after more than five years.

Net financial debt went from 2,585.6 million euro at the end of 2018 to 2,685.2 million euro in June 2019. This increase is mainly due to the application of accounting standard Ifrs 16 on operating leases and, to a lesser degree, the M&A transactions carried out in the first half of 2019.

Net financial debt (bn€)

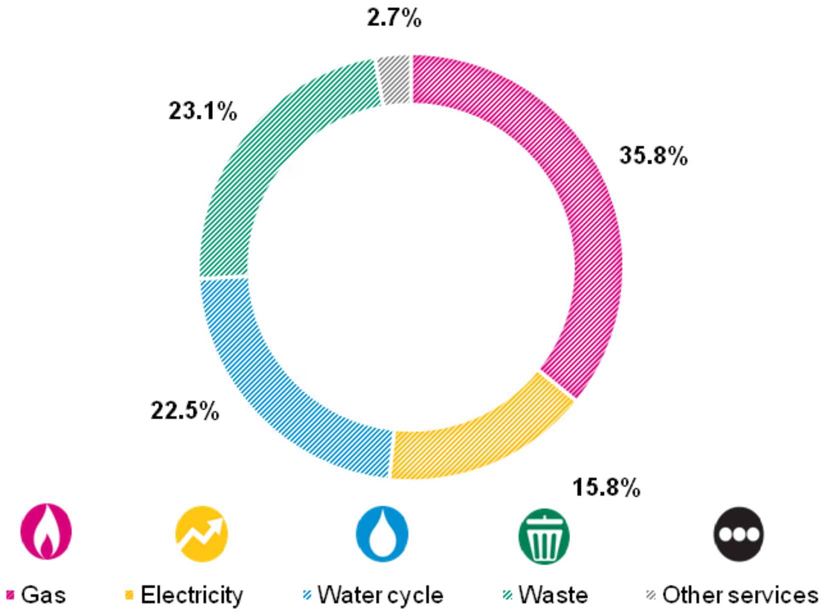


1.02
Analysis by business area

A multi-business strategy

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

Ebitda June 2019



The seasonal factors involved in each business are reflected by their percentage of Ebitda in the first half-year. Energy areas account for 50%

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

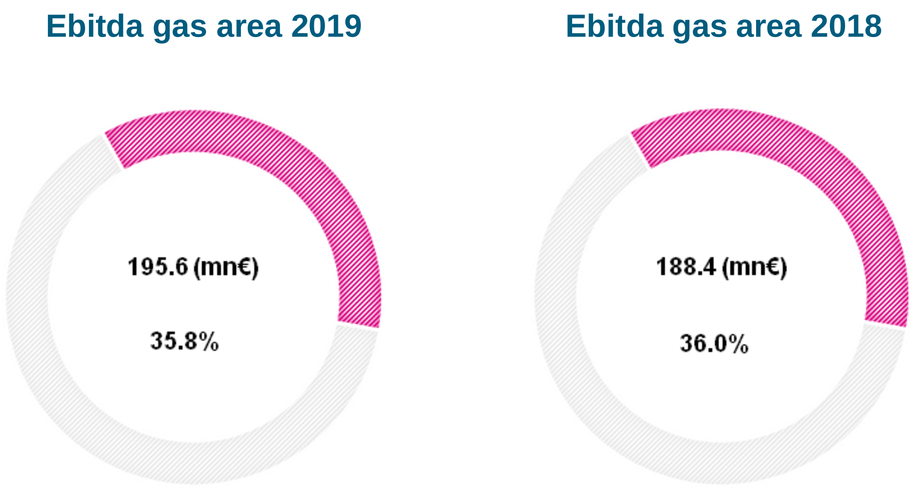
The following analyses of the single business areas take into account all increased revenues and costs, having no impact on Ebitda, related to the application of Ifric 12. The business areas affected by this accounting principle are: natural gas distribution services, electricity distribution services,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

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

1.02.01
Gas

Ebitda grows

The first half of 2019 showed growth over the same period of the previous year, in terms of both Ebitda and volumes sold. This result was reached thanks to higher earnings in the default and last resort services, owing to the tenders awarded for the period between 1 October 2018 and 30 September 2019.



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

Growth in Ebitda: +3.8%

(mn€)	June 19	June 18	Abs. change	% change
Area Ebitda	**195.6**	**188.4**	**+7.2**	**+3.8%**
Group Ebitda	545.9	523.6	+22.3	+4.3%
Percentage weight	35.8%	36.0%	-0.2 p.p.	

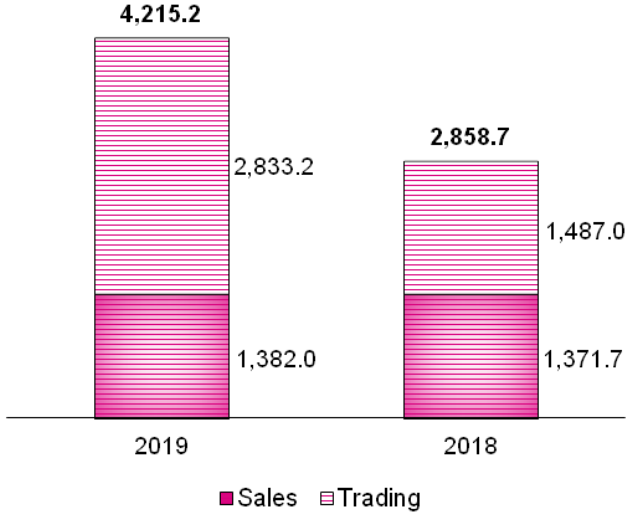
The number of gas customers rose by 57.1 thousand or 4.0% over the first half of 2018. The entrance within the consolidated scope of the companies Sangroservizi Srl and Cmv Energia e Impianti Srl introduced 27.4 thousand customers, while the remaining growth can be traced to the new customers in the last resort and default markets and to marketing initiatives aimed at maintaining and developing the customer base.

Customers (k)

1.5
million gas customers

The overall volume of gas sold rose by 1,356.5 million m^3 or 47.4%, going from 2,858.7 million m^3 in June 2018 to 4,215.2 at 30 June 2019. Trading volumes showed growth coming to 1,346.2 million m^3 (47.1% of total volumes) due to higher trading abroad. Volumes sold to end customers increased by 0.8% or 10.3 million m^3 over June 2018, thanks to the increase in last resort markets and the 3.6 million m^3 contributing coming from Sangroservizi Srl.

Volumes sold (mn m^3)



+47.4%
growth in volumes sold

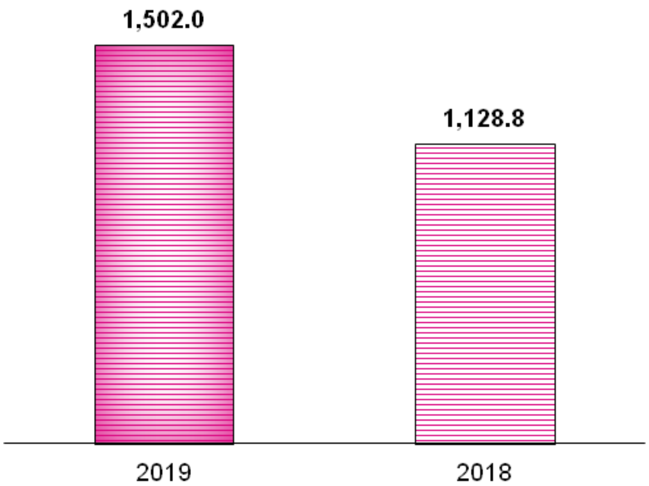
The following table summarises operating results for the gas area:

Income statement (mn€)	giu-19	Inc%	giu-18	Inc.%	Var. Ass.	Var. %
Revenues	1,502.0		1,128.8		+373.2	+33.1%
Operating costs	(1,251.5)	-83.3%	(886.5)	-78.5%	+365.0	+41.2%
Personnel costs	(60.0)	-4.0%	(58.8)	-5.2%	+1.2	+2.0%
Capitalised costs	5.1	0.3%	4.7	0.4%	+0.4	+8.5%
Ebitda	**195.6**	**13.0%**	**188.4**	**16.7%**	**+7.2**	**+3.8%**

Revenues went from 1,128.8 million euro in June 2018 to 1,502.0 million euro at 30 June 2019, with growth coming to 373.2 million euro or 33.1%. The main reasons for this increase are related to higher revenues from trading coming to roughly 288 million euro, the higher price of the raw material gas amounting to roughly 64 million euro, higher volumes of gas sold coming to roughly 3 million euro and the acquisition of Sangroservizi Srl amounting to 2.1 million euro.

Revenues for companies operating abroad, in Bulgaria, rose thanks to increased commercial activities by 4.1 million euro, regulated revenues from gas distribution increased by 2.3 million euro and revenues from long-term commissions and subcontracts rose by 9.3 million euro, with an equivalent effect on operating costs.

Revenues (mn€)

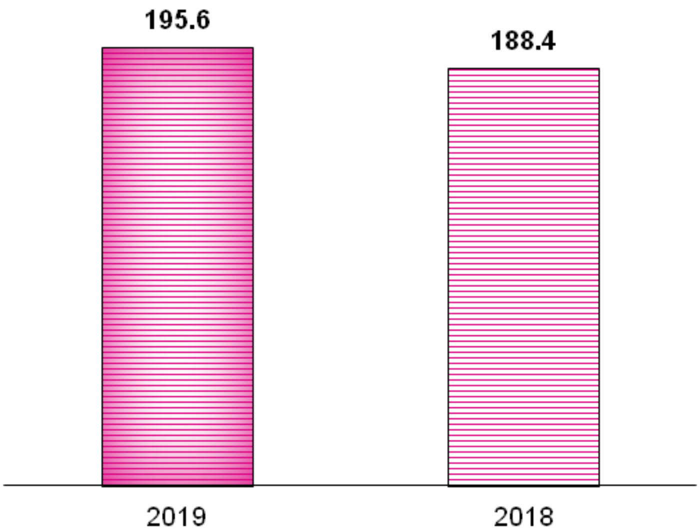


1,502.0
million euro revenues

This growth in revenues was reflected by an increase in operating costs, which went from 886.5 million euro in June 2018 to 1,251.5 million euro in the same period in 2019, thus showing an overall growth coming to 365.0 million euro. This trend is largely due to a higher amount of trading, higher volumes sold and the higher cost of raw materials. Lastly, the application of accounting standard Ifrs 16 reduced costs by roughly 0.9 million euro.

Ebitda increased by 7.2 million euro or 3.8%, going from 188.4 million euro in the first half of 2018 to 195.6 million euro at 30 June 2019, thanks to the new portions of the last resort and default markets, higher regulated revenues, the effects of accounting standard Ifrs 16 and lower costs for acquiring energy customers, which no longer appear in the income statement, as mentioned in paragraph 1.01.01, but under investments.

Ebitda (mn€)

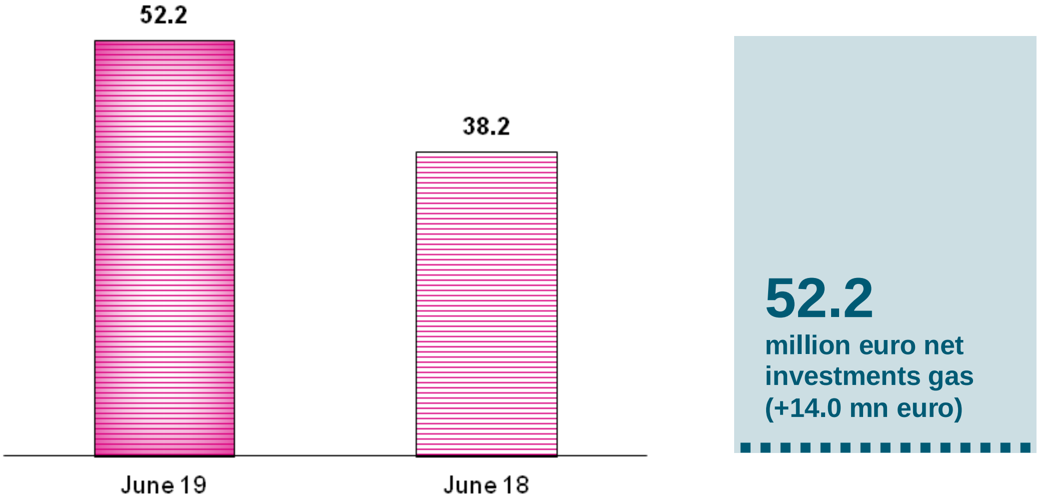


195.6
million euro Ebitda

In the first half of 2019, net investments in the gas area amounted to 52.2 million euro, up 14.0 million euro over the previous year. A 9.1 million euro increase was seen in gas distribution, mainly due to work done on a large-scale metre substitution (Del. 554) and higher non-recurring maintenance on networks and plants. Requests for new connections also increased in the first half of 2019 compared to the previous year. Investments totalling 3.3 million euro were seen in gas sales, for activities involved in acquiring new customers. Investments also increased in heat management, thanks to the activities of the companies Hera Servizi Energia Srl and

AcegasApsAmga Servizi Energetici Spa, and in district heating, where new connections rose over the previous year.

Net investments gas (mn€)



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

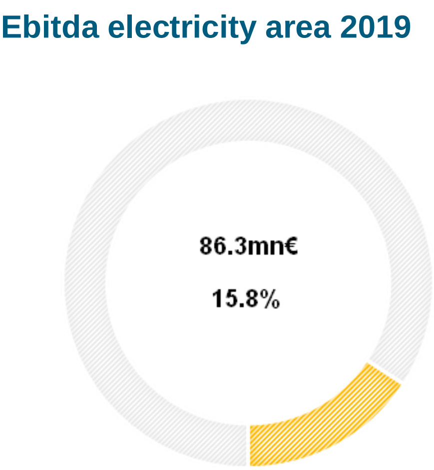
Gas (mn€)	June 19	June 18	Abs. change	% change
Networks and plants	42.0	32.9	+9.1	+27.7%
Acquisition gas customers	3.3	0.1	+3.2	+3200.0%
RH/Heat management	7.0	5.2	+1.8	+34.6%
Total gas gross	**52.2**	**38.2**	**+14.0**	**+36.6%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total gas net	**52.2**	**38.2**	**+14.0**	**+36.6%**

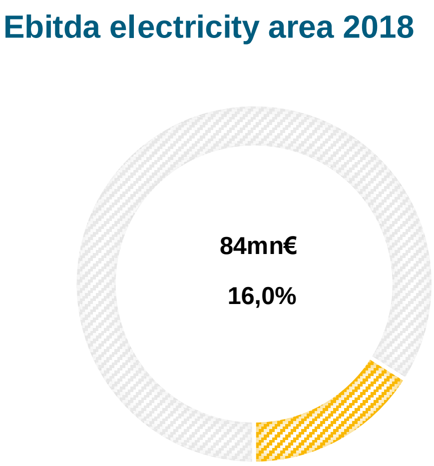
1.02.02

Electricity

Growth in Ebitda

At the end of the first half of 2019, Ebitda for the electricity area increased over the previous year. The positive contribution coming from electricity generation was able to more than offset the negative effects of the new tender for safeguarded services, for the 2019-2020 two-year period, in which a high degree of competiveness led to lower prices compared to the previous tender.





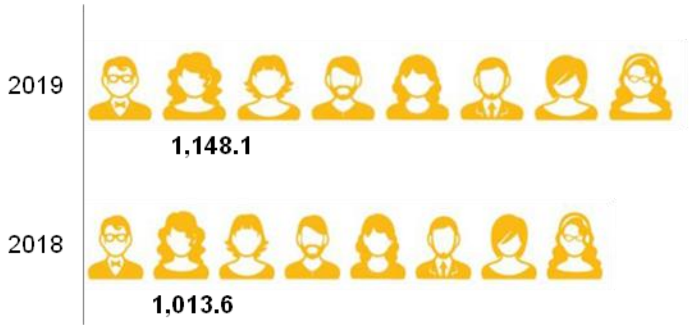
The following table shows the changes occurred in terms of Ebitda:

(mn€)	June 19	June 18	Abs. change	% change
Area Ebitda	**86.3**	**84.0**	**+2.3**	**+2.8%**
Group Ebitda	545.9	523.6	+22.3	+4.3%
Percentage weight	15.8%	16.0%	-0.2 p.p.	

+2.8%
Ebitda increases

The number of electricity customers settled at 1.1 million supply points, up 13.3% or 134.5 thousand points over 30 June 2018. The most significant growth was seen in the free market, accounting for 16.3% of the total, owing to the reinforced marketing initiatives introduced, above all in areas of central Italy, and the acquisition of customers from the company Cmv Energia e Impianti Srl, which contributed with roughly 3.7 thousand customers.

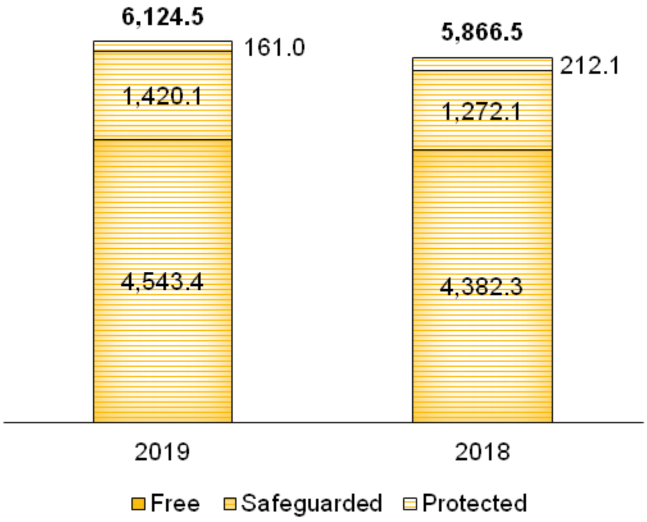
Customers (k)

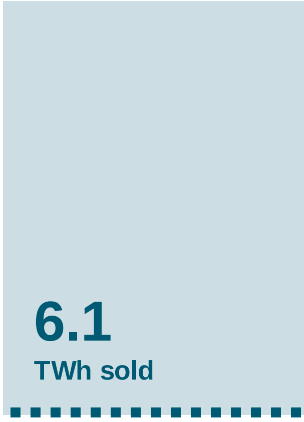


1.1
million electricity customers

Volumes of electricity sold went from 5,866.5 GWh at 30 June 2018 to 6,124.5 GWh at 30 June 2019, with an overall increase of 4.4% or 258.0 GWh. Volumes sold on the free market rose by 2.7% of the total, while safeguarded volumes increased by 2.5% of the total, thanks to the new portions obtained.

Volumes sold (GWh)





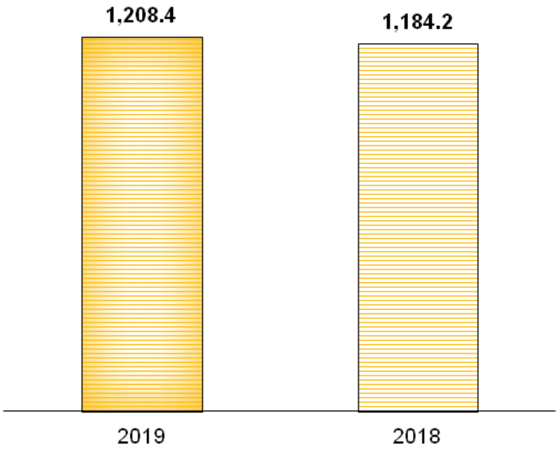
The following table summarises operating results for the area:

Income statement (mn€)	June 19	Inc%	June 18	Inc.%	Abs. Change	% change
Revenues	**1,208.4**		1,184.2		+24.2	+2.0%
Operating costs	**(1,103.3)**	-91.3%	(1,083.4)	-91.5%	+19.9	+1.8%
Personnel costs	**(22.7)**	-1.9%	(22.4)	-1.9%	+0.3	+1.3%
Capitalised costs	**4.0**	0.3%	5.5	0.5%	-1.5	-27.1%
Ebitda	**86.3**	**7.1%**	**84.0**	**7.1%**	**+2.3**	**+2.8%**

Ebitda rises by 2.3 million euro

Revenues rose by 2.0%, going from 1,184.2 million euro in June 2018 to 1,208.4 million euro in the same period in 2019, with growth coming to 24.2 million euro. The main reasons underlying this growth are the increase in volumes sold, which created higher revenues amounting to roughly 23 million euro, higher revenues for electricity generation coming to roughly 37.0 million euro and a higher price of raw materials coming to roughly 16 million euro. This trend was countered by lower revenues for trading, amounting to 46.0 million euro, and for transmission outside the grid, coming to roughly 9 million euro, with no change in costs. Lastly, revenues for long-term commissions and subcontracted works rose by 1.8 million euro, with an equal effect on operating costs.

Revenues (mn€)

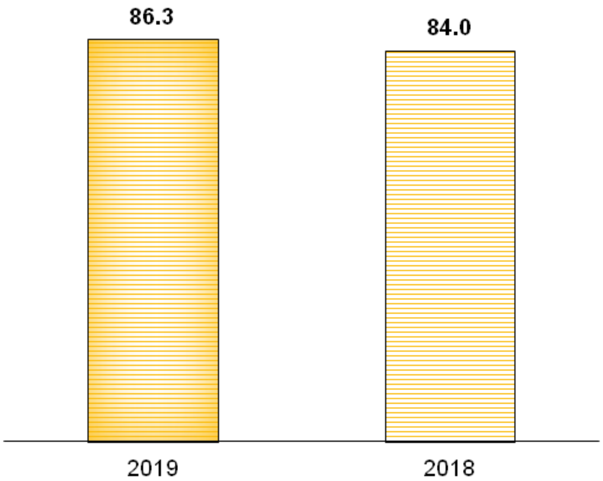


1,208.4
million euro revenues

The increase in revenues was reflected to an equal degree by a rise in operating costs, which went from 1,083.4 million euro in June 2018 to 1,103.3 million euro in the same period in 2019, thus showing an overall increase of 19.9 million euro. This trend is mainly due to higher volumes sold and a higher amount of electricity generation. Lastly, the application of accounting standard Ifrs 16 reduced costs by roughly 0.2 million euro.

At 30 June 2019, Ebitda rose by 2.3 million euro or 2.8%, going from 84.0 million euro in the first half of 2018 to 86.3 million euro in the same period of 2019. This was due to higher earnings in electricity generation in the transmission service market, higher volumes sold and lower costs in acquiring energy customers, that no longer appear in the income statement, as mentioned in paragraph 1.01.01, but under investments, and the offset the lower earnings from the safeguarded market mentioned above.

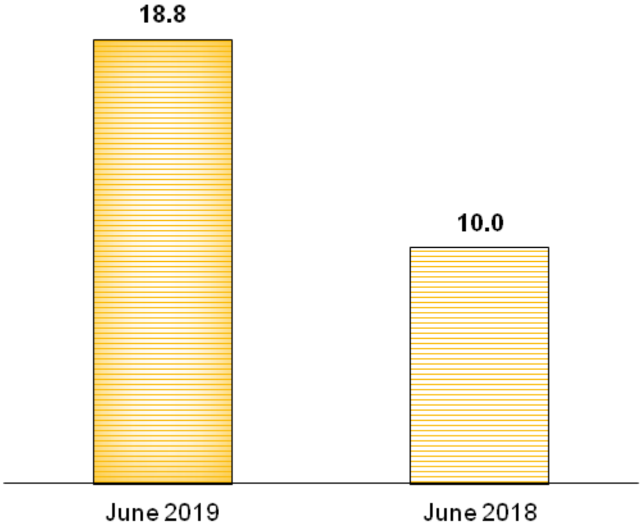
Ebitda (mn€)

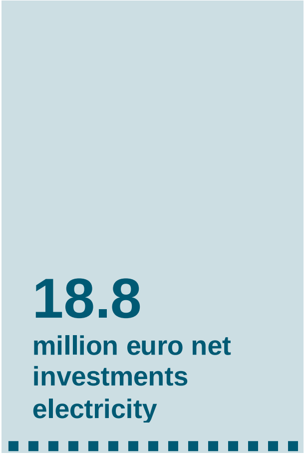


86.3
million euro Ebitda

Investments in the electricity area amounted to 18.8 million euro in the first half of 2019, up 8.8 million euro compared to the previous year.
The interventions mainly concerned non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the first half of the previous year, a 1.5 million euro increase was seen in distribution, mainly concerning interventions on plants and networks in the Trieste area. Growth reached 7.4 million euro in energy sales, related to the acquisition of new customers. Requests for new connections rose slightly compared to the previous year.

Net investments electricity (mn€)





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

Electricity (mn€)	June 2019	June 2018	Abs. change	% change
Networks and plants	11.4	9.9	+1.5	+15.2%
Acquisition electricity customers	7.4	0.0	+7.4	+100.0%
Total electricity gross	**18.8**	**10.0**	**+8.8**	**+88.0%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total electricity net	**18.8**	**10.0**	**+8.8**	**+88.0%**

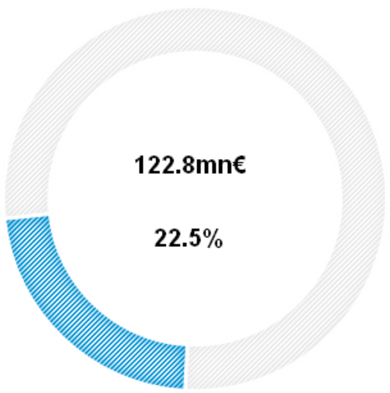
1.02.03

Integrated water cycle

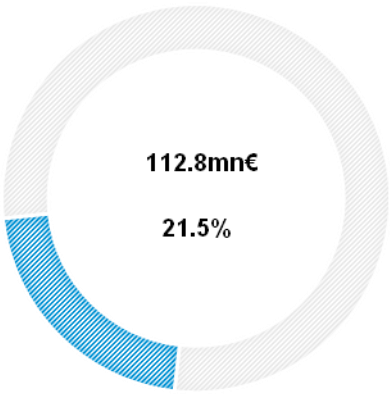
In the first half of 2019, the integrated water cycle area saw an increase in Ebitda coming to 10.0 million euro or 8.8%. As regards regulations, note that 2019 is the last year in which the tariffary method defined by the Authority for the period 2016-2019 is applied (resolutions 664/2015 and 917/2017).

Growth in results for the first half of 2019

Ebitda water cycle area 2019



Ebitda water cycle area 2018



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

(mn€)	June 19	June 18	Abs. change	% change
Area Ebitda	**122.8**	**112.8**	**+10.0**	**+8.8%**
Group Ebitda	545.9	523.6	+22.3	+4.3%
Percentage weight	22.5%	21.5%	+1.0 p.p.	

+8.8% Ebitda rises

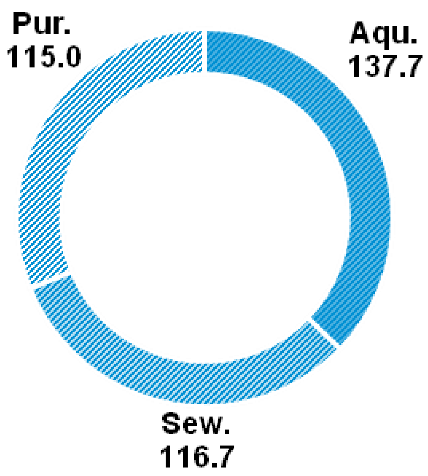
The number of water customers settled at 1.5 million, up 4.3 thousand or 0.3% over the first half of 2018, confirming the moderate trend towards internal growth seen in the Group's reference areas, mainly in the Emilia-Romagna region managed by Hera Spa.

Customers (k)

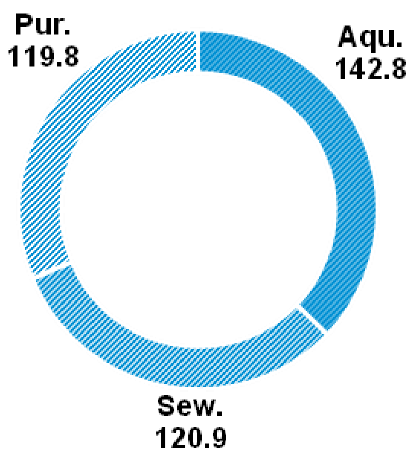
1.5
million customers integrated water cycle

The main quantitative indicators for the area are as follows:

Quantity managed 2019 (mn m^3)



Quantity managed 2018 (mn m^3)



137.7 million m^3 managed in the aqueduct

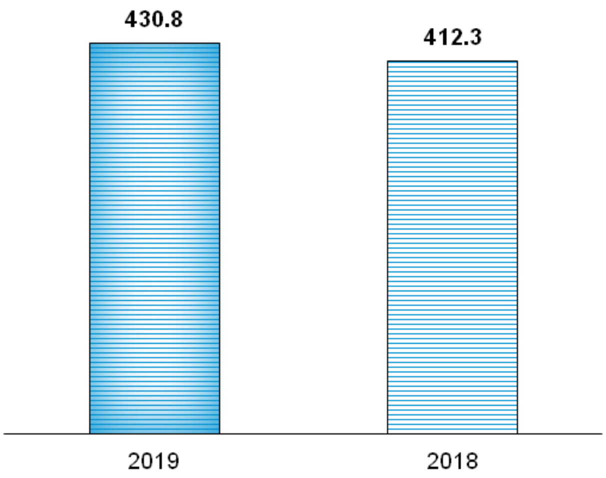
Volumes dispensed through the aqueduct showed a 5.1 million m^3 or 3.6% drop compared to June 2018. Furthermore, a decrease was seen in the amount managed in sewerage (coming to roughly 3.5%) and purification (amounting to roughly 4.0%) compared to the first half of the previous year. The volumes dispensed, following the Authority's resolution 664/2015, are an indicator of activity in the areas in which the Group operates and are subject to equalisation owing to legislation that calls for regulated revenues to be recognised independently from volumes distributed.

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

Income statement (mn€)	June 19	Inc%	June 18	Inc.%	Abs. Change	% change
Revenues	430.8		412.3		+18.5	+4.5%
Operating costs	(219.7)	-51.0%	(212.8)	-51.6%	+6.9	+3.2%
Personnel costs	(90.8)	-21.1%	(89.5)	-21.7%	+1.3	+1.5%
Capitalised costs	2.5	0.6%	2.9	0.7%	(0.4)	(13.9%)
Ebitda	**122.8**	**28.5%**	**112.8**	**27.4%**	**+10.0**	**+8.8%**

In June 2019, revenues in the water cycle area showed an 18.5 million euro or 4.5% increase, going from 412.3 million euro in the first half of 2018 to 430.8 million euro in the same period of 2019. This trend is due to higher revenues involving subcontracted works and works financed and commissioned by third parties over the first half of 2019 amounting to roughly 12.0 million euro, and higher revenues from connections coming to roughly 1.1 million euro. Lastly, note the higher other revenues mainly linked to contributions received coming to 2.0 million euro, of which roughly 1 million aimed at covering non-recurring costs for the 2017 water emergency. Revenues from dispensing reflected the overall result of the tariffs introduced by the Authority for 2016-2019 and the recognition of bonuses for contract quality in the first half of 2019, which grew by 1.9 million euro.

Revenues (mn€)

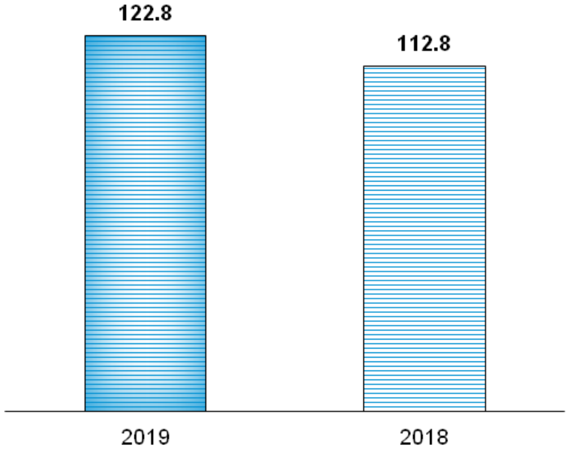


430.8
million euro revenues integrated water cycle

Operating costs saw an increase coming to 6.9 million euro or 3.2%, going from 212.8 million euro in the first half of 2018 to 219.7 million in the same period of 2019. Not including the higher costs involved in the works carried out, as described above under revenues, totalling 12.0 million euro, operating costs fell by 5.1 million euro. This trend is mainly due to the lower cost of water as a raw material, coming to roughly 2.3 million euro, the lower cost ensuing from the application of Ifrs 16, amounting to roughly 2.1 million euro, and lastly the operating efficiencies achieved.

Ebitda grew by 10.0 million euro or 8.8%, going from 112.8 million euro in June 2018 to 122.8 million euro in the same period in 2019, largely thanks to higher revenues from dispensing, higher revenues from connections, operating efficiencies and, lastly, the effects of the application of Ifrs 16.

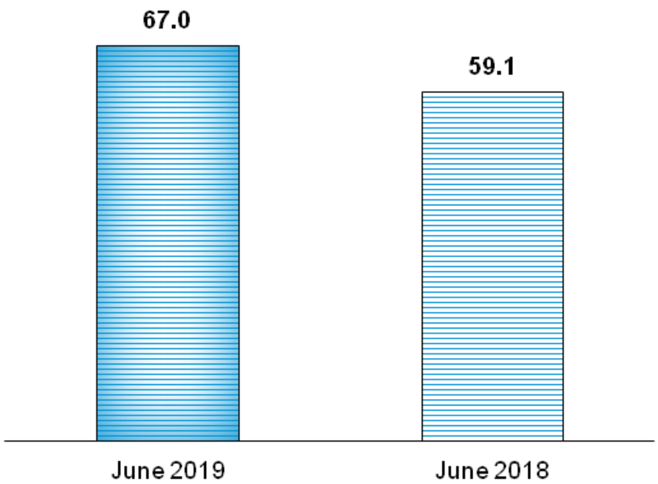
Ebitda (mn€)



122.8
million euro Ebitda integrated water cycle

In the first half of 2019, net investments in the integrated water cycle area amounted to 67.0 million euro, up 7.9 million euro over the same period of the previous year. Not including the capital grants received, which dropped by 0.2 million euro, the investments made increased by 7.7 million euro and came to 74.6 million euro, compared to the 66.9 million euro seen one year earlier.
Investments mainly involved extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.
Investments were made coming to 44.5 million euro in the aqueduct, 19.3 million euro in sewerage and 10.7 million euro in purification.

Net investments water cycle (mn€)



67.0
million euro net investments water cycle (+7.9 million euro)

The more significant works include: in the aqueduct, the increased activity in network improvement linked to Arera resolution 917/2017 on the regulation of the technical quality of integrated urban water management, upgrading interconnections in the Modena area water system, and interventions aimed at introducing district-based networks; in sewerage, continued progress was made in the important works for the Rimini seawater protection plan, in addition to redevelopment of the sewerage network in other areas, including cui Budrio, Argenta and East Modena; in purification, creating the second line and first rainwater reservoir in the Sasso Marconi purifier, in addition to work on plants in the area served by the AcegasApsAmga Group.
Requests for new water and sewerage connections remained increased over the previous year.
Capital grants amounting to 7.6 million euro included 6.5 million euro deriving from the tariff component called for by the New Investments Fund (FoNI) tariff method and were essentially in line with the previous year.

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

Integrated water cycle (mn€)	June 2019	June 2018	Abs. Change	% change
Aqueduct	44.5	33.2	+11.3	+34.0%
Purification	10.7	11.2	-0.5	-4.5%
Sewerage	19.3	22.6	-3.3	-14.6%
Total integrated water cycle gross	**74.6**	**66.9**	**+7.7**	**+11.5%**
Capital grants	7.6	7.8	-0.2	-2.6%
of which FoNI (New Investment Fund)	*6.5*	*4.1*	+2.4	+58.5%
Total integrated water cycle net	**67.0**	**59.1**	**+7.9**	**+13.4%**

Significant operating investments in the aqueduct, sewerage and purification

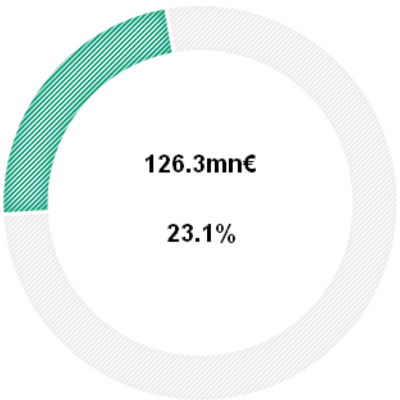
1.02.04

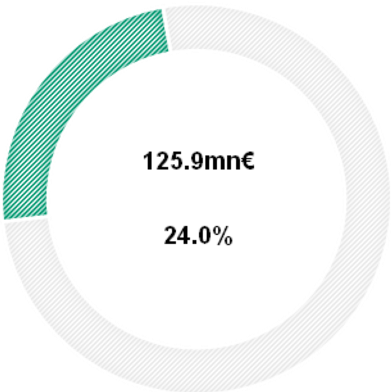
Waste management

Ebitda stable

In June 2019, the waste management area accounted for 23.1% of the Hera Group's overall Ebitda, with area Ebitda remaining in line with the same period in 2018. As regards waste treatment and recovery, in the first half of 2019 the Hera Group consolidated its national leadership by deploying complete and integrated marketing offers, shaping commercial partnerships with the sector's main players and remaining constantly present in calls for tenders, in addition to maintaining a complete and avant-garde set of plants able to offer effective and sustainable solutions that support a circular economy. As examples of the latter point, note the reinforcement of Aliplast Spa's outstanding activity in plastic recycling, and the contribution coming from the Sant'Agata Bolognese biomethane production plant. This new asset creates a virtuous cycle that begins with households, through the sorted collection of organic waste, and goes back to the area served, by way of the gas produced being introduced into the network, to fuel private vehicles or public transportation, or again for household use, with an immediate benefit on air quality. As regards the urban waste management services, the Hera Group offers this service to 190 Municipalities; compared to the first half of 2018, note the entry within the Group's scope of operations of Cosea Ambiente, a company that manages waste collection services in 20 Municipalities in the Tuscan-Emilian Apennine area. Environmental resource protection was confirmed as a priority goal in the first half of 2019 as well, along with optimising reuse, as is demonstrated by the Group's particular focus on promoting sorted waste in all areas served.

Waste management area Ebitda 2019 Waste management area Ebitda 2018





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

Ebitda increases: +0.3%

(mn€)	June 19	June 18	Abs. change	% change
Area Ebitda	**126.3**	**125.9**	**+0.4**	**+0.3%**
Group Ebitda	545.9	523.6	+22.3	+4.3%
Percentage weight	23.1%	24.0%	-0.9 p.p.	

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

Quantity (k tons)	June 19	June 18	Abs. change	% change
Urban waste	1,149.3	1,120.2	+29.1	+2.6%
Commercial waste	1,110.4	1,177.5	-67.1	-5.7%
Waste marketed	**2,259.7**	**2,297.6**	**-37.9**	**-1.6%**
Plant by-products	1,373.8	1,560.9	-187.1	-12.0%
Waste treated by type	**3,633.5**	**3,858.6**	**-225.1**	**-5.8%**

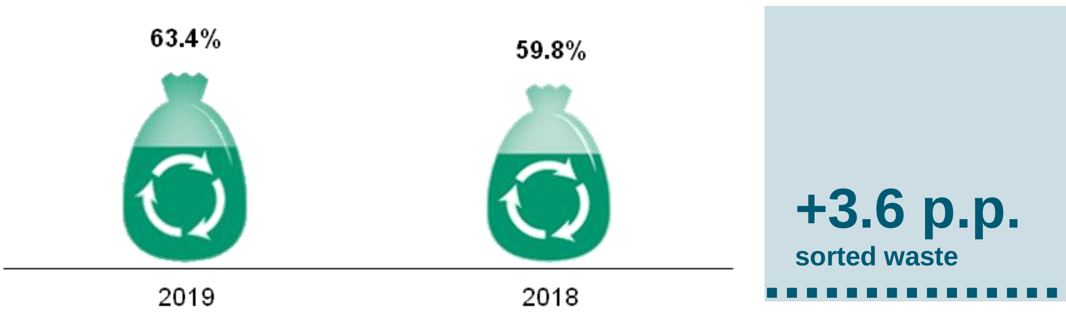
Commercial waste: -5.7%

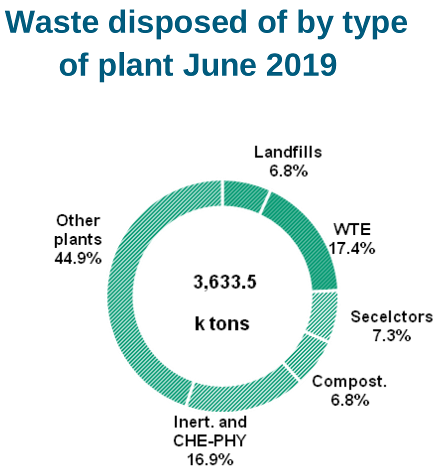
An analysis of this data shows waste marketed falling by 1.6%, due to a 5.7% fall in commercial waste as a consequence of the temporarily lower amount of plant capacity available, partially offset by an increase in urban waste. 17.5 thousand tons of the 29.1 thousand ton increase in urban waste is due to the entry of Cosea Ambiente; not including this company, urban waste increased by 11.6 thousand tons, owing to growth in sorted waste, up 5.5%, while non-sorted waste fell by 0.6%.

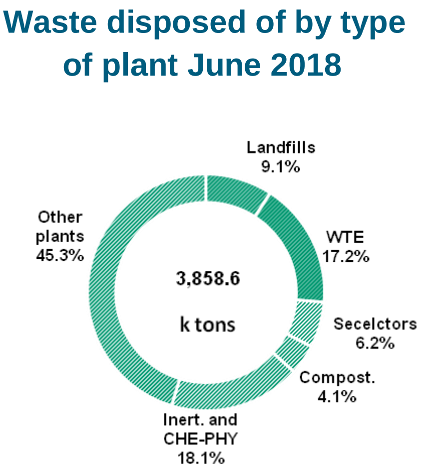
Plant by-products dropped thanks to a lower production of leachate in landfills, due to the lower amount of rainfall seen in the first half of 2019 compared to the same period in the previous year.

Sorted urban waste showed further progress, going from 59.8% in the first half of 2018 to 63.4% in the same period of the current year. In June 2019, sorted waste increased by 4.1% in the areas served by Hera Spa, by 1.1% in the areas served by Marche Multiservizi Spa, while in the Triveneto region growth settled at 1.3%.

Sorted waste







Use of landfills decreases

Quantity (k tons)	June 19	June 18	Abs. Change	% change
Landfills	247.7	353.0	-105.3	-29.8%
WTE	632.0	662.4	-30.4	-4.6%
Selecting plants and other	264.6	240.3	+24.3	+10.1%
Composting and stabilisation plants	245.4	158.9	+86.5	+54.4%
Intertisation and chemical-physical plants	613.4	696.8	-83.4	-12.0%
Other plants	1,630.2	1,747.3	-117.1	-6.7%
Waste treated by plant	**3,633.5**	**3,858.6**	**-225.1**	**-5.8%**

The Hera Group operates in the entire waste cycle, with 89 plants used for municipal and special waste treatment and plastic material regeneration. The most important of these include: 10 waste to energy plants, 10 composters/digesters and 15 selecting plants.

Waste treatment showed a 5.8% drop compared to the first half of 2018. Note in particular the lower quantity in landfills, while in the chain of waste-to-energy plants the decrease in waste treated compared to the same period in 2018 is mainly due to changes in scheduled shut-downs and planned maintenance. The higher amount treated in composters and stabilisers is mainly due to the higher volumes treated in the Sant'Agata plants and the new line in Ostellato. The lower quantity in stabilisation and chemical-physical plants can be traced to a decrease in landfill leachate due to a drop in the amount of rainfall. Lastly, the decrease in subcontracted and other plants is mainly due to a lower amount by-products, mainly waste water, treated in subcontracted plants, partially offset by the higher volumes created by the entry of Cosea Ambiente.

The table below summarises the area's operating results:

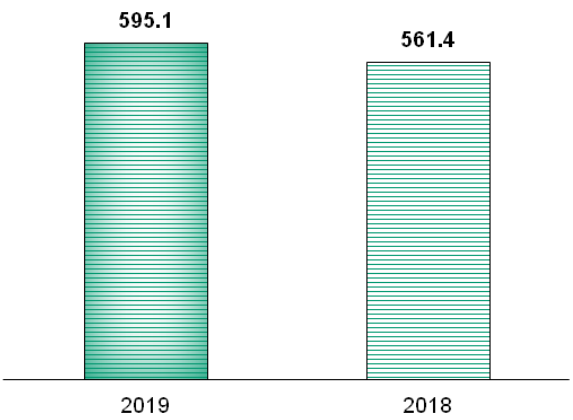
Ebitda stable

Income statement (mn€)	June 19	Inc%	June 18	Inc.%	Abs. Change	% change
Revenues	595.1		561.4		+33.7	+6.0%
Operating costs	(369.3)	-62.0%	(338.6)	-60.3%	+30.7	+9.1%
Personnel costs	(102.9)	-17.3%	(100.9)	-18.0%	+2.0	+2.0%
Capitalised costs	3.3	0.6%	3.9	0.7%	-0.6	-15.3%
Ebitda	**126.3**	**21.2%**	**125.9**	**22.4%**	**+0.4**	**+0.3%**

In June 2019, revenues rose by 6.0% or 33.7 million euro, going from 561.4 million euro at 30 June 2018 to 595.1 million euro in the first half of 2019. Not including the changes in scope of operations due to the entry of

Cosea Ambiente, which contributed with 4.8 million euro, the waste management area saw revenues grow by roughly 29 million euro in growth in revenues over the previous year. This trend is linked to the positive direction taken by the price of special waste, the higher revenues in electricity generation ensuing from an increase in the market price of energy, the higher percentage recognised for "Grin" incentives in the Ferrara WTE plant and the "Guaranteed Origin" certificates obtained. The latter were received because a few Group plants were recognised as being suitable to produce the energy introduced into the national electricity grid from sustainable sources. The higher revenues from electricity production were partially offset by the loss of energy incentives in some plants and the lower production of energy in some WTE plants owing to programmed maintenance. Compared to the first half of 2018, also note the contribution coming from the Sant'Agata biomethane plant, operational as of late 2018. A positive contribution also came from Aliplast Spa, for the higher quantity managed and for the incentives received as a company with strong energy consumption. These positive effects, along with the higher revenues for developing sorted waste in urban waste services, were only partially offset by the lower volumes treated.

Revenues (mn€)

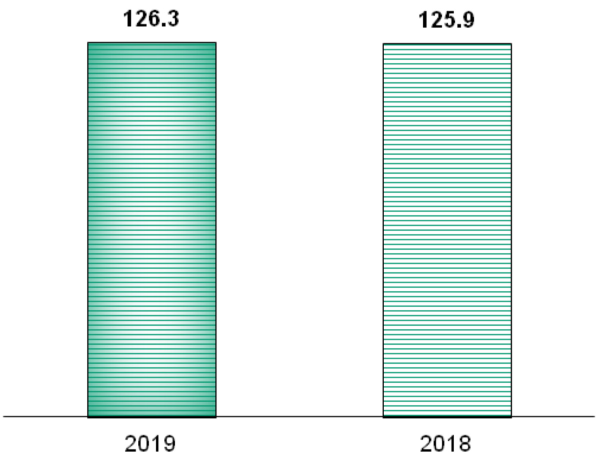


In the first half of 2019, operating costs rose by 9.1% or 30.7 million euro, going from 338.6 million euro in June 2018 to 369.3 million euro in the first half of 2019. Not including the change in scope of operations determined by the entry of Cosea Ambiente, which contributed with 2.5 million euro, higher costs coming to roughly 28 million euro were seen. In the waste treatment business, note the higher costs involved in an advancement in upgrading activities, subcontracting by-product disposal and the higher costs involved in planned maintenance on some Group plants. Linked to the increase in revenues mentioned above, note the increase in purchasing costs on the PET sustained by Aliplast Spa. As regards municipal waste, note the higher costs involved in developing new projects for sorted waste. Lastly, note the lower costs tied to the application of accounting standard Ifrs 16, coming to roughly 3.4 million euro.

The cost of personnel, not including the changes in scope of operations determined by the entry of Cosea Ambiente, coming to roughly 1.7 million euro, showed a slight increase coming to 0.3%.

Ebitda went from 125.9 million euro in the first half of 2018 to 126.3 million euro in the same period in 2019, showing growth amounting to 0.4 million euro or 0.3%. This change was sustained by higher prices for special waste treatment, higher revenues from electricity generation. Lower costs traceable to the application of accounting standard Ifrs 16, the contribution coming from Aliplast Spa and the entry of Cosea Ambiente. These positive factors were able to more than offset the lower revenues ensuing from the fall in volumes treated.

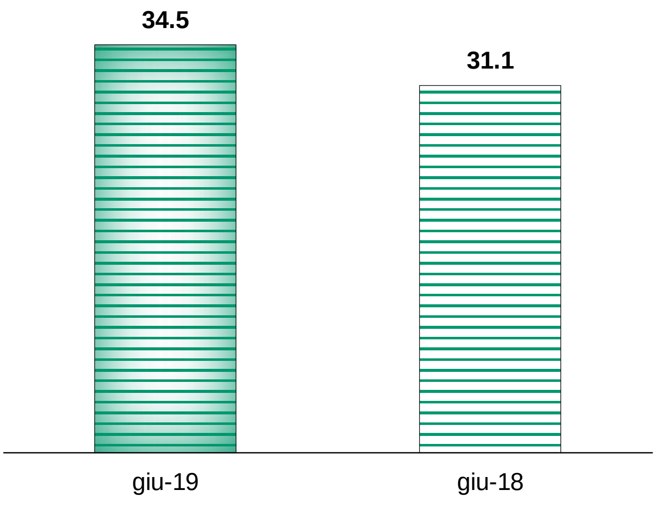
Ebitda (mn€)



126.3
million euro Ebitda waste management

Net investments in the waste management area concerned treatment plant maintenance and upgrading and amounted to 34.5 million euro, up 3.4 million euro over the first half of the previous year.
The composter/digester sector dropped by 8.6 million euro, due to the significant interventions carried out one year earlier on the Sant'Agata Bolognese composter in creating the biomethane plant, in addition to other interventions including upgrading the Tre Monti mechanical biological treatment plant.
Investments in landfills rose by 6.7 million euro due to interventions on the Cordenons plant, the tenth sector of the Ravenna landfill and the plants belonging to the company Marche Multiservizi.
The WTE plants sector saw a 2.8 million euro increase in investments, mainly involving non-recurring maintenance done on the Bologna, Padua and Trieste plants.
Increased investments in the Special waste plants sector mainly concerned maintenance interventions on the Ravenna plants, including a revamping of plant F3, and compartmentalisation interventions in the Disidrat storage areas.
The ecological areas and collection equipment sector showed higher investments coming to 1.0 million euro, as did the selection and recovery plants sector, mainly involving the interventions carried out on the mobile soil washing plant in Chioggia.

Net investments waste management (mn€)



34.5
million euro net investments waste management (+3.4 million euro)

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

Waste management (mn€)	June 2019	June 2018	Abs. change	% change
Composting/digestors	4.4	13.0	-8.6	-66.2%
Landfills	10.2	3.5	+6.7	+191.4%
WTE	7.2	4.4	+2.8	+63.6%
RS plants	1.6	1.0	+0.6	+60.0%
Ecological areas and collection equipment	4.1	3.1	+1.0	+32.3%
Transshipment, selection and other plants	7.1	6.1	+1.0	+16.4%
Total waste management gross	**34.7**	**31.1**	**+3.6**	**+11.6%**
Capital grants	0.2	0.0	+0.2	+100.0%
Total waste management net	**34.5**	**31.1**	**+3.4**	**+10.9%**

Operating investments increase

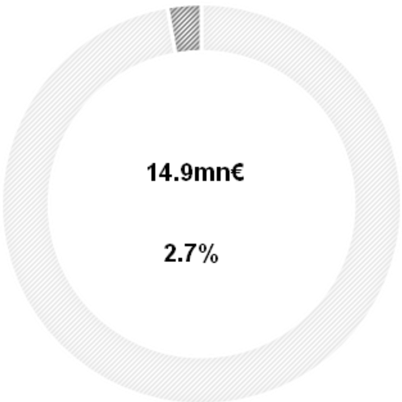
1.02.05

Other services

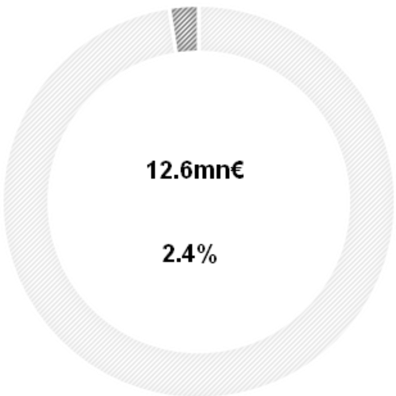
Ebitda rises

The other services area covers all minor businesses managed by the Group, including public lighting, telecommunications and cemetery services. In the first six months of 2019, this area's results showed an 18.3% increase over the previous half-year, with Ebitda going from 12.6 million euro in the first half of 2018 to 14.9 million euro in the same period in 2019.

Ebitda other services 2019



Ebitda other services 2018



The changes occurred in terms of Ebitda are as follows:

(mn€)	June 19	June 18	Abs. change	% change
Area Ebitda	**14.9**	**12.6**	**+2.3**	**+18.3%**
Group Ebitda	545.9	523.6	+22.3	+4.3%
Percentage weight	2.7%	2.4%	+0.3 p.p.	

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

Quantity	June 19	June 18	Abs. change	% change
Public lighting				
Lighting points (k)	535.8	526.8	+9.0	+1.7%
of which led	17.9%	13.5%	+4.4 p.p.	
Municipalities served	179.0	166.0	+13.0	+7.8%

535.8 thousand lighting points

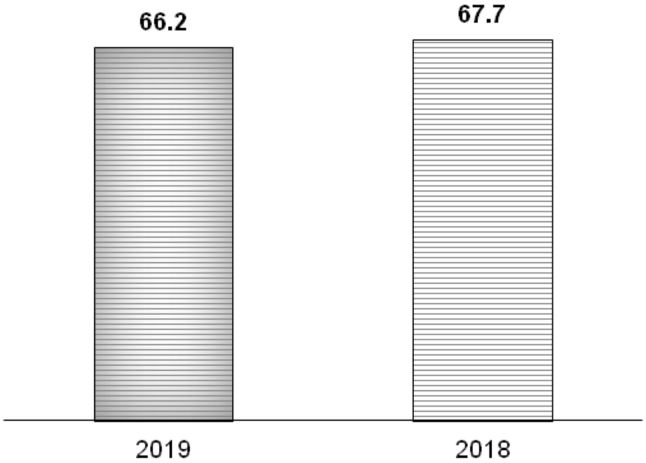
An analysis of the data regarding public lighting shows a growth of 9.0 thousand lighting points and the acquisition of 13 new municipalities served. The Hera Group, over the first six months of 2019, acquired roughly 20 thousand lighting points in 18 new municipalities. The most significant of these were: roughly 2 thousand lighting points in Lazio, roughly 9.5 thousand lighting points in Lombardy, roughly 5 thousand lighting points in the Triveneto area, and roughly 4 thousand lighting points in the areas managed by Marche Multiservizi. These increases fully offset the loss of roughly 11 thousand lighting points and 5 municipalities managed in the provinces of Bologna, Ravenna, Forlì, Rimini and Padua. The percentage of lighting points using led light bulbs also increased: in the first six months of 2019, settling at 17.9%, up 4.4 percentage points. This trend reflects the constant attention shown by the Group towards an increasingly efficient and sustainable management of public lighting.

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

Income statement (mn€)	June 19	Inc%	June 18	Inc.%	Abs. change	% change
Revenues	66.2		67.7		-1.5	-2.2%
Operating costs	(42.3)	-63.9%	(46.2)	-68.2%	-3.9	-8.4%
Personnel costs	(10.1)	-15.3%	(10.2)	-15.0%	-0.1	-1.0%
Capitalised costs	1.1	1.6%	1.2	1.8%	-0.1	-8.3%
Ebitda	**14.9**	**22.4%**	**12.6**	**18.6%**	**+2.3**	**+18.3%**

Area revenues fell compared to June 2018 by 1.5 million euro, going from 67.7 million euro to 66.2 million euro in June 2019. This trend is mainly due to lower revenues in the public lighting business, owing to a different amount of progress seen in work done on energy efficiency enhancement compared to the same period in the previous year, partially offset by higher revenues in telecommunications.

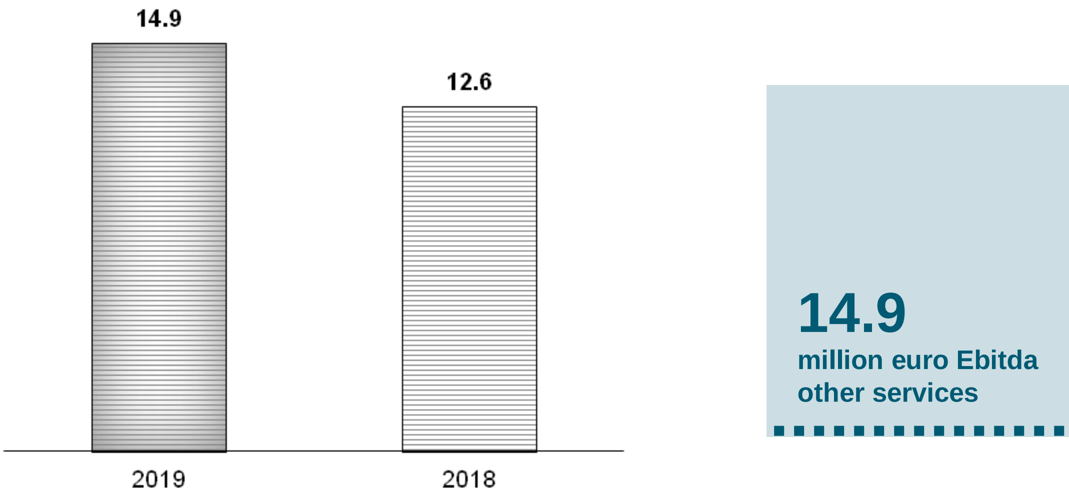
Revenues (mn€)



66.2
million euro revenues other services

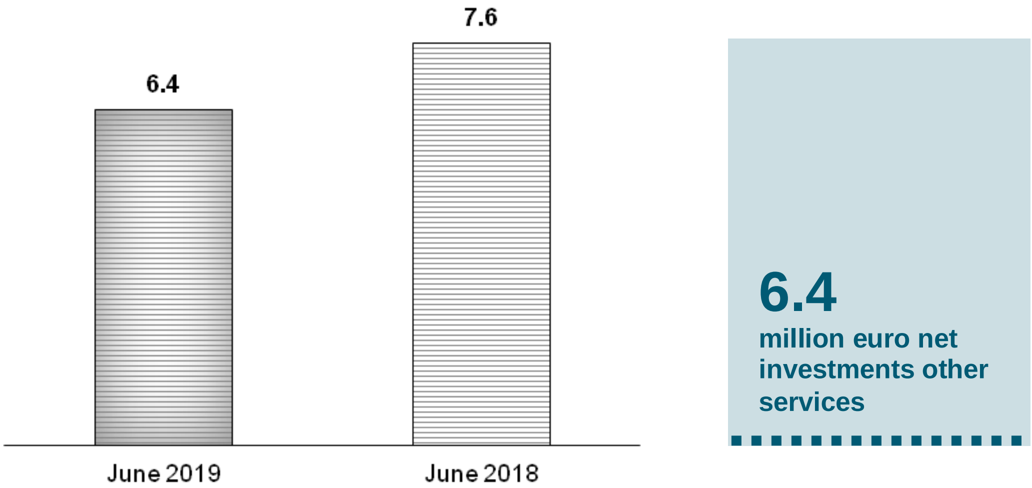
Ebitda showed growth amounting to 2.3 million euro over the first half of 2018. This trend is due to higher earnings in telecommunications services and lower costs owing to the application of accounting standard Ifrs 16 coming to roughly 2.0 million euro, in spite of the lower contribution coming from public lighting, whose lower revenues were only partially offset by lower operating costs.

Ebitda (mn€)



Investments in the other services area came to 6.4 million euro, down compared to the first half of the previous year.
Investments coming to 3.4 million euro were made in telecommunications, involving networks and Tlc and Idc (Internet data centre) services, down 0.9 million euro compared to the previous year. In the public lighting service, investments totalling 3.0 million euro concerned maintaining, upgrading and modernising lampposts in the areas served, with a slight drop compared to the previous year due to delays in the early months of the year concerning a few of the company Hera Luce Srl's interventions in the province of Padua.

Net investments other services (mn€)



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

Other services (mn€)	June 2019	June 2018	Abs. change	% change
Tlc	3.4	4.3	-0.9	-20.9%
Lighting and street lights	3.0	3.3	-0.3	-9.1%
Total other services gross	**6.4**	**7.6**	**-1.2**	**-15.8%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total other services net	**6.4**	**7.6**	**-1.2**	**-15.8%**

1.03
Significant events occurred during the half-year

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

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

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

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

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

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

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

Aliplast Spa / Alimpet Srl
The merger by incorporation of Alimpet Srl into Aliplast Spa is ongoing.
On 14 June 2019, the two company's Shareholders meetings approved the project and the merger document will be stipulated within the year. **June**

Blu Ranton Srl / Hera Comm Marche Srl
The merger by incorporation of Blu Ranton Srl into Hera Comm Marche Srl, effective as of 1 October 2019, is ongoing, furthermore entailing a transfer, with the same effective date, of Blu Ranton Srl's electricity branch to Hera Comm Srl.
On 18 June 2019, the Shareholders meetings of Blu Ranton Srl and Hera Comm Marche Srl approved the merger project.

Sangroservizi Srl / Hera Comm Marche Srl
The merger by incorporation of Sangroservizi Srl in Hera Comm Marche Srl, effective as of 1 October 2019, is ongoing, furthermore entailing a transfer, with the same effective date, of the shares held in Sangro Servizi Srl from Hera Comm Srl to Hera Comm Marche Srl.

On 18 June 2019, the Shareholders meetings of the two companies approved the merger project.

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

Significant events occurred after the reporting period

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

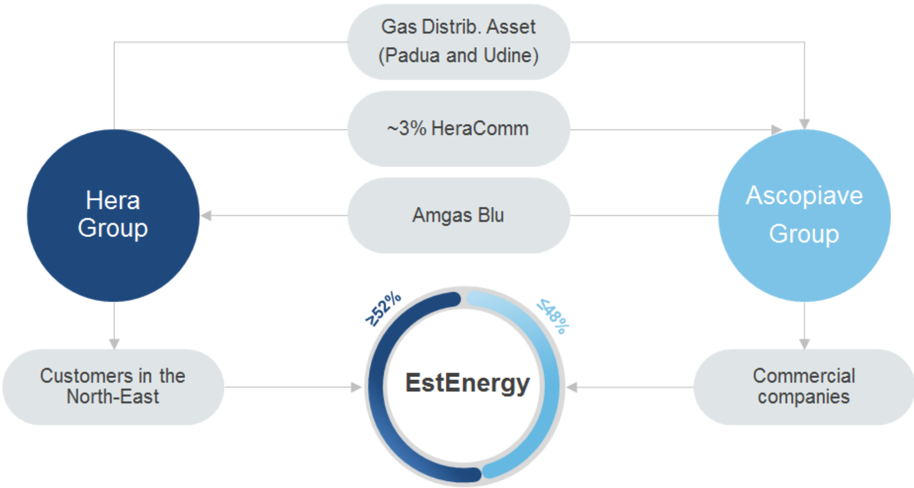
Hera Spa / Ascopiave Spa
On 17 June 2019, Hera Spa and Ascopiave Spa's Boards of Directors signed a binding term sheet containing the foremost terms and conditions based on which the two companies will sign, within 31 July 2019, a specific and detailed framework agreement aimed at guiding a transaction whose goal is to develop an energy sales leader in North-East Italy. This initial formal procedure followed up on a competitive process, initiated by Ascopiave Spa and intended to valorise the marketing segment of its activity portfolio, in which Italy's largest utility companies participated.

The Hera Group's proposal was considered the best from a strategic point of view: through a complex asset exchange, whose financial impact on the two groups will be essentially neutral, Hera Spa will be able to achieve external growth and consolidate its presence in the fragmented Triveneto area, while Ascopiave Spa will be able to focus on gas distribution without entirely relinquishing the sales business, on the contrary benefitting from the synergies that the partnership will prove able to create.

The cornerstone of the transaction is a reinforcement of EstEnergy Spa, the company through which Hera and Ascopiave already jointly manage 223 thousand customers, by bringing together 256 thousand customers of Hera Comm Srl concentrated in the Triveneto area and 581 thousand customers of Ascopiave Spa concentrated in the same area and in Lombardy. EstEnergy Spa, at least 52% of whose share capital will be held by the Hera Group at the end of the transaction, will thus become the leading actor in the North-East, with over one million customers in its portfolio.

Offsetting the larger contribution in terms of customers made by Ascopiave Spa, Hera Spa will transfer to the latter a number of activities in gas distribution in the area south of the province of Udine, whose exact number is currently being decided. The transaction also involves Hera Comm Srl acquiring roughly 50 thousand customers held by Amgas Blu and Ascopiave acquiring roughly 3% of the shares of Hera Comm Srl.

Structure of the transaction



The agreement furthermore gives Ascopiave Spa the right to sell, wholly or in part, its share, which will not exceed 48%, of EstEnergy Spa, over a period of seven years, which would cause a corresponding financial debt for the Hera Group. Therefore, the Hera Group's shareholding in EstEnergy Spa may increase in the future, potentially reaching 100% of the share capital. A similar sales option concerns Ascopiave Spa's 3% shareholding in Hera Comm Srl.

The main conditions set out in the framework agreement, which must be satisfied before the closing, are the habitual ones for this sort of transaction, including: (i) authorisation by the AGCM (the Italian antitrust authority); (ii) consensus given by the conceding parties; (iii) a detailed definition of the contracts to be formulated.

1.04
Share performance and investor relations

In the first half of 2019, positive trends were seen in all of the world's main stock indexes, driven by the optimism shown once again by financial operators after the negative performances witnessed in 2018. Despite signs of an economic slowdown and the ongoing trade war between the United States and China, investors regained confidence thanks to the decision made by central banks (the Fed and the European Central Bank) to prolong, and if necessary reinforce, expansive monetary policies, thus changing direction compared to previous expectations for a gradual withdrawal from this sort of stimulus. More accommodating and patient central banks, and the prospect of a final deal between the United States and China, thus created a return to the tendency to invest during the first six months of the year.

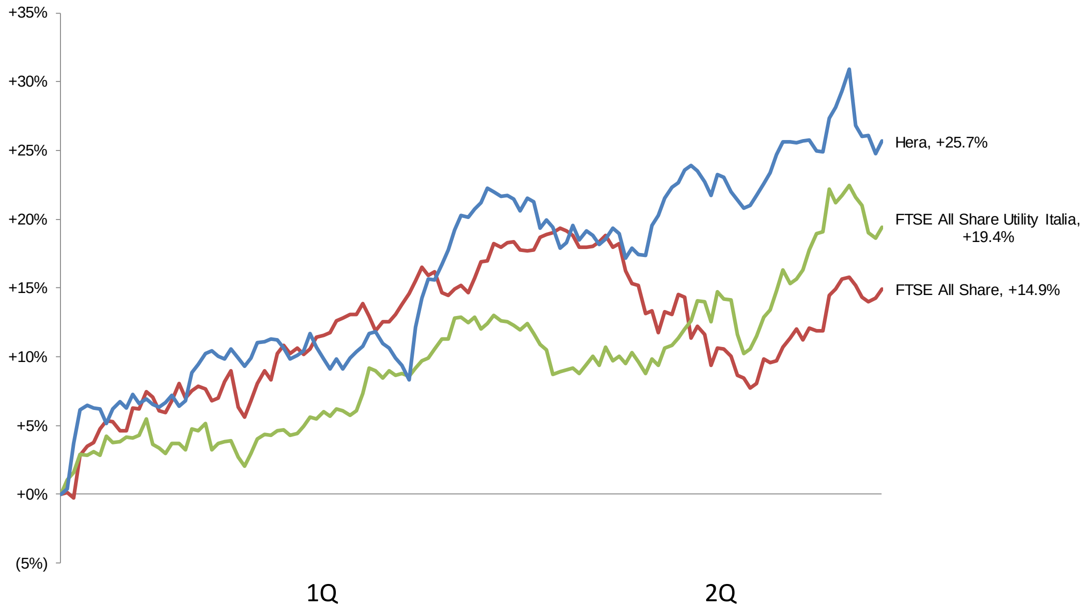
Global stock markets rise in the first quarter of 2019: the Italian market also benefits from the confident atmosphere

The Italian market benefitted from this context, with the spread between Italian and German bonds dropping compared to the high levels seen in late 2018 owing to tension between the Italian government and the European Commission concerning the approval of the national budget. The combination of sluggish economic growth and a reduction in the return on bonds led investors to move towards sectors considered safe such as utilities, which showed a positive and resilient trend.

Over the period in question, Hera stock, which became part of the Ftse Mib index as of 18 March, outperformed both the Italian stock exchange and its reference sector, rising by +25.7% and reaching an official price of 3.359 euro. The trend seen in the price of Hera shares reflects the strategy, clearly geared towards growth, contained in the Business plan to 2022, along with the Group's valid fundamentals as confirmed by its year-end and first-quarter results, and its announcement of a transaction aimed at external growth by reinforcing its partnership with Ascopiave Spa in the energy sales sector.

Positive trend in the utility sector: Hera stock is included in the FTSE Mib and outperforms the market and its sector

1H-2019 Hera stock, utility sector and Italian market performance comparison



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

10.0 cents
the dividend paid

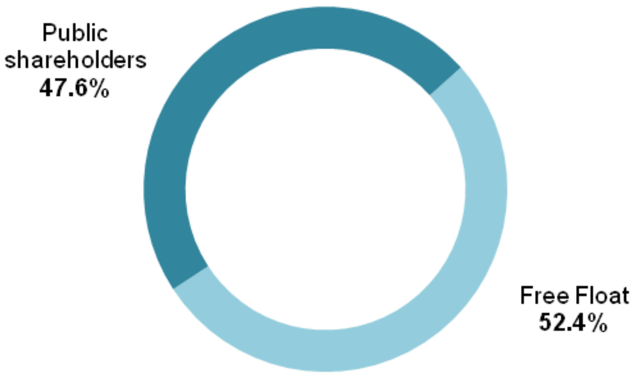
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2018**
Dps	0.035	0.053	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095	0.10

The joint effect of continuously remunerating shareholders through dividends and a rise in the price of the stock led the total shareholders' return accumulated since it was initially listed to remain consistently positive and to settle, at the end of the period in question, above +275.0%.

+275%
total shareholders' return since the Ipo

The financial analysts covering the company (Banca Akros, Banca IMI, Equita Sim, Fidentiis, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) expressed a clear prevalence of positive opinions, with almost all recommendations defined as buy/outperform. At the end of the half-year, the consensus target price came to 3.58 euro, higher than the 3.28 euro recommended at the end of 2018.

Shareholder breakdown at 30 June 2019



At 30 June, the shareholder breakdown showed 47.6% of the shares belonging to 111 public shareholders located across the areas served and brought together by a stockholders' agreement (signed on 26 June 2018 and valid for three years) and a 52.4% free float.

47.6%
the share capital pertaining to the public stockholders agreement

Since 2006, Hera Spa has adopted a share buyback program, renewed by the Shareholders Meeting held on 30 April 2019 for 18 further months, for an overall maximum amount of 200 million euro. This plan is aimed at financing M&A opportunities involving smaller companies, and smoothing out any anomalous market price fluctuations vis-à-vis those of the main comparable Italian companies. At the end of the first half of 2019, Hera Spa held 17.3 million treasury shares.

After publishing the new 2018-2022 business plan, the Hera Group's Chairman of the Board of Directors and its CEO took part in a roadshow covering Europe and North America's main financial hubs, to illustrate the Group's growth targets to investors. This timely activity in communication, followed up by participation in sector conferences, led institutional investors to show keen interest and was rewarded by the stock's performance over the period in question.
The dedication shown by the Group towards dialoguing with investors contributed to reinforcing its market reputation and represents an intangible asset benefiting the Hera Group's stock and stakeholders.

Communication with the market
as an intangible asset

1.05
Reference scenario and Group strategy

The utility sector and the Authority: rationalising the industry and liberalising the market

The public utilities sector plays a leading role within the Italian economy, accounting for approximately 7% of the country's Gross domestic product (GDP; source: Top Utility report drafted by Althesys). This result, however, is reached through levels of service and efficiency that differ greatly across the country on account of the high level of fragmentation among variously sized operators. The most recent census, carried out by the government in 2014, counted no less than 1,500 of the latter, a figure which is quite distant from the standards seen in other European Union countries. With the goal of improving the efficiency and transparency of these services, over time the government and the national Authority have therefore pursued actions aimed at rationalising the sector.

In gas distribution, for example, tenders for renewing grants are foreseen within the next five years across the entire country. These competitive procedures have been designed to promote greater consolidation among operators, while at the same time favouring the more efficient ones and those able to sustain the widest-reaching investment plans. The areas concerned by the tenders have in fact been geographically widened, now covering provinces instead of municipalities. It follows that, according to estimates made by sector professionals, a reduction should be seen in the number of companies, from over two hundred to no more than twenty or thirty.

In the regulated waste management sector, the Regulatory authority for energy, networks and the environment (Arera, Autorità di regolazione per energia reti e ambiente), has begun preparations for a new definition of the tariff system, which will come into effect as of 2020 and cover a period of four years. After establishing a higher degree of uniformity in tariffs and service quality nationwide, expectations are that higher efficiency will be achieved and the sector will be rationalised, turning to means including a definition of the mechanisms used in tenders for granting concessions for urban waste collection and street cleaning.

In the sector of (free market) waste treatment, the half-year that has just come to a close confirmed the country's persistent undercapacity in the area of plants. This situation has become even more critical by various foreign factors, such as China's import ban on low-quality plastic waste (plastic mix) and an increase in waste exports from the United Kingdom, with the effect of saturating the continent's treatment plants, towards which a significant amount of Italy's waste was sent. In this scenario, considering the continual difficulties in building new plants over the short term, prices for waste disposal continued to increase, going to the advantage of operators owning plant capacity.

In the energy sales business, the government's objective is to promote a higher level of market competition, to the advantage of end consumers. To this intent, a prediction for the complete liberalisation of the electricity market as of 1 July 2020 was confirmed by the Milleproroghe Law 91/2018. At present, roughly 20 million users have not yet chosen a free market energy supplier. Launching this process thus represents an opportunity to stimulate competition and give space to companies with the best service levels and the largest scale economies.

An effective model for growth

The scenario seen in the sector is therefore marked by factors pointing towards a higher industrialisation, to be achieved through increasing investment plans and also involving a consolidation of smaller businesses. In this context, Hera Spa operates with its usual development model that is geared towards making the most of scale economies and synergies (internal growth) and expanding the geographical extent of its own operations (external growth), by integrating sector enterprises. This strategy has been coherently pursued by the Group since its establishment, and its effectiveness has been proven: over the past sixteen years, its size has been quintupled and a position of national leadership has been reached in all areas of activity (it is the country's primary operator in the waste management sector, second in the integrated water service, third in gas distribution and in energy sales to end customers).

Hera grows in more than one direction

The results for the first half of 2019 as well are the fruit of this strategic approach. All activities managed contributed to this positive result, confirming the validity and effectiveness of the Group's perfect balance between regulated and free market activities that allows it to maintain a high level of risk diversification. The portfolio's balanced mix, that combines areas with a low return but no risk (in regulated businesses) and areas with a higher return but also risks from which the Group is protected (in free market businesses), makes it possible to obtain an overall return capable of creating value; that is, this portfolio leads to rates of return that exceed the average cost of the financial resources used.

As regards external growth, the half-year that has just come to a close heralded initiatives in development. In the waste sector, in late June, a new non-dangerous waste treatment plant with a capacity of 700,000 tons was inaugurated in Cordenons, in the province of Pordenone. The Group's strategy of expanding in the North-East, already seen in 2016 with the acquisition of Geo Nova's environmental assets, thus took concrete shape. Equally important was the acquisition, in the month of July, of Pistoiambiente Srl, the company that manages the Serravalle Pistoiese landfill, with a residual capacity of over 1 million cubic metres of waste. This acquisition, foreseen by the Business plan, enlarged the Group's scope of operations in Tuscany, within an area rich in production plants. These transactions, along with the acquisition in May of shares in Cosea Ambiente Spa, an urban and similar waste management company operating in twenty municipalities in the Tuscan-Emilian Apennine, further reinforce the Group's national leadership in the waste management sector.

External growth in the waste management sector

In the energy sector, March 2019 saw the beginning of a project aimed at integrating Cmv Servizi Srl and Cmv Energia e Impianti Srl within the Hera Group, respectively going to Inrete Distribuzione Energia Spa for natural gas distribution activities and Hera Comm Srl for energy sales activities. The transaction involved roughly 25,000 customers and approximately 30,000 delivery points for natural gas distribution, and will allow a solid industrial project to be developed in the Ferrara area as well.

External growth in the energy sector

The new business plan to 2022 was presented in early January 2019. Based on the Group's strong position and acquired leadership, and on the positive impelmentation of the 2014-2018 five-year plan, whose targets were exceede, it is aimed at grasping the opportunities arising within the reference scenario and continuing along the Group's path of uninterrupted growth. Ebitda is expected to increase by 200 million euro, reaching the goal of 1.185 billion euro by the end of the period in question, a target which is higher than the one set in the previous plan.

The new Business plan to 2022

Relying on the Group's current market position and the availability of its accumulated financial resources, growth will also be fuelled by an ambitious investment program coming to roughly 3.1 billion euro, increasing by 260 million over the previous plan. The Group will be able to meet this objective thanks to one of the most solid sets of assets seen in the sector and its visibly growing cash generation (+30% Cagr over the last five years).

Investments amounting to 1.1 billion euro will be exclusively dedicated to growth: new plants and network modernisation, tenders for renewing gas concessions and M&A operations. This strategy calls for an efficient allocation of capital, conserving the Group's current low risk profile, and confirms its objective of maintaining financial solidity, with a net debt/Ebitda target set at 2.9 that leaves further room to finance the growth opportunities not included in the plan.

Three quarters of the investments will go to regulated activities: approximately 70% will go towards networks and approximately 6% to urban waste collection. It follows that most of the growth foreseen by the plan will fall into these areas, whose overall weight will increase from 51% to 55%. The balanced aspect of this mix will be guaranteed by factors including growth in free market activities. In the waste management sector, the Group – Italy's leading operator in this field – can rely on a wide and diversified set of plants, within the context of a market whose prices are continually growing due to the country's structural lack of disposal capacity. In the energy sector, the Group – which ranks third in the country – counts on expanding its customer base, making the most of both the liberalisation expected in the protected electricity market and initiatives in cross selling its services. In late 2018, tenders were also held for renewing concessions in safeguarded electricity and default gas services, and the Group confirmed its status as Italy's foremost operator for the upcoming two years, gaining roughly 70% of the market.

The new plan also expects dividends to increase (from 9.5 cents in 2018 to 11 cents paid in 2023), showing uniform growth over the five years in question and testifying to a transparent dividend policy, benefitting all shareholders. The Group's multi-business model, indeed, allows it to give a significant visibility to cash generation, since it offers protection from external market factors, as is amply shown by the resilient growth constituting its track record.

The plan includes targets and projects that the Group intends to pursue in a sustainable way, creating value for all stakeholders. Its strategy has identified lines of development oriented towards pursuing the targets set out in the UN Agenda that can be applied to the activities in which it is involved (covering at least 10 of the 17 goals indicated): almost 3/4 of the growth expected over the five years covered by the plan will be sustained by projects that respond to these ten "calls to action", thus bringing shared value Ebitda to reach over 470 million euro (40% of overall Ebitda) by 2022.

Creating shared value

1.06 Macroeconomic context and focus on the energy sector

The macroeconomic context

After the slowdown seen in late 2018, whose effects were felt in the first quarter of 2019 as well, the world economy is gradually restabilising. And yet, according to the most recent report published by the International Monetary Fund (IMF), the expected growth rate (approximately 3.3%) is lower than the one witnessed in 2018 (3.6%). The main causes behind this slowdown involve the increasing tension in the trade war between the United States and China, the macroeconomic stress seen in Argentina and Turkey, and the crisis in the automobile market in Germany. In the first quarter of the year, according to the European Central Bank, the USA, Japan and the United Kingdom recorded livelier growth than expected. This growth, however, can be traced to temporary factors such as an increase in exports (in the first two cases) and reserves (in preparation for Brexit). The Chinese economy, instead, has continued along its gradual slowdown in growth, which in any case was mitigated by expansive monetary policies. The contraction in growth seen worldwide was confirmed by the economic outlook forecast by the Organisation for Economic Co-operation and Development (OECD), according to which 2019 will come to a close with the United States showing a growth rate of approximately 2.7% (-0.3% compared to 2018). In Asia, within the end of the year Japan is expected to recover and settle at 0.6% (+0.4% compared to 2018), while China's growth rate is expected to weaken (even while being forecast at 6.1%).

In the eurozone, the first quarter of 2019 saw modest growth (+0.4% over the previous quarter) thanks to an increase in internal demand and a limited contribution coming from foreign exchange. In any case, a further rise in employment and increasing wages will continue to sustain the economy's stability. In spring, inflation remained moderate, despite a temporary increase in April, settling at around 1.2% in June. The European Central Bank maintained its reference rates of interest unchanged, confirming its decision to entirely reinvest the capital reimbursed on maturing securities within the "expanded asset purchase program" for a prolonged period of time after an initial rise in official rates. Brexit and other political events within the European Union continue to represent a weak spot for the eurozone, as does the ongoing trade war between the United States and China.

In line with the trends seen in the eurozone, the most Bank of Italy's most recent economic report shows an extremely slight growth in GDP, coming to +0.1% over the end of 2018. This data was stationary in the second quarter of 2019 as well. Activity, while slowed down by a decrease in reserves and a reduction in investments in machines and transportation, was sustained by foreign exchange, investments in the construction sector and consumption. Exports rose slightly in the first quarter of 2019 (+0.2% over the last quarter of 2018), in spite of the slowdown in the world economy. At the same time, in the first four months of the year foreign investors purchased Italian government bonds, accounting for over 40% of those issued by the Treasury (in this same period).

Employment, which increased over the negative trend seen in late 2018, reached the same figures seen in 2008, thanks to an increase in permanent contracts and the new legislative framework that helped limit the use of fixed-term contracts. A further positive contribution came from increased hours of work in the industrial sector.

Inflation remained weak, in its underlying component as well, in line with the cycle of economic stagnation which reflected a fall in the price of industrial goods, excluding energy, and services. Excluding foodstuffs and energy, inflation reached 0.4%.

Some degree of uncertainty remains as to our country's prospects, as can be seen in the fluctuations in return on government bonds. These securities first felt the negative impact of the doubts surrounding national budget policies and, later, benefitted from both monetary accommodation and the revision of the deficit expected during the current year (a decision that avoided a procedure for excessive deficit being opened against Italy).

The context in terms of competition

The utility sector's competitive scenario in the first half of 2019 confirmed the trends already seen in late 2018, with an intensification of competitive activity in both regulated and free-market sectors.

In regulated services, the gas sector is still awaiting the beginning of tenders for the distribution service, after the first round of procedures was concluded in 2018. The first call for areas in which the Hera Group already operates has been published, and offers are expected to be made in the second half of 2019. Once again regarding market competition in regulated services, the tender for waste management services in the Modena area has been published.

1.07
Regulatory framework and regulated revenues

Relevant legislation

The legislative measures approved during the first half of 2019 with the greatest consequences for the Hera Group include the so-called Unlock Construction Sites decree (converted into law no. 55/19) and the so-called Growth decree (converted into law no. 58/19).

Conversion law for the Unlock Construction Sites decree

In the Unlock Construction Sites decree, which contains "Urgent measures to stimulate the public contract sector, accelerate interventions in infrastructures and regenerate and reconstruct urban areas following earthquakes", two measures concern the Group:

- an extension, until 31 December 2020, of the obligations for those holding tenders already in effect at 18 April 2016 and for which a tender has not been held (as described under article 177 of the Public Contract Code). These obligations call for an amount coming to 80% of the contracts involved in the concessions, whose value is more than or equal to 150,000 euro, to be assigned through public procedures within a predefined date;
- an amendment of the Environment Code (article 184 ter) that calls for, pending the adoption of the upcoming "End of Waste" decrees for specific flows of waste, "ordinary" authorisations and integrated environmental authorisations (Aia) to be provided by the appropriate authorities on the basis of the technical criteria (type, origin, characteristics) defined by the decrees on recovery with simplified procedures, with the possibility of defining the quantity of waste subject to this recovery. The Ministry of the Environment will have the right to issue a non-regulatory decree containing guidelines for a uniform application of the new measures.

Conversion law for the Growth decree

The so-called Growth decree contains: "Urgent measures for economic growth and for resolving specific crisis situations" (so-called conversion law for the Growth decree), and introduces a few amendments on issues involved in energy efficiency and the fight against climate change, including:

- a new way of obtaining tax benefits (art. 10) based on which the final recipient may opt for an immediate discount, whose amount is equivalent to the tax deduction, on the amount due for the energy upgrading intervention;
- a new fund intended for Municipalities that carry out works in energy efficiency enhancement and local development (with the maximum amount set at 500 million euro for 2019), to be used mainly for increasing energy efficiency in public buildings, public lighting, installing plants producing energy from renewable sources (Fer) and sustainable mobility;
- an allocation of financial resources (coming to 10 million euro for 2018 and 2019 and 20 million euro for 2021) towards research, development and innovation with the aim of respecting the commitments underlying the Paris agreement (Cop21) on climate change;
- new specifications for calculating the additional energy efficiency required to recognise white certificates, with reference to projects that include renewable sources such as solar heating, biomasses, biofuels and biogas;
- the obligation to respect the limits on emissions defined for small-scale energy efficiency enhancement interventions, including projects that foresee the use of biomasses in plants with up to 2 MWt.

Gas, electricity, integrated water service, district heat and urban waste regulations

2019-2021 Strategic Framework approved

Among the new features that appear in regulations approved by the Regulatory authority for energy, networks and the environment (Arera) in the first half of 2019, those with the greatest consequences for the Hera Group include: the approval of the 2019-2021 Strategic Framework, the publication of guidelines for regulating tariffs and service quality in gas distribution and metering during the fifth regulatory period, and the beginning of infra-period updating for regulations in the electricity distribution service. As regards district heat regulations, note the amendment of the Comprehensive text as regards payment for connections, service termination by users and the approval of new measures for service transparency. Lastly, for the integrated water service note the beginning of procedures for defining the new tariff period and regulations for customers in arrears.

Arera, with resolution 242/2019/A, approved the Strategic Framework for the 2019-2021 three-year period. This document, subdivided into broad areas and sectors according to strategic objectives and intervention guidelines, provides stakeholders with an important tool in transparency. Among the strategic objectives covering more than one sector, note the more central role given to consumers, who are expected to be given tools for a greater awareness in making choices, valorising technological and systemic innovation and new approaches to guaranteeing regulatory compliance. As regards the water and waste management sectors, Arera has drawn attention to the need to overcome the strong discrepancies seen in the country concerning infrastructures, as well as service quality and transparency.

As regards the integrated water service, Arera intends to complete and reinforce the system of regulatory measures and controls aimed at urgently promoting infrastructure adaptation and upgrading, developing measures to support financing through appropriate regulatory measures intended to control the actual implementation of the interventions and also regulating the way in which the Water works guarantee fund is used. Furthermore, Arera intends to make progress on the issue of arrears, in the area of contract quality and a rationalisation of compensation structures, with the aim of integrating consistent rules across the entire country for managing the relations between operators and users in the water sector.

As regards waste management, Arera has proposed introducing measures intended to overcome the critical issues that obstruct infrastructure upgrading as required by European regulations, in order to guarantee accessibility, usability and distribution of the service across the entire nation, while at the same time ensuring coherence between the cost of the service and its level of quality. Arera also intends to introduce measures aimed at promoting transparency and efficiency in the various managements that make up the waste cycle, defining a tariff mechanism that favours a local system's ability to manage waste as a whole, in line with the objectives set out by European directorates in light of a circular economy. These measures will be introduced gradually, beginning by defining criteria for monitoring and recognising efficient costs sustained in 2018 and 2019. As regards the urban waste collection and transportation service, the tariff system will have to incentivise processes in selection, recovery and valorisation of the end material, so as to limit the use of landfills. Arera will also regulate the minimum content of service contracts, promoting transparency in the quality of the services offered to users and a gradual nationwide move towards minimum quality standards. Lastly, indications will be introduced to limit arrears, at the same time ensuring that appropriate measures are in place to support families with economic and social difficulties.

Among the strategic goals in the energy area, importance is given to developing markets that are efficient and integrated across Europe. In this context, the main interventions in electricity will concern a reform of dispatching and imbalances, completing the capacity market and reinforcing tools for monitoring the markets' functioning, to identify and counter unauthorised practices. In the gas market, measures will be aimed at bringing Italian prices into line with European ones, enhancing infrastructures and overcoming long-term contracts.

The Strategic Framework contains a focus on the retail market and on overcoming protected markets. Arera intends to guarantee that the transition to the free market comes about with full awareness on behalf of end customers and without distortions in competitiveness, furthermore taking into due account the evolution of prosumers and the services surrounding the system, encouraging aggregation in demand. As regards counterparty risk in regulated services, with reference going to system charge collection, on the one hand tools aimed at measuring operators' financial solidity will be introduced, and on the other systems for providing minimal guarantees and mechanisms for recovering unpaid fees will be developed.
In the area of energy infrastructures, importance will go to selectivity in interventions on networks and to an efficient use of resources, for reasons including the transition to decarbonisation, new uses of the electricity grid and the increasing role of widespread production, with the aim of combining providers' operating and financial balance with objective in service efficiency improvement. A few measures aimed in this direction include: progressively and gradually overcoming the current approach towards cost recognition, differentiated as it is between operating costs and capital costs, in favour of an integrated approach (totex); completing (in gas distribution) the progress made on aligning recognised costs and efficient costs, overcoming the current differentiations based on the size of operators; reinforcing regulatory tools for the overall evaluation of infrastructural development plans, consolidating the actions already undertaken in electricity transmission and gas transportation and extending them to distribution and district heat infrastructures.

As regards regulatory innovation in the first half of 2019 concerning gas distribution, note Arera's publication of consultation document 170/2019/R/gas, which contains guidelines for defining criteria for regulating tariffs and quality in the fifth regulatory period, covering 2020-2025. The document sets out the strategic goal of selective and efficient infrastructural development through a few innovative proposals, which will in any case be fully implemented over the medium-long term. For the 2020-2022 three-year period, the orientations point towards a scenario that essentially maintains the features of the current scenario. The document indicates the goal, for the end of the period, of a full convergence between the costs recognised to providers having different sizes, solely maintaining the differentiation involved in the density of the users served. Ways of incentivising the aggregation of operators with less than 50 thousand delivery points are furthermore proposed. As regards capital costs, a further proposal concerns the restitution, within the regulatory period, of the so-called "frozen" contributions in the current method, and the introduction of efficiency incentives concerning new investments in distribution networks. Arera intends to use the standard cost as a benchmark, calling for bonuses/penalties according to how actual costs are positioned with respect to specific ranges of values that represent a higher or lower efficiency compared to the benchmark. The bonuses (or penalties) could take the form of positive (or negative) differentials of the return on capital for predefined periods of time. Adopting incentivising regulatory methods based on total expenses (so-called totex) will instead be postponed to the sixth regulatory period. Also aimed at favouring an efficient development of the service, a further proposal concerns introducing Guidelines for undertaking cost-benefit analyses concerning investments in distribution networks for which offers are made in tenders. As regards service quality regulation, the current framework is expected to be fundamentally maintained, consolidating and rationalising a few issues involved in the performance of the metering service.

2020-2023 infra-period updates for electricity distribution services

The first half of 2019 also saw the beginning of procedures aimed at infra-period (2020-2023) updates in tariff and service quality regulations for electricity distribution and metering (resolution 126/2019/R/eel), which will be concluded within the year. As regards tariff regulations, the update will concern a revision of the basis used for operating costs and the rate of production recovery. The adoption of cost recognition based on an analysis of the total expense was instead postponed with respect to prior expectations, preferring a gradual introduction which will be applied only to the transmission company as of 2023 and to larger distribution companies as of 2024. The priorities identified also include the need to partially reform regulations in safety and service continuity, taking into due account the effects of the extreme meteorological events seen from 2012 to 2018. On this matter, in consultation document 287/2019/R/eel, Arera indicated orientations for redefining expected levels for 2020-2023 in some areas, in order take into consideration the effects of recent climate change. The document calls for consultation on whether it is appropriate to introduce a rule that reduces bonuses for distribution companies if and when part of the local areas served has been penalised for two consecutive years, and on introducing a different approach in which distribution companies themselves are the ones who present proposals for new and innovative forms of regulation.

Updates for making 2G smart electricity metres operational

Lastly, note that resolution 306/2019/R/eel updates the guidelines for setting out plans in introducing second-generation smart metering systems (2G) and the methods used for cost and penalty recognition in the event that the plan does not make progress or that the expected levels of performance are not respected. Plans for introducing these systems will have to begin in 2022 at the latest, and the phase of maximum implementation will have to be concluded within 2026.

Amendment to Tuar regulations on district heating users' right to service termination

In the area of district heating, with resolution 278/2019/R/tlr Arera amended the Comprehensive text for regulating the criteria used in defining compensation for connections and the ways in which users can exercise their right to service termination for the 2018-2020 regulatory period (Tuar), introducing differentiated regulations according to the user's characteristics. For contracts stipulated after the Tuar came into effect, the resolution includes a proposal for applying a safeguarded compensation that is differentiated in its duration and the extent of included costs according to the type of user. As regards contracts signed before the Tuar came into effect, the timing for the termination of the withdrawal clauses is differentiated according to the size of users (2023 for users with less than 350kw and 2028 for users with more than 350kw).

District heating transparency regulations approved

With resolution 313/2019/R/tlr, Arera set out indications as to transparency in district heating for the 2020-2023 regulatory period. The factors introduced include the minimum content of supply contracts and invoicing documents, guidelines for publishing the prices applied by operators and other information concerning service quality and environmental performance. Previously existing contracts will have to be updated within 31 December 2022, and the indications concerning invoicing will have to be adopted as of 1 July 2020.

As regards the water sector, with resolution 34/2019/R/idr procedures were opened for defining regulations for the third regulatory period (2020-2023) for the integrated water service, in particular a revision of the tariff method, with the aim of maintaining a certain and stable regulatory framework, promoting efficiency in management, improving the quality of investment expense planning, leading operators to introduce progressive improvements aimed at the environmental sustainability of the activities managed. In particular, changes are expected in the way in which operating costs are recognised, and a higher amount of control is expected to be introduced in carrying out planned investments. With resolution 311/2019/R/idr of 16 July 2019, Arera defined new regulations for arrears in the integrated water service. For resident household users whose service can be disconnected, a complex process is introduced for managing supply suspension, differentiated according to both the amount due and the obligation to reduce supply, ensuring at least the minimum vital amount of 50 litres/inhabitant/day. For these same users, furthermore, managers cannot interrupt supply except in specific cases. Suspending supply to a condominium is instead permitted only in the event that the condominium in arrears, after paying at least 50% of the amount due within the date established by the arrears procedure, does not pay the remaining amount within the following six months. The area authority will have to promote the installation of meters in each real estate unit, where this is technically feasible, in order to make selective supply interruption procedures applicable.

Tariff procedure for waste cycle

As regards the waste management sector, with resolution 303/2019/R/rif Arera unified the two ongoing procedures concerning tariff regulation and monitoring for 2018 and 2019 and the launch of the new tariff system as of 2020, expecting them to come to a conclusion within 31 October 2019.

Gas distribution: tariff framework

2019 is the last year of the fourth regulatory period (2014-2019) for the gas distribution and metering tariff system, governed by resolution 775/2016/R/gas.

The tariff system is consistent with the previous year and entitles each distributor to a certain amount of total acknowledged revenues (Vrt), defined by Arera and not dependent on changes in 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 mandatory tariffs set by the Authority for the various macro-regional areas).

This amount is intended to cover both capital costs and operating costs sustained by the managing company. In particular, Arera has established that:

- recognised invested capital (Rab) pertaining to tariffs in year t (2019) includes investments made until year t-1 (2018), and is updated for inflation. Operators are entitled to both an amount of tariff amortisation (calculated on the basis of the regulatory useful lives) and a return on this capital, defined by applying the approved rates of return (Wacc), differentiated for distribution and metering services and respectively amounting to 6.3% and 6.8% for 2019 (resolution 639/2018/R/gas), up over the previous three-year period;
- recognised operating costs are defined according to certain parameters and are updated annually by applying the Foi inflation rate (which came to 0.85% for tariff year 2019): only those involved in distribution are differentiated according to the size of the company and the density of its customers, with an efficiency-enhancement factor (X-factor) applied to them, also differentiated according to the size of the company.

Based on these principles, with resolution 128/2019/R/gas Arera approved the provisional reference tariffs for 2019 (based on an estimate of investments made in 2018), while approval of the definitive reference tariffs, which will take into account investments recorded in 2018 is due to be completed within the first quarter of 2020.

Within the consolidated scope of the Hera Group, at 30 June 2019, the companies Inrete Distribuzione Energia Spa, A Tutta Rete Srl, AcegasApsAmga Spa and Marche Multiservizi Spa operate in gas distribution and metering.

In the present financial statement, the revenue covering the underlying cost of amortisation related to investments made in 2019 is recognized on an accrual basis (and considered in addition to the Arera Vrt, which allows for a one-year lag in recognition).

Based on the elements described above, in the first half of 2019, revenues in gas distribution and metering for the Hera Group increased by 3.5 million euro over the previous half-year and amounted to 128.8 million euro. The result at 30 June 2019 includes an anticipation of the definitive reference tariffs and therefore reflects a reasonable estimate of the effects of tariff equalisation. Compared to the first half of the previous year, it also includes the consolidation of A Tutta Rete Srl, 100% held by Inrete Distribuzione Energia Spa. 1.4 million euro of this increase in revenues is linked to a rise, compared to the previous year, in the rate of return on invested capital, while the remainder is due to inflationary updates, reflecting investments and the increase in the consolidated scope.

Gas distribution and metering - regulated revenues	30 June 2019	30 June 2018	% change
Hera Group consolidated			
Revenue (mn€)	128.8	125.3	2.8%
Volumes (mn m3)	1,757.7	1,788.7	-1.7%
Average revenue per unit (€cent/m3)	7.33	7.00	4.7%

Revenues here refer to a 30 June 2019 Rab coming to roughly 1,095 million euro, covering assets owned by the Hera Group.

Electricity distribution: tariff framework

The 2019 tariff framework includes an update in the rate of return on invested capital for electricity distribution and metering, which was set by resolution 639/2018/R/com, for the 2019-2021 three-year period, at 5.9%, up 30 basis points over the rate applied in the previous period. 2019 is the last year of the first regulatory semi-period, covering 2016-2019 and based on the Comprehensive text containing indications for providing services in electricity transmission and distribution (Tit) introduced by resolution 654/2015/R/eel, which extended the duration of the regulatory period to eight years, while subdividing it into two distinct four-year periods (Npr1 2016-2019 and Npr2 2020-2023). This system calls for a decoupling between the tariff applied in the sales company's invoicing (the so-called "Mandatory tariff", identical nationwide) and the "Reference tariff", which expresses the operator's actual recognised revenue for distribution and metering. The recognised revenues are reached by "correcting" the invoicing revenues by applying specific tariff equalisation mechanisms, defined between single operators and the Energy and environmental services fund (Csea). The tariff method for Npr1, which since 2016 has extended the recognition of investments in commercialisation and low-tension metering on a unit basis, calls for investments made until the previous year (t-1) to be included in the Rab for year t (and in the corresponding remuneration). Recognised operating costs, based on average sector figures set by Arera at the beginning of the regulatory period and updated annually using the so-called price-cap method (and adjusted for inflation and efficiency), dropped slightly compared to 2018, re-evaluated as they were according to an inflation rate of 0.85% and an efficiency component defined by an x-factor coming to 1.9% for distribution and 1% for metering.

In the context described hereto, during the first half of 2019, for the Hera Group companies operating in electricity distribution (Inrete Distribuzione Energia Spa and AcegasApsAmga Spa), Arera:

- definitively set, with resolution 76/2019/R/eel, the reference tariffs for 2018 distribution and metering (completing them, compared to the provisional tariffs approved the previous year, by including the investments definitively recorded for 2017 instead of the estimates and contributions for 2017);
- approved, with resolution 117/2019/R/eel, the provisional tariffs for 2019 distribution and metering, which are based on estimates for 2018 investments. The definitive reference tariffs for 2019 will be approved by the Authority within 28 February 2020 and will include the effects of contributions and investments definitively recorded for 2018, which operators will communicate to the regulator in the Rab statements sent in November.

Within this context, the Hera Group's 1H 2019 revenues for electricity transmission, distribution and metering amounted to 46 million euro, essentially in line with the first half of 2018; volumes distributed dropped slightly. The increase in the rate of return on invested capital led to an increase in revenues coming to roughly 0.5 million euro and was partially offset by other factors (the recovery of previously due amounts included in the first half of the preceding year, adjustments for inflation, updates in capital costs and operating costs). Revenues for the first half of 2019 also include the revenue covering the cost of amortisation related to investments made in 2017 and 2018, on an accrual basis.

Electricity distribution, metering and transmission - regulated revenues	30 June 2019	30 June 2018	% change
Hera Group consolidate			
Revenue (mn€)	46.0	45.8	0.4%
Volumes (mn kwh)	1,509	1,515	-0.4%
Average revenue per unit (€cent/kwh)	3.05	3.03	0.7%

These revenues refer to a Rab for electricity distribution and metering estimated at roughly 366 million euro, predominantly related to assets owned by the Hera Group.

Water cycle: tariff framework

2019 is the last year of the four-year tariff period Mti-2, defined by the Authority with resolution 664/2015/R/idr. National tariffary regulation of the water system was introduced by the Authority beginning in 2012, with an initial two-year period (2012-2013) consisting of transitory regulations (Mtt), a following, fully functional two-year period (2014-2015; Mti) and a second regulatory period, 2016-2019 (Mti-2). Regulations for 2016-2019 are in line with those for 2014-2015; each operator is assured a revenue (Vincolo ricavi del gestore - Vrg) defined on the basis of the operating (adjustable according to efficiency, and exogenous) and capital costs according to the investments made, guaranteeing revenues independently from changes in volumes distributed; this is ensured by a tariff balancing mechanism that allows operators to recover (in the Vrg for the following two years) the differences between the recognised Vrg and the amount actually invoiced, based on the volumes sold.

Recognised operating costs are subdivided into: a) endogenous costs (for which an efficiency factor has also been included), b) exogenous and updatable costs, mainly concerning the cost of electricity and fees; the former refer to 2011, applying the Foi inflation rate published by lstat; the latter are updated by referring to the appropriate tariffary year and act as a balancing element, to recover any deviations between the figures included within the Vrg and that which was actually sustained and recognised.
Capital costs refer to investments made up to two years earlier, and cover the costs of amortisation as well as the costs of the corresponding financial and fiscal charges.

In this financial statement, the revenue covering the underlying cost of amortisation related to investments made as of 2016 is recognized on an accrual basis.

Revenues from tariffs rose compared to 2018 by 0.6%, which includes an increase due to 2019 tariff adjustments and a decrease related to non-recurring items recorded the previous year.

Hera Group consolidate water cycle - revenues from tariffs	30 June 2019	30 June 2018	% change
Revenues from tariffs (mn€)	308.3	306.4	0.6%
Volumes (mn m3)	138	143	-3.6%
Average revenue per unit (€cent/m3)	223.4	214.6	4.4%

Urban waste: tariff framework

The urban waste management service is offered on the basis of conventions established with locally defined Agencies that regulate, in addition to the form and organisation of the service, the economic aspects of contracts. The sum pertaining to the operator for services offered is defined annually, in line with the provisions of Dpr 158/1999, integrated, beginning in 2013, by regulations concerning first the Tares and then the Tari and TCP (Tariffa corrispettiva puntuale; unit pricing).

Through tariffs applied to citizens, single Municipalities (if the Tari is applied) or operators (if the TCP is applied) purchase resources covering the costs sustained in carrying out services in sweeping, collection and disposal; with the Tari, control and payment collecting were assigned to Municipalities who, in some cases, entrusted them to Hera.
Out of respect for the principle of continuity in public services, and pursuant to conventions currently in force, the operator is required to continue offering services in areas in which the assignment's deadline has already passed, until new assignments are made; for expired concessions, the locally defined agencies responsible have already initiated the procedures for new assignments.

In June 2019, urban waste management services were offered in 190 Municipalities, 25% of which chose to entrust Tari controls and payment collecting to the Hera Group, with 8% choosing to pass over to the TCP.

A comparison between the corresponding, consolidated data of the Hera Group shows the following figures:

Hera Group consolidate urban waste - revenues from tariffs	30 June 2019	30 June 2018	% change
Revenues from tariffs (mn€)	264.1	254.6	3.7%
Inhabitants served	3,209	3,134	2.4%
Average revenue per unit (euro/inhabitant)	82.3	81.2	1.3%

Regulated revenues in urban and similar waste management services fell by 3.7% owing to PEF updating and a few changes in scope of operations, the most important of which was the entry of Cosea Ambiente Spa.

1.08 Trading and procurement policy

Gas consumption increases: +3.7%

In the first half of 2019, the national natural gas market saw overall consumption rise by 3.7% over the same period in 2018, with an increase coming to roughly 1,400 mn m^3. This growth is mainly due to gas consumption involved in electricity generation: in the first half of 2019, consumption in thermoelectric plants rose by 15.9% over the same period in the previous year, corresponding to a roughly 1,700 mn m^3 increase. Industrial consumption, instead, did not change significantly compared to the first half of 2018. As regards household consumption, climatic factors led to a drop in consumption, down roughly 200 mn m^3 or -1.1% in the first half of 2019 compared to the same period in the previous year.

Portfolio optimisation

These same climatic factors naturally had an impact on Group sales, which rose in January but then dropped significantly, especially in March.

In the first half of 2019, trading was oriented on the one hand towards optimising the portfolio, with a view to balancing short-term positions, and on the other towards negotiating and managing new procurement contracts for the 2019-2020 thermal year.

Going into further detail, short-term adjustments, supported by an accurate forecast of upcoming demand, were carried out through purchase or sales agreements at the Virtual exchange point (Psv-Italy), the Virtual trading point (Vtp-Austria), the Title transfer facility (Ttf-Holland) and Net connect Germany (Ncg-Germany). The conditions for these transactions were generally favourable and allowed objectives in terms of expected results to be met.

As of April 2019, Hera Trading initiated gas procurement procedures aimed at both filling the storage capacity purchased by auction, with roughly 0.30 billion m^3, and providing gas destined to the free market for the Group's sales companies for the 2019-2020 thermal year, with roughly 1.1 billion m^3, sourcing it directly from the spot and futures markets; at 30 June, this activity is ongoing.

Modulated gas negotiation amounts to roughly 1.0 billion m^3

At 30 June, negotiations are also ongoing for modulated gas intended for the protected market delivery points (so-called Remi) of the Group's sales companies. The total amount will reach roughly 1.0 billion m^3 for the 2019-2020 thermal year. The volumes negotiated will depend on market conditions. Supply price lists are in line with the economic conditions used for end customers, thus creating a natural protection against price risk.

Electricity consumption increases:+0.5%

In the first half of 2019, demand for electricity was essentially stable compared to the previous year, showing only a slight increase coming to 0.5%.
As regards electricity generation, the first half of 2019 saw a significant increase in thermoelectric production, coming to +5.7 TWh (+7.4%). An equally noteworthy rise was seen in wind power and photovoltaic generation, which respectively increased by 16.2% (+1.57 TWh) and 12.6% (+1.1 TWh). This rise was offset by a decrease in hydroelectric power coming to 4.64 TWh or -18.1%. The foreign energy balance showed a drop in net imports amounting to 4.30 TWh or -18.3%.
Observing market prices for electricity in the first half of 2019, one notes a significant decrease: the average monthly PUN came to 52.13 €/MWh, while in the same period of 2018 the average PUN was 53.84 €/MWh. This trend is mainly due to the sharp fall seen in the price of gas over the half-year, which brought about a decrease in marginal costs for generation in thermoelectric plants.

Electricity market reform

During the first half of 2019, Terna began fixed-term procurement of dispatching resources for parties holding Mixed Virtual Units (UVAM) pursuant to Arera resolution 300/2017/R/eel, with authorised access to the Dispatching Services Market for 2019 and for portions of the year or for single months.
Hera Trading, acting as an aggregator, was awarded power coming to 6 MW for 2019 and a further 8 MW for portions of the year or for single months.

Electricity trading performance

As regards electricity and Environmental Certificate trading, an improved performance was seen in the first half of the year, in terms of both earnings and average valorisation of import capacity, compared to same period in 2018. Particular attention was given to the management/optimisation of Hera Comm's purchasing portfolio, through transactions on the Stock exchange and on Over the counter (Otc) platforms.

Price risk management

Commodity and exchange risk management once again proved to be particularly effective, even in a context marked by high volatility in the price of oil and in the euro-dollar exchange rate.

1.09
Commercial policy and customer care

The Group's customer portfolio grew by 5% in the first half of 2019 as compared to the same period of the previous year.
The number of customers increased across all services, especially electricity: the quality of service, portfolio of competitive offers and many innovative options for the efficient use of energy have enabled the Group to gain over 130 thousand new customers (+13.3%).
Gas customers grew by more than 55 thousand (+4%): this result is due to the Group's ongoing commitment to commercial activities and its achievements in winning tenders on last resort markets. The inertial, approximately 0.3% growth in water service customers has been confirmed.

Delivery Point	30-Jun-19	30-Jun-18	Delta pdf no.	Delta pdf %
Gas	1,469.90	1,412.80	57.1	4.00%
Elect.	1,148.10	1,013.60	134.5	13.30%
Water	1,465.30	1,461.00	4.3	0.30%
Dist. Heating	12.20	12.2	0	0.30%

Data expressed in thousands

In 2019, the volume of contacts managed by Group channels increased: in the first half of the year, the value stood at approximately 3.6 million contacts, up compared to the same period in 2018.
This increase encompassed all the primary contact channels.
The proportion of contact taking place through the My Hera app doubled.
The Hera Call Centre has significantly improved its level of service for both business and residential customers. Even with an overall increase in contacts handled by the call centre, the number of calls answered remained high (95.6% vs 95.5% in 2018).
The average waiting time at the help desks stayed steady at just under 9 minutes.
The continuous work to improve quality in interactions with final customers that the Group has been carrying out for years in all the contact channels led to a further improvement in customers' perceptions of quality in 2019. According to the customer satisfaction survey, in fact, the score achieved by the branches was 88.8 (88 in 2018), followed by the family call centre with a score of 88.1 (86.5 in 2018) and the business client call centre (soho/sme) of 84.9 (81.1 in 2018).

Below are the main help desk and call centre indicators (Hera).

Average wait time - Contact centre *no interactive voice response (sec.)*	1st sem.19	1st sem18	1st sem19
Residential customers	31	43	33
Business customers	49	32	28
Average wait time - help desks (min,sec)	**1st sem.19**	**1st sem18**	**1st sem19**
Average	10	8	9

1.10
Financial policy and ratings

Good performances on financial markets

The first half of 2019 was highly positive for financial markets, with performances exceeding 10% on most stock markets in developed and emerging countries and for corporate credit. Indeed, such a strong rally had not been recorded since 2009-2010, when the world economy was recovering from the trauma of the financial crisis, the Fed was implementing quantitative easing and market quotations were at historical lows.

Monetary policy "shield"

These good performances seem to have been fuelled by reinforcements in the "shield" provided by monetary policy, which was more expansive than expected at the Fed, the ECB and other central banks in developed countries, and by the intensified measures taken to stimulate the macroeconomic situation in China. The crucial difference with respect to the similar "policy shield" seen in December 2018 / January 2019 is that financial markets have already priced in an aggressively expansive monetary policy, more than communicated until present by the central banks.

This "shield" is all the more important considering that the macroeconomic scenario is still mediocre, with growth in the global economy dropping below the annual rate of 3% in the second quarter.

High risk of a downward trend in growth

The risk of a downward trend remains in the world economy, with the industrial sector and international trade representing the weakest points. In a similar way, the sentiment surrounding prospects for expansion in the eurozone is still generally bearish on account of the prolonged presence of uncertainty regarding geopolitical factors, the rising threat of protectionism and vulnerability in emerging markets.

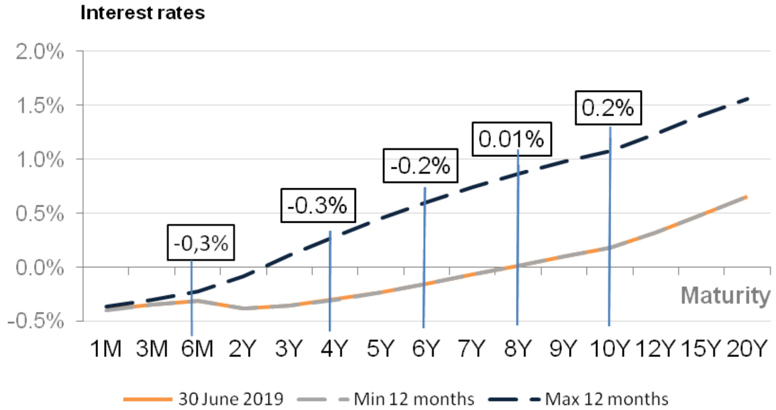
BCE prepared to intervene to bring inflation to 2%

According to the Board of the ECB, inflation is still far from its target, i.e. reaching a rate just under 2% over the medium term. Therefore, if the European economy does not show signs of improvement, the ECB is ready and prepared to loosen its monetary policy to a greater extent, recalibrating all available instruments in the most appropriate way, in order to ensure that inflation continues to gradually move towards the desired rate. The measures that the ECB might potentially deploy include a further cut in interest rates over the next six months, in addition to the quantitative easing program, which still has considerable headroom. Indeed, if the growing macroeconomic uncertainty were to give additional confirmation of its negative impact on price stability, further monetary stimulation and measures to offset any sort of collateral effect would prove necessary.

The latest statements given by the President of the ECB, during the Forum held on 18 June in Portugal, had a particularly significant impact on financial markets, bringing a few European government securities, mainly French and German, and the mid-swap yield curve to historical lows, with negatives rates on those maturing within up to 7 years.

The Fed also seems prepared to open a rate cutting cycle as "insurance" against an excessive economic slowdown.

Yield curve at 30 June 2019



The 10-year Btp-Bund spread, a benchmark for measuring the cost of new long-term funding, increased sharply in May due to political uncertainty in Italy, but by late June stabilised close to the level seen one year earlier, around 243 bps. Hera Spa's 10-year spread also remained consistent with the previous year, at around 123 bps, which thanks to the consolidated confidence shown by investors and the Group's positive credit rating remained approximately 120 bps lower than the Btp-Bund spread over the same period.

10Y Btp-Bund spread vs. Hera spread

10Y Btp-Bund spread vs. 10Y Hera spread

Financial risk management strategy

The Group constantly pursues a financial management capable of maximising its yield profile while maintaining a cautious risk strategy. The average cost of debt is continually optimised through forms of liability and financial risk management aimed at seizing favourable market opportunities.

Efficiency and sustainability

The value given to sustainability leads the Group to carefully pursue long-term planning for its financial resources, cash flows and debt, by way of a vision covering longs periods of time that allows tangible financial, social and environmental actions to be planned.

Green Bond

In June 2019, all preparatory activities were completed for the issuance of a new green bond, which took place on 5 July. The bond's overall nominal value comes to 500 million euro, repayable over 8 years (2027), with the coupon set at 0.875% and the rate of return at 1.084%. The bond was listed on the Dublin and Luxembourg regulated stock exchanges and on Borsa Italiana's Extra Mot platform. The transaction saw significant

participation coming from international investors (mainly France, Germany, Great Britain and Holland), most of whom are oriented by "green" and "sustainable" principles. The green bond was issued according to the guidelines provided in the new "Green Financing Framework", a programming document for the Hera Group's "green" and "sustainable" financial instruments. The Green Financing Framework, available on the Group's website, indicates: the process through which the issuer defines its Green projects, a description of the broadest categories of Green Projects that will be financed or refinanced through the capital raised, the process through which the financial flows are allocated and can be traced, the reporting process and the projects' KPIs.
The funds raised by the new 2027 bond will be used to finance or refinance numerous projects, already ongoing or included in the Business plan to 2022, which pursue some of the goals on the UN's 2030 Agenda in the areas of energy efficiency, circular economy, sustainable waste management and water infrastructures.

A list is provided hereunder of the policies and principles involved in 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 potential failure to meet its financial obligations, due to an inability to obtain new funds or sell assets on the market.
The Group's objective is to ensure a level of liquidity which makes it able to meet its contractual obligations under both normal and critical conditions by maintaining available credit lines, 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, in their 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	30 June 19			31 Dec 18		
(mm€)	from 1 to 3 months	from 3 months to	from 1 to 2 years	from 1 to 3 months	from 3 months to	from 1 to 2 years
Bonds	14	471	70	38	471	70
Debts and other financial liabilities	82	62	62	78	65	63
Trade payables	1,109	0	0	1,360	0	0
Total	**1,205**	**533**	**132**	**1,477**	**536**	**133**

In order 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 30 June 2019 the Group had 619 million euro in liquidity, 300 million euro in unused committed lines of credit, 350 million euro in medium-long term lines of credit stipulated in December 2018, of which 225 million euro currently used, and a substantial amount that can be drawn down under Hera Spa's uncommitted lines of credit (roughly 542 million euro).
The lines of credit and the corresponding financial assets are not concentrated on a specific lender, but distributed among major Italian and foreign banks, with usage much lower than the total available.

Average time to maturity 6 years, with 61.5% of debt maturing beyond 5 years

The Group's financial structure is both solid and well-balanced in terms of its composition and time to maturity, bringing liquidity risk to a minimum even in the event of particularly critical scenarios.
The amount of debt maturing within the year comes to 15.2% and the amount of long-term debt comes to roughly 84.8% of total financial debt, of which approximately 75% consists in bonds with repayment at maturity. The average term to maturity is approximately 6 years, of which 61.5% maturing beyond 5 years.

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

Nominal debt flow mn€ (*)	30 June 19	30 June 20	30 June 21	30 June 22	30 June 23	Over 5 years	Total
Bonds	395	0	290	68	0	1,867	2,620
Bank debt / due to others	136	52	211	59	133	282	874
Total	**531**	**52**	**501**	**127**	**133**	**2,149**	**3,494**

* Rolling year with respect to the date of the financial statements

Default risk and debt covenants

No financial 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.

At 30 June 2018, 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 a commitment towards bondholders preventing 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 of debt coming to roughly 150 million euro can be rated below investment grade (BBB-) by even one rating agency.

Change of control & investment grade

On the remainder of the debt, the acceleration clause is triggered only in case of a significant change of control of the Group, a withdrawal of concession event or a sale of assets event that entails a downgrading to non-investment grade, or lower, i.e. the termination of the publication of the rating.

Interest rate risk

A model of active and prudential interest rate risk management

The Group uses external funding sources in the form of medium- to long-term financial debt and various types of short-term credit lines, 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 technical 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 deriving from its characteristic management.

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

The Group's exposure to interest rate risk, including the effect of derivatives, comes to 17.5% of total borrowings, while the remaining 82.5% is at fixed rates.

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

82% of debt at fixed rates

Gross borrowings (*)	30 June 19			31 Dec 18		
mn€	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
Fixed rate	2,805	2,818	82%	2,808	2,824	85%
Floating rate	611	599	18%	508	491	15%
Total	**3,417**	**3,417**	**100%**	**3,316**	**3,316**	**100%**

* Gross 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). The Group currently 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 Spa has been given a long-term 'BAA2 stable outlook' by Moody's and a 'BBB positive outlook' by Standard & Poor's (S&P).
On 14 June 2019, as part of its annual review, S&P confirmed the Group's rating and outlook, defined as BBB/A-2 with a positive outlook.
The results reached in 2018 allow the Group's creditworthiness indicators to improve to a greater extent than expected. The positive outlook indicates the possibility of an upgrade for Hera Spa in the upcoming 12-18 months, if the indicator Adjusted FFO/DEBT comes to over 23%, while respecting a prudent strategy in financial management.
Hera Spa's outlook could be revised in the event that Italy were to be given a further downgrade, from BBB to BBB-, given that Hera Spa's rating, according to the metrics used by this Agency in its evaluations, cannot exceed the sovereign rating by one notch.

The rating given by Moody's one notch above the sovereign rating

The credit opinion given to Hera by Moody's on 27 June 2019 confirms the Group's BAA2 stable outlook rating. Thanks to the results reached in 2018, its creditworthiness indicators are above the level indicated by the risk limits.
No upgrades are expected as long as the sovereign rating remains one notch lower than the rating given to Hera Spa.
Hera Spa's risk profile has been positively evaluated by Moody's, in terms of the solidity and good balance of the portfolio of businesses managed, as well as its good operating performance, its lack of liquidity risk and its resilient creditworthiness indicators, thus maintaining its rating higher than the sovereign rating. And yet, Hera Spa's rating is closely related to Italy's since the majority of its Ebitda derives from domestic business and is thus exposed to the country's macroeconomic trends and its political scenario. Therefore, no upgrades are expected as long as the sovereign rating remains two notches lower than the rating given to Hera Spa.
Given the current context and the prolonged uncertainty as to the prospect of sovereign risk, Hera Spa's actions and strategies are always particularly prudent and aimed at guaranteeing that adequate ratings are maintained and improved.

1.11
Development and technological innovation

In the area of development and technological innovation, projects continued to involve the circular bio-economy, energy efficiency enhancement and safe, sustainable and smart city aspects in order to upgrade the services offered to citizens and foster the Group's industrial growth. In addition, the development of data analytics projects in support of business processes was further strengthened.

Biomethane and bioplastic

With a view to developing the circular economy, the Group continues to research technologies to obtain advanced biofuels and biomaterials derived from biomass. Tests of thermal pre-treatment and anaerobic digestion of yard wastes have yielded encouraging results that have led to the formulation of an industrial-scale project authorized to begin its process by the end of the year.
In addition, a joint development project was launched with a leading bioplastics (bio-on) production company, aimed at developing a technological process capable of converting waste biomass or gas (hydrogen green and carbon dioxide) into biopolymers.

Senseable Dep

The Senseable Dep project is aimed at creating a computer platform for monitoring purification processes; through the installation of appropriate sensors, this project will provide the information for simplified dashboards designed to summarize in a few indicators the "relative health" of the purification process from a biological, hydraulic and energy point of view. After completing the testing and tuning phase for the Forlì purification plant, during the first part of the year inspections were carried out to extend the initiative to the Emilia-Romagna purification plants with a size greater than 100,000 pe (population equivalent) by the end of the year.

Smart Waste PUNTOnet

The outdoor prototype of the multifunctional urban waste collection point PUNTOnet was set up during the second half of 2018 in the town of Castel Bolognese. The trial, which involves 50 households, will continue until the second half of 2019, allowing us to collect data, feedback and results on its 12 months of on-site operations. The multi-functional collection point is remote controlled and allows continuous monitoring of the waste being dropped off, while the quality of the waste is determined through detailed product analysis carried out periodically. The evolution of the multifunctional collection point introduces new services: a locker for storing and receiving parcels, pedal-assisted bicycles, sensor boxes for monitoring air quality and noise, connectivity and video cameras for monitoring the local area.

Environmental monitoring

Thanks to the management of the air quality monitoring network installed in the Castel Bolognese area, it is possible to document trends in the main pollutants, with particular interest in how they change over the course of the day. The collected data were correlated with energy consumption and vehicle flow data in order to understand how much each emission source, heating and traffic, contributes. This evaluation has shown that the burning of biomass in stoves (or similar) used for heating makes a major contribution to pollution; the traffic sector also has an impact on pollution, in particular the transit of light commercial vehicles.
These assessments will continue throughout the year and will be supplemented with satellite analyses to assess how pollutants are distributed in space, in order to identify the main emission sources of pollution and consequently assess prevention and mitigation measures.

Municipal Dashboards

The Dashboard, an IT platform designed to integrate local services developed in 2018 for the Castel Bolognese area, has been refined in terms of graphics and improved with an eye to enhance the user experience so as to be more intuitive and dynamic. As part of this platform, the services and functions designed specifically for the Public Administration have been expanded: environmental monitoring, energy monitoring, environmental passport (an innovative tool that identifies the state of health of the local area with respect to the indicators laid out in the "Bologna Charter for the Environment" and suggests measures for improvement), monitoring of waste collection and management of the PUNTOnet platform services.

Currently, the Data Analytics projects underway include: a) analysis of the consumption behaviour for the services offered; b) development of NLP (Natural Processing Language) algorithms for social/web data; c) construction of forecasting models for network asset management.

Other initiatives

The use of the web platform open to all employees to collect, comment on and evaluate innovative ideas and proposals continues, with more than 1500 employees participating continuously in the initiative.

A 1.5 kWel micro-cogenerator with fuel cell technology (an electrochemical device capable of transforming the chemical energy contained in a fuel directly into electrical energy with the possibility of heat recovery) has been installed at the Ferrara site in order to verify its functionality and energy conversion yields (electrical efficiency of 60%). This device is considered potentially advantageous by virtue of its high efficiency independent of size and the fact that it involves no polluting and acoustic emissions (there are no moving parts).

1.12
Quality, safety, environment and privacy

During the first half of 2019, in the area of privacy and logical security management the safeguards for the ensuring information security were strengthened by updating the policies and the document system; in particular, this update involved assessing the privacy impact of data processing with a view to "privacy by design" and the management of data breaches by verifying the relative maturity of the measures in place are and how well logical security is protected.
The Group has begun an important activity of monitoring the application of the NIS directive in order to prevent safety accidents that could compromise the continuity of services.
Specific refresher training continued for the heads of the organisational units responsible for data processing, training which involved the entire Group.
A specific e-learning module has been developed for authorised personnel.
In the first half of 2019, Bureau Veritas Italia carried out a verification for the retention of the quality, safety and environmental certifications of some companies in the Hera Group including Hera Spa, Herambiente Spa, Inrete Distribuzione Energia Spa and Heratech Srl.
The second edition of the Group Review was brought to the attention of the Risk Committee, and this report presents the results of the assessment of environmental risks (for the first time, drawn up according to a shared methodology consistent with the Group's Erm method) as well as health and safety risks.

In addition, with the aim of obtaining the Iso 37001 certification for Hera Spa, gap analysis activities were initiated and the management system for preventing corruption was subsequently implemented.
The management continued to foster alignment with other Group companies on cross-cutting issues and to coordinate the activities of the certification body, BVI, in order to promote a an unambiguous and common approach.
In terms of health and safety, the project for a new contract for the Group's health monitoring system was launched and will be fully implemented with implementation at AcegasApsAmga Spa starting January 1st 2020.

The main initiatives undertaken to continuously improve health and safety performance are as follows:
"Culture of safety", aimed at training and raising awareness among workers, in particular in relation to safe and informed behaviour; this project is pursued in part through innovative and engaging methods of communication. These initiatives will be used in the training sessions scheduled to begin in September 2019;
"Hera si muove sicura" (Hera moves safely), to reduce the incidence of road accidents, provides for a specific road risk assessment to be carried out in the second half of 2019 and other specific training initiatives (updating the educational magazine "Guido come vivo" (I drive like I live), pilot project for a safe-driving course).
"Hera cardioprotected", which in agreement with the Group's employers, involves installing automatic defibrillators at the main sites (with the related training of the necessary personnel) and management of equipment maintenance activities.
"Management of personal protective equipment", which involves setting up a dedicated computer system to manage work attire and personal protective equipment in order to optimize the process and to ensure regulatory compliance for employers.
With regard to physical security activities, the meetings for sharing the results of the physical security risk analysis of assets were completed with all the business units involved and an overall plan of risk mitigation measures was drawn up.

1.13
Information systems

As part of the extension of Group information systems to new companies (IT harmonization), the multi-year plan for AcegasApsAmga Spa has now been completed. Now that the roll-outs for the core systems of distribution, electricity and gas, and geo-business intelligence have been completed, the Group has begun rolling out the systems relating to health surveillance and payroll and attendance, which are expected to be completed by the first quarter of 2020. For the Marche Multiservizi Spa company, the roll-out of integrated water service and gas distribution systems continued, including remote reading and remote meter management systems; implementation activities began in December 2018 and are expected to be completed by the beginning of 2020; in June 2019, the plan to harmonise infrastructure services was released for production. Finally, work was completed to harmonise the infrastructure of the company Waste Recycling Spa and port it to the platforms used by Herambiente Spa.

Regulatory adjustment

During the first half of 2019, numerous planning initiatives were developed and released for production to bring the Group's systems into line with regulations; the main ones included: electronic invoicing (Decree Law 205/17), reform of the switching process in the gas market (Resolution 77/18), refinement of the regulations governing arrears on electricity and gas (Resolution 376/17), and provisions regarding the centralised management of measurement data as part of the integrated information system (Resolution 488/18).

Efficiency and business support

Developments in terms of the efficiency of processes and supporting business continue to be made. The most significant initiatives completed in the first half of 2019 are: the pilot project on the "digital workplace" aimed at evolving workstations with a view to increasing efficiency and full cooperation and internal sharing in compliance with safety requirements ; the "global waste management and sales force support" initiative that allows Herambiente Spa to optimally support client companies, manage and configure offers in an integrated manner and interactively manage pre-sales and after-sales relationships between commercial entities and customers; and the "platform for enterprise portals" project that led to introducing a new platform that will contain and manage all of the Hera Group's web portals. A new tool for relations with local authorities has also been set up, and its application makes it possible to manage relations with stakeholders in a more agile and collaborative way. Finally, four robotic process automation projects have been launched to automate and streamline certain processes; production is scheduled to begin in the second half of 2019.

Updating information systems

As part of the process of continuous technological innovation and improving the performance of the Group's information systems, activities were carried out to upgrade various platforms, in particular the management system for memory-stored databases and the one for process integration.

Information system safety

Our commitment to preventing and monitoring potential cyber-attacks is ongoing, by conducting periodic network vulnerability assessments (NVA) and carrying out web application penetration tests (WAPT) for every planned new system/service that renders data vulnerable on the internet.
The scope of the security operation centre (SOC) service has also been extended. Among others, the "abuse" service was activated to report and analyse suspicious emails.
The information security risk awareness-raising campaign also continues. In fact, in June 2019 the fourth ethical phishing campaign was carried out involving a population of 6,590 Hera Group employees.

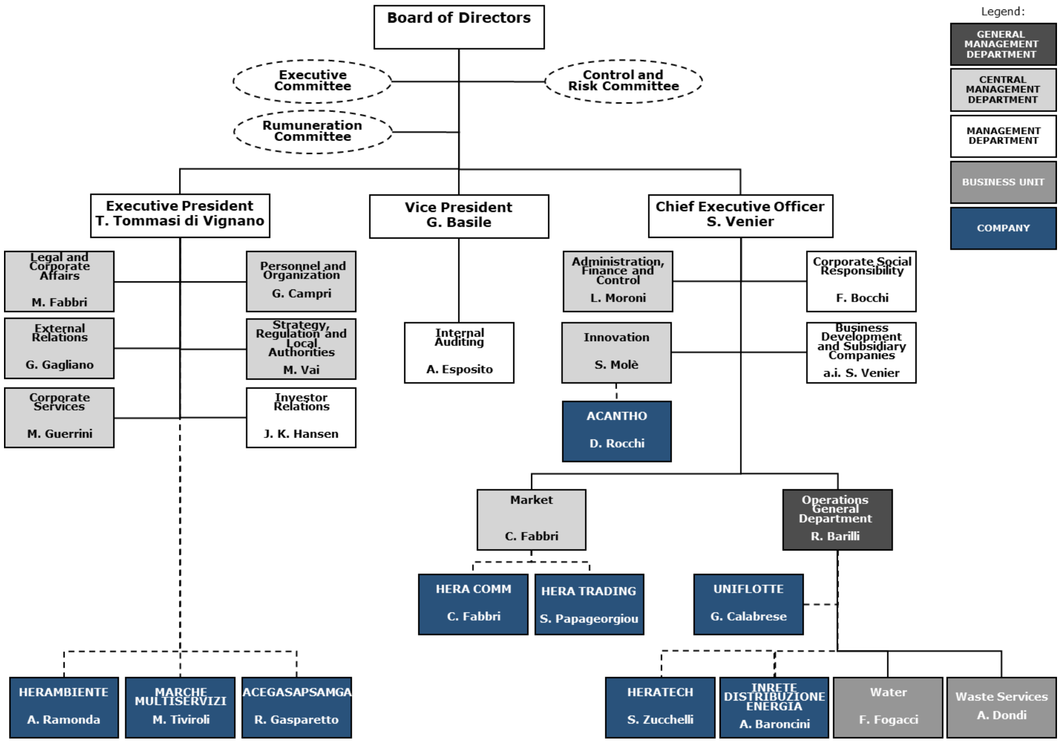
Quality certification and auditing

A third party audit (BVI certification body) was successfully performed in April 2019 to renew the certification of the Hera Group's ISO standards. As every year, the audit involved all the processes for which the Information Systems Department is responsible: no findings were reported in this area and the objective evidence gathered as part of this audit enabled the findings from the 2018 audit to be resolved.

1.14
Personnel structure, industrial relations, development and staff training

Human resources
Hera Group's employees with open-ended contracts as of 30 June 2019 equal 8,759 (consolidated scope) and are distributed by role as: executive managers (148), middle managers (539), office clerks (4,725), and workers (3,347). In 2019 this structure is the result of 208 entries and 183 exits as well as changes in company structure involving an increase equal to 112 individuals (Sangro Servizi, CMV, ATR and Cosea). Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

Organisation



At a general level, the process initiated in 2018 focused on enhancing the organizational agility of the Group was consolidated: in fact, all the organizational development initiatives are geared towards simplifying organizational levels, streamlining processes, identifying possible opportunities for synergy, and continuously pursuing agility and service excellence.

Specifically, during the first half of 2019 an organizational evolution was planned starting from April 1st 2019 which, by optimizing staff structures in general, led to further strengthening the overall governance of tenders and related technical-economic aspects, accelerating the development of circular economy initiatives, improving the monitoring of technological aspects and their operational effects, and enhancing our understanding of the external context and the development of targeted engagement initiatives.
Also with regard to environmental services and with effect beginning May 9th 2019, Cosea Ambiente Spa was placed directly under the Environmental Services Department of Hera Spa. Cosea is a company that manages the collection and transport of waste from separate and undifferentiated waste collection, street sweeping and picking up bulky waste, mainly in the province of Bologna.
In the energy distribution sector, with effect beginning March 1st 2019, the gas distribution company A Tutta Rete Srl was integrated directly into Inrete Distribuzione Energia Spa
Finally, with effect beginning July 1st 2019, the business unit involving the activities and resources relating to managing the vehicles and equipment of the scope of AcegasApsAmga was transferred to Uniflotte Srl.

As of June 30th 2019, preparatory activities are nearing completion for the merger by incorporation of Waste Recycling Spa into Herambiente Servizi Industriali Srl, which is effective beginning July 1st 2019.
Furthermore, as of June 30th 2019, the Concession Deed between Cosea Consorzio Servizi Ambientali and Herambiente Spa was stipulated, providing for the urban, assimilated and special waste disposal plant located at Gaggio Montano to be conceded to Herambiente Spa.

With regard to AcegasApsAmga, the organization was upgraded with effect from 1 July 2019 with the aim of further improving the services offered to users and customers, relations with stakeholders, market development and the company's predisposition to acquisition operations and expanding its scope.

In particular, the following changes were made:

- concentrating operations support activities in a single structure that works in collaboration with existing lines in the integrated management of economic aspects and the value given back to the local area, in integrating information systems management, and in providing direct support to network and facility operation and maintenance structures;
- focusing stakeholder relations activities into a single structure;
- integrating engineering structures with a view to developing a single, efficient supervisory function;
- creating the Energy Department, which is responsible for gas and electricity service;
- concentrating the aspects of human resources and work environment management in a single structure with a view to increasing supervision and improving the internal climate, also taking into account new working methods.

In the Central Market department, changes of note included:

- effective beginning March 2019, the partial proportional demerger of Cmv Energia and Impianti Srl into Hera Comm Srl and the start of the related process of gradual organizational integration aimed at reconciling Hera Comm Srl's entire current organizational model;
- effective beginning June 2019, the organizational optimization of the District Heating Department aimed at bringing the articulation of the Tlr Operational and Commercial Management department further into line with current business needs.

In the Central Entities and Innovation area, changes of note include:

- an organizational review of the Corporate Social Responsibility Department, renamed the Shared Value and Sustainability Department, aimed at further strengthening its focus on activities linked to creating shared value;
- with effect beginning June 2019, an organizational review of the Facility Management department aimed at strengthening the monitoring of "personal services", optimizing the maintenance services management model with a view to standardization and agile management and overseeing new projects and the development of innovative solutions;
- effective beginning July 1st 2019, the organizational optimization of the Information Systems Department aimed at simplifying and refocusing the various offices, particularly in terms of positioning Service Assurance and Application Maintenance activities.

Industrial relations

On April 5th 2019, the Group trade union agreement was signed regarding the application of the system known as black box. This system makes it possible to significantly increase driving safety, guarantee effective management of any emergencies or accidents that might occur, ensure greater protection of company assets and make the management and maintenance of company vehicles more efficient and effective.

On May 7th and 24th 2019 agreements were signed for all Hera Group personnel regarding the finalisation of the performance bonus indicators for 2018 and the identification of the new performance bonus indicators for 2019.

On May 7th 2019, the 2019 Group Training Plan was also presented and agreements on the 2019 Funded Training Plan were signed (for Hera Spa and its subsidiaries). On May 13th 2019, the examination procedure conducted jointly with the trade union organizations was completed in relation to transferring the business unit involving the activities of managing company vehicles from AcegasApsAmga to Uniflotte Srl. This transaction will make it possible to create a single management hub for the Hera Group company fleets and pave the way for the generation of important synergies.

In the Emilia-Romagna area, in accordance with the points laid out at the time of renewing the Gas and Water collective labour agreement on May 18th 2017, an agreement was signed in January 2019 regarding phasing out the so-called "Waste water purification allowance" for all Hera Spa and Heratech Srl personnel to whom the Gas and Water collective labour agreement applies. On February 7th 2019, agreements were signed concerning the application of economic and regulatory treatment in keeping with the second-level bargaining in force at the Hera Group for employees who moved from Hera Group to CMV Energia & Impianti Srl and for the employees of A Tutta Rete Srl. On February 27th 2019, the joint examination procedure was carried out concerning the merger by incorporation of Waste Recycling Spa into Herambiente Servizi Industriali Srl, effective beginning July 1st 2019. The Utilitalia Environmental Services collective labour agreement as well as the Group Supplementary Collective Bargaining currently in force will be applied to the relevant personnel.

On April 4th 2019, an agreement was signed for the year 2019 only for the staff of Hera Servizi Energia S.r.I. making it possible to bring the deadline of the Result-based Award in line with the Group agreement. On 8 May 2019, following CO.SE. A. . Environmental Services Consortium's concession of the landfill located in Gaggio Montano (BO) to Herambiente Spa, an agreement was signed which provides for an economic and regulatory treatment consistent with the second-level bargaining in force in the Hera Group to be applied beginning January 1st 2020. On June 11th 2019, following the acquisition of the entire share package of the shares of Cosea Ambiente by Hera Spa, an agreement was signed which provides for an economic and regulatory treatment consistent with the second-level bargaining in force in the Hera Group to be applied to Cosea Ambiente staff with effect beginning January 1st 2020.

In the Friuli-Venezia Giulia and Veneto area, agreements were signed during the first half of 2019 for the AcegasApsAmga Servizi Energetici Company aimed at harmonizing some arrangements such as, for example, working times, travel management, use of meals/cafeteria services, the accumulation and use of holiday days, leaves, etc., to phase out the previously existing methods and practices. During the month of February 2019, deductions related to the consumption of meals in Gorizia were brought into line with the value assigned in the other territories and areas where the Group operates. In relation to the scheduled renewal of the Water Gas collective labour agreement of May 18th 2017, an agreement was signed regarding phasing out the so-called "Waste water purification allowance" for all AcegasApsAmga personnel to whom the Gas and Water collective labour agreement applies. The trade union procedure established for transferring personnel after winning the waste collection and sweeping tender for the Municipality of Saccolongo (PD) was carried out. An agreement was also signed for the AcegasApsAmga Spa Funded Training and related training plan.

In the Marche region, trade union agreements were signed on financed training and 2019 company closures.

Development

In the first half of 2019, initiatives were launched to train employees and disseminate the leadership model, with about 5000 people involved in various ways. In the first half of the year, on-the-job training was also carried out for all Hera Group managers and executives. These initiatives and activities will continue in the second half of the year as well.

From January 2019, after a first pilot phase in 2018, Smart Working was launched for around 1500 employees, approximately 1000 are given the option to do their jobs through remote working.

Training

In the first half of 2019, a total of 110,068 hours of training were delivered at the Group level: 13 hours per capita, equal to approximately 53% of the overall target for 2019. Likewise at the Group level, approximately 92% of employees were already involved in at least one training activity. The economic investment, net of trainee and in-house trainer costs, amounted to 414,476 euros. These data show a significant commitment in terms of both finances and resources the Group has made to continuously valorising and developing its human

capital, including through the continuation of HerAcademy, the Group's Corporate University, and the further development of internal professional Academies.
As to HerAcademy programs, particularly noteworthy are the university orientation initiative and the initiative orienting participants to the world of work as well as the launch of the fourth year of a school-work scheme management model based on a work-and-school skills integration approach, in keeping with the renewal of the memorandum of understanding signed in 2015 with the Emilia-Romagna Regional Education Office.
As part of the HER@futura project, the set of initiatives for developing the digital skills of the corporate population continues, initiatives which are enabling a gradual increase in the Group's digital readiness; in addition, the Group launched its change management plan linked to the Digital Workplace project, aimed at improving the way people work together with the technological renewal and implementation of Office 365.

Welfare
On January 29th 2019, HEXTRA, the unified welfare system for all Hera Group companies that can be customized according to individual choice, was launched once again; it will remain active until 17 November 2019. All employees with fixed-term and open-ended contracts were awarded a flexible welfare sum of 385€ each.
In keeping with the previous year, an additional education quota for employees who have school-aged children, from kindergarten to high school, will be allocated for 2019 as well, along with the option of converting part of their 2018 performance bonus (up to 50%) into a further welfare quota without any tax liabilities;
The main new items introduced in 2019 concern:

- the third year of an individual study grant which, employing criteria of equity and meritocracy, was awarded on the basis of grades achieved during the 2017/2018 academic year, providing 44 study grants in the amount of 750€;
- the second edition of language-learning specialization courses in the world of interculturalism which, in addition to providing 10 scholarships worth 2,000 euros each for summer study programs, also set up 2 scholarships with 7,500 each for the entire academic year, abroad.
- the management of the sixth edition of summer centres for the children of employees. As part of this entirely positive initiative, all applicants have been offered an additional contribution to cover part of the enrolment and tuition fees they paid to attend summer centres, applicable to all local centres.
- Our collaboration with ANT, one of the most important foundations in the field of prevention, for preventive check-ups as part of the melanoma and thyroid project.

All of these choices demonstrate the Group's constant attention to its workers as a key factor in achieving its corporate objectives through continuous investment in the development of the Plan and they position us among the leading national companies in the field of corporate welfare.

2

Consolidated Financial Statements of the Hera Group

2.01
Financial statement formats

2.01.01
Income statement

mln/euros	notes	first six months of 2019	first six months of 2018
Revenues	1	3,371.6	2,966.7
Other operating revenues	2	249.0	209.8
Use of raw materials and consumables	3	(1,699.2)	(1,327.6)
Service costs	4	(1,075.1)	(1,031.6)
Personnel costs	5	(286.6)	(281.7)
Other operating costs	6	(29.8)	(30.3)
Capitalized costs	7	16.0	18.3
Amortisation, depreciation and provisions	8	(257.0)	(250.0)
Operating revenues		**288.9**	**273.6**
Share of profits (losses) pertaining to joint ventures and associated companies	9	6.5	8.6
Financial income	10	67.8	60.6
Financial expenses	10	(119.2)	(103.6)
Financial management		**(44.9)**	**(34.4)**
Earnings before taxes		**244.0**	**239.2**
Taxes	11	(70.1)	(72.0)
Net profit for the period		**173.9**	**167.2**
Attributable to:			
Parent company shareholders		166.2	158.1
minority shareholders		7.7	9.1
Earnings per share	**12**		
basic		**0.113**	**0.108**
diluted		**0.113**	**0.108**

Pursuant to Consob Resolution no. 15519 of July 27th 2006, the effects of relationships with related parties are accounted for in the appropriate income statement in paragraph 2.04.01 of this consolidated financial statement.

2.01.02
Statement of comprehensive income

mln/euros	notes	first six months of 2019	first six months of 2018
Profit (loss) for the period		**173.9**	**167.2**
Items reclassifiable to the income statement			
Fair value of derivatives, change for the period	20	(58.9)	15.0
Tax effect related to the reclassifiable items of the comprehensive income statement		16.2	(4.5)
Other business components valued using the equity method			
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	27	(2.6)	(0.7)
Tax effect related to the not reclassifiable items of the comprehensive income statement		0.3	0.3
Total comprehensive profit (loss) for the period		**128.9**	**177.3**
Attributable to:			
Parent company shareholders		121.5	168.0
minority shareholders		7.4	9.3

2.01.03
Statement of financial position

mln/euros	notes	Jun 30th 2019	Dec 31st 2018
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,962.7	2,003.7
Rights of use	14	113.0	-
Intangible assets	15	3,328.1	3,254.9
Goodwill	16	381.6	381.3
Equity investments	17	143.7	149.1
Non-current financial assets	18	132.0	118.4
Deferred tax assets	19	176.6	159.2
Derivative financial instruments	20	54.0	45.3
Total non-current assets		**6,291.7**	**6,111.9**
Current assets			
Inventories	21	149.5	157.3
Trade receivables	22	1,785.8	1,842.2
Current financial assets	18	52.5	37.3
Current tax assets	23	36.0	34.3
Other current assets	24	298.4	281.2
Derivative financial instruments	20	63.8	111.9
Cash and cash equivalents	18.31	619.4	535.5
Total current assets		**3,005.4**	**2,999.7**
TOTAL ASSETS		**9,297.1**	**9,111.6**

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

mln/euros	notes	Jun 30th 2019	Dec 31st 2018
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	25		
Share capital		1,471.5	1,465.3
Reserves		1,009.7	913.5
Profit (loss) for the period		166.2	281.9
Group net equity		**2,647.4**	**2,660.7**
Non-controlling interests		191.4	186.0
Total net equity		**2,838.8**	**2,846.7**
Non-current liabilities			
Non-current financial liabilities	26	2,787.5	2,672.4
Non-current leasing liabilities	14	93.0	12.2
Post-employment and other benefits	27	129.7	129.5
Provisions for risks and charges	28	470.2	458.6
Deferred tax liabilities	19	41.6	43.1
Derivative financial instruments	20	59.9	37.9
Total non-current liabilities		**3,581.9**	**3,353.7**
Current liabilities			
Current financial liabilities	26	596.9	609.9
Current leasing liabilities	14	17.9	1.7
Trade payables	29	1,109.3	1,360.4
Current tax liabilities	23	68.9	6.0
Other current liabilities	30	1,021.0	866.9
Derivative financial instruments	20	62.4	66.3
Total current liabilities		**2,876.4**	**2,911.2**
TOTAL LIABILITIES		**6,458.3**	**6,264.9**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**9,297.1**	**9,111.6**

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

2.01.04
Cash flow statement

mln/euros	notes	Jun 30th 2019	Jun 30th 2018
Earnings before taxes		**244.0**	**239.2**
Adjustments to reconcile net profit to the cashflow from operating activities			
Amortization and impairment of property, plant and equipment		87.5	81.6
Amortization and impairment of intangible assets		111.8	106.0
Allocation to provisions		57.7	62.5
Effect of valuation using the equity method		(6.5)	(8.6)
Financial (income) expenses		51.4	43.0
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)		(2.7)	3.1
Change in provisions for risks and charges		(16.2)	(15.7)
Change in provisions for employee benefits		(4.4)	(6.2)
Total cash flow before changes in net working capital		**522.6**	**504.9**
(Increase) decrease in inventories		7.6	(19.2)
(Increase) decrease in trade receivables		32.6	29.7
Increase (decrease) in trade payables		(270.3)	(306.8)
Increase/decrease in other current assets/liabilities		131.6	87.3
Change in working capital		**(98.5)**	**(209.0)**
Dividends collected		7.9	13.5
Interest income and other financial income collected		25.5	25.3
Interest expenses and other financial charges paid		(62.2)	(63.1)
Taxes paid		(10.8)	(12.8)
Cash flow from operating activities (a)		**384.5**	**258.8**
Investments in property, plant and equipment		(60.5)	(62.6)
Investments in intangible assets		(154.1)	(123.6)
Investments in companies and business units net of cash and cash equivalents	31	(0.6)	(8.3)
Sale price of property, plant and equipment		1.3	3.1
Divestments in consolidated companies and contingent consideration		-	15.9
(Increase) decrease in other investment activities		(24.9)	10.9
Cash flow from (for) investing activities (b)		**(238.8)**	**(164.6)**
New issue of long-term bonds	31	127.6	118.7
Repayments and other net changes in financial payables	31	(45.8)	27.6
Lease payments	31	(9.4)	(1.3)
Proceeds from the sale of shares without loss of control	31	-	1.8
Acquisition of interests in consolidated companies		(2.8)	-
Dividends paid out to Hera shareholders and non-controlling interests		(151.1)	(142.7)
Changes in treasury share		19.7	(33.6)
Cash flow from (for) financing activities (c)		**(61.8)**	**(29.5)**
Effect of change in exchange rates on cash and cash equivalents (d)		**-**	**-**
Increase (decrease) in cash and cash equivalents (a+b+c+d)		**83.9**	**64.7**
Cash and cash equivalents at the beginning of the period		535.5	450.5
Cash and cash equivalents at the end of the period		619.4	515.2

Pursuant to Consob Resolution no. 15519 of July 27th 2006, the effects of relationships with related parties are accounted for in the appropriate cash flow statement in paragraph 2.04.03 of this consolidated financial statement.

2.01.05

Statement of changes in net equity

mln/euros	Share capital	Reserves	Reserves derivatives valued at fair value	Reserves actuarial income/(losses) post-employment benefits	Revenues for the period	Net equity	Non-controlling interests	Total
Balance as of Dec 31st 2017	**1,473.6**	**828.5**	**4.1**	**(31.7)**	**251.4**	**2,525.9**	**160.2**	**2,686.1**
Revenues for the period					158.1	158.1	9.1	167.2
Other components of comprehensive income:								
Fair value of derivatives, change for the period			10.4			10.4	0.1	10.5
Actuarial income/(losses) post-employment benefits				(0.5)		(0.5)	0.1	(0.4)
Overall revenues for the period	**-**	**-**	**10.4**	**(0.5)**	**158.1**	**168.0**	**9.3**	**177.3**
Changes in treasury share	(7.7)	(19.2)				(26.9)	(6.7)	(33.6)
Changes in equity investments		1.5				1.5	0.3	1.8
Changes in the scope of consolidation		6.7		0.2		6.9	27.5	34.4
Allocation of revenues:								
Dividends paid out					(140.9)	(140.9)	(9.5)	(150.4)
Allocation to reserves		110.5			(110.5)	-		-
Balance as of Jun 30th 2018	**1,465.9**	**928.0**	**14.5**	**(32.0)**	**158.1**	**2,534.5**	**181.1**	**2,715.6**
Balance as of Dec 31st 2018	**1,465.3**	**926.8**	**16.5**	**(29.8)**	**281.9**	**2,660.7**	**186.0**	**2,846.7**
Adoption of IFRS 16		(4.5)				(4.5)	(0.6)	(5.1)
Balance as of Jan 1st 2019	**1,465.3**	**922.3**	**16.5**	**(29.8)**	**281.9**	**2,656.2**	**185.4**	**2,841.6**
Revenues for the period					166.2	166.2	7.7	173.9
Other components of comprehensive income:								
Fair value of derivatives, change for the period			(42.7)			(42.7)		(42.7)
Actuarial income/(losses) post-employment benefits				(2.0)		(2.0)	(0.3)	(2.3)
Overall revenues for the period	**-**	**-**	**(42.7)**	**(2.0)**	**166.2**	**121.5**	**7.4**	**128.9**
Changes in treasury share	6.2	13.5				19.7		19.7
Changes in equity investments		(0.9)				(0.9)	(1.9)	(2.8)
Changes in the scope of consolidation						-	11.9	11.9
Allocation of revenues:								
Dividends paid out					(149.1)	(149.1)	(11.4)	(160.5)

Allocation to reserves		132.8			(132.8)	-		-
Balance as of Jun 30th 2019	**1,471.5**	**1,067.7**	**(26.2)**	**(31.8)**	**166.2**	**2,647.4**	**191.4**	**2,838.8**

2.02
Explanatory notes

2.02.01
Accounting policies and evaluation principles

The bi-annual abbreviated consolidated financial statement as at June 30th 2019 of Hera Spa (hereafter also "Company") and its subsidiaries (hereafter also "Hera Group" or "Hera") 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, has been prepared in compliance with (EC) Regulation No. 1606/2002 of July 19th 2002, in observance of International Accounting Financial Reporting Standards (hereafter IFRSs), issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission, supplemented by the relevant interpretations by the International Financial Reporting Standards Interpretations Committee - IFRS IC), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

In preparing the bi-annual abbreviated consolidated financial statements, prepared in accordance with IAS 34 Interim Financial Reporting, the same accounting principles were adopted as those utilized in drafting the consolidated financial statements as at December 31st 2018, which should be consulted for more detailed information, except for what is described in chapter 2.02.02 "Adoption of IFRS 9".

The figures in this bi-annual financial statement are comparable with the same balances of the previous financial year, unless indicated otherwise in the notes commenting on the individual items. In comparing the single items of the income statement and statement of financial position any change in the scope of consolidation outlined in the specific paragraph must also be taken into account.

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

Information on the Group's operations and significant events occurred after the end of the six-month period is provided in the Directors' report.

This bi-annual abbreviated consolidated financial statement as at June 30th 2019 was drawn up by the Board of Directors and approved by the same at the meeting held on July 30th 2019. This financial statement undergoes limited auditing by Deloitte & Touche Spa.

Financial statement formats

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

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

Moreover, with reference to Consob resolution no. 15519 of July 27th 2006, 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 consolidated statement of financial position and income statement schedules and the information included in the explanatory notes are expressed in millions of euros, unless otherwise indicated.

Evaluation criteria

The preparation of the bi-annual abbreviated consolidated financial statement and related notes required 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. 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.

Going concern

The directors considered the applicability of the assumed going concern in drafting the consolidated financial statement, and decided that such assumption is fully satisfied in that there are no doubts about the going concern.

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 period, 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.

Depreciation

Depreciation is calculated on the basis of the useful life of an asset, determined at the moment that said asset is entered into the financial statement. Assessments of the length of the useful life are based on historical experience, market conditions and the expectation of future events that could affect this useful life, including technological changes. Therefore, it is possible that the actual useful life could differ from the estimated useful life.

Provisions for risks

These provisions were made on the basis of Group policy, with reference to up-to-date reports by the legal advisors and consultants that are following the cases, as well as on the basis of developments in the relevant legal proceedings.

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.

Fair value assessment and evaluation process

The fair value of financial instruments, both on interest rates and foreign exchange rates, derives from market prices. in the absence prices quoted on active markets, the method of discounting back future cash flows is used, taking the parameters observed on the market as reference. The fair value of derivatives contracts on commodities is determined using directly observable market inputs, where available. The methodology for calculating the fair value of derivative instruments includes the assessment of the non-performance risk, where relevant. All derivative contracts entered into by the Group are with leading counterparties.

It is also noted that certain valuation processes, specifically the more complex ones such as establishing any impairment of non-current assets, are generally carried out fully only for the preparation of the annual financial statements, except in cases where there are impairment indicators that require an immediate impairment test.

Income taxes are reported on the basis of the best estimate of the weighted average tax rate anticipated for the full financial year.

2.02.02
Adoption of IFRS 16

The new standard IFRS 16 - Leases (Regulation 2017/1986), effective beginning January 1st 2019, was published by the IASB on January 13th 2016, to replace the IAS 17 principle "Leases", as well as the IFRIC 4 interpretations "Determining whether an agreement contains a lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the substance of transactions in the legal form of a lease ".

This standard provides a new definition of leases and introduces a criterion based on the right of use of an asset to distinguish lease contracts from service contracts, identifying discriminating factors such as: the identification of the property, the right to replace it, the right to obtain essentially all the economic benefits deriving from the use of the property and the right to manage the use of the property named in the contract.

This standard establishes a single model for the reporting and valuation of leasing contracts for lessees, which provides for the entry of leased goods including operating leases among assets, with a financial liability as a balancing entry, while also providing the possibility of not applying this model to contracts relating to low-value assets and leases with a contract duration of 12 months or less (short-term leases). In contrast, the new standard does not include significant changes for lessors.

The Group has completed the impact assessment related to the introduction of the new standard as of the date it was first applied (January 1st 2019). This process was divided into several phases, including the complete mapping of contracts potentially suitable to incorporate a lease and their analysis in order to understand the main clauses relevant to IFRS 16.

The Group took advantage of the device provided for in paragraph C3, which allows it to use past results calculated on the basis of IFRIC 4 and IAS 17 to qualify operating leases for a specific contract. This device was applied to all contracts, as provided for in paragraph C4.

The process for adopting the standard also involved implementing specific IT applications aimed at the accounting management of the standard itself and aligning administrative processes and controls to monitor the critical areas on which the standard focuses.

And finally, the Group chose to apply this standard retrospectively, while recognising the aggregate effect of applying the standard in shareholders' equity as at January 1st 2019, in accordance with paragraphs C7-C13. In particular, with regard to lease contracts previously classified as operating leases, the Group recorded:

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

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

The following table shows the impacts that the adoption of IFRS 16 involved at the transition date:

mln/euros	Impacts at the transition date Jan 1st 2019
Non-current assets	
Right of use land and buildings	67.3
Right of use plants and machinery	4.2
Right of use other movable assets	19.5
Deferred tax assets	0.7
Current assets	
Other current assets	(0.2)
Total	**91.5**
Non-current liabilities	
Non-current leasing liabilities	82.7

Current liabilities	
Current leasing liabilities	13.9
Total	**96.6**
Retained earnings	**(5.1)**

The value of deferred taxes is to be considered provisional, since an ad hoc tax measure is being approved governing the way that the balances arising from the transition are handled with regard to income tax.

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

- electronic devices;
- furnishings.

For these contracts, the introduction of IFRS 16 did not entail recognizing the financial liability and the related right of use. The lease payments will thus be recorded in the income statement on a linear basis for the duration of the respective contracts. The fees paid for these types of contracts is additionally not significant as at June 30th 2019.

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

- used the assessment made as at December 31st 2018 in accordance with the rules of IAS 37 "Provisions, liabilities and contingent assets" when accounting for interest-bearing contracts as an alternative to applying the impairment test on the value of the right of use as at January 1st 2019;
- classified contracts expiring within 12 months of the transition date as short-term leases. For these contracts, the lease fees are recorded to the income statement on a linear base;
- excluded initial direct costs from the measurement of the right of use on January 1st 2019;
- used the information available at the transition date to determine the duration of the contract, with particular reference to extension and early closure options.

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

mln/euros	Jan 1st 2019
Commitments for operating leases as at December 31st 2018	**130.2**
Minimum payments for liabilities for financial leases as at December 31st 2018	15.6
Fees for short-time leases	(0.2)
Fees for low-value leases	(0.2)
Other changes	-
Non-discounted financial liability due to leases as at January 1st 2019	**145.4**
Discounting effect	(34.9)
Financial liability due to leases as at January 1st 2019	**110.5**
Current value of liabilities for financial leases as at December 31st 2018	(13.9)
Additional financial liabilities due to leases as at January 1st 2019	**96.6**

2.02.03
Scope of consolidation

The bi-annual abbreviated consolidated financial statement as at June 30th 2019 includes the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Equity investments in joint ventures in which the Hera Group exercises joint control with other companies as well as the companies over which the Group exercises significant control are consolidated with the equity method.
Small-scale subsidiaries are excluded from overall consolidation and valued at fair value recorded in other items of the comprehensive income statement. These companies are listed in note 17 under the item "Other minor companies".

The main exchange rates used to translate the value of foreign companies are as follows:

	Jun 30th 2019		Dec 31st 2018		Jun 30th 2018	
	Average	Specific	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.292	4.250	4.262	4.301	4.221	4.373

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the first six months of the 2019 financial year as compared to the consolidated financial statement at December 31st 2018:

Acquisition of control	Loss of control
"CMV Energia&Impianti Srl" compendium	"Gpl" branch
"CMV Servizi Srl" compendium	
Cosea Ambiente Spa	

With effect beginning March 1st 2019, Hera Comm Srl gained control over the gas and electricity sales activities of CMV Energia & Impianti Srl. The transaction was carried out by means of a partial proportional demerger: each shareholder of the demerged company was assigned an equity interest in the beneficiary company. As a consequence of this operation, Hera Comm Srl's interest in the company decreased to 99.89%.

With effect beginning March 1st 2019, Hera Comm Srl gained control over the gas distribution activity of CMV Servizi Srl, including the whole equity investment in A Tutta Rete Srl by Inrete Distribuzione Energia Spa. The transaction was carried out by means of a partial proportional demerger: each shareholder of the demerged company was assigned an equity interest in the beneficiary company. As a consequence of this operation, Hera Comm Srl's interest in Inrete Distribuzione Energia Spa decreased to 99.09%.

On May 9th 2019, Hera Spa definitively won the competitive call for tenders for the acquisition of 100% shares of Cosea Ambiente Spa, a company managing waste collection services in 20 municipalities in the Tuscan-Emilian Apennines. It should also be noted that, given that no interim situation of reference was available at the acquisition date, the revenues and costs of Cosea Ambiente Spa were consolidated as of January 1st 2019. The effects of this simplification are to be considered irrelevant for the income statement of the first half of 2019,also with reference to the margin indicators.

With effect beginning January 1st 2019, Inrete Distribuzione Energia Spa and Hera Comm Srl sold their LPG distribution and sales business branches. From both a financial and an economic point of view, the transaction had a marginal impact.

Changes in equity investments

On February 1st 2019, after having won the public auction, Hera Spa purchased from the shareholder Unione Montana Alta Valle del Metauro a number of shares of Marche Multiservizi Spa share capital equal to 0.5%, thus increasing its stake from 46.2% to 46.7%.

On April 23th, Hera Spa purchased from Aimag Spa 3.28% of Acantho Spa's share capital, thus increasing its stakes from 77.36% to 80.64%.

The difference between the adjustment of these minority stakes and the fair value of the equivalent amount received was reported directly in net equity and attributed to the parent company's shareholders.

Other corporate operations

With effect from January 1st 2019, Umbro Plast Srl, Cerplast Srl and Variplst Srl, all 100% owned by the Group, were merged by incorporation into Aliplast Spa.

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, liabilities and contingent liabilities, on the basis of information concerning facts and events available at the date of acquisition. The evaluation period is currently ongoing.

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

	CMV sales activities	CMV distribution activities	Cosea Ambiente Spa	Total business combination
Non-current assets				
Property, plant and equipment	0.1	0.1	4.2	4.4
Rights of use			0.8	0.8
Intangible assets	8.6	19.3	0.1	28.0
Non-current financial assets		3.9		3.9
Deferred tax assets	1.6	0.3		1.9
Current assets				
Inventories		0.1		0.1
Trade receivables	12.5	3.8	3.6	19.9
Current financial assets		0.1		0.1
Current tax assets		0.1	0.1	0.2
Other current assets	1.1	0.3	0.2	1.6
Cash and cash equivalents		0.2	0.7	0.9
Non-current liabilities				
Non-current financial liabilities		(2.8)	(1.3)	(4.1)
Post-employment and other benefits	(0.1)	(0.1)	(0.7)	(0.9)
Provisions for risks and charges		(0.2)	(0.4)	(0.6)
Deferred tax liabilities	(2.5)			(2.5)
Non-current leasing liabilities			(0.8)	(0.8)
Current liabilities				
Current financial liabilities	(6.1)	(2.6)	(0.7)	(9.4)

Trade payables	(9.6)	(10.5)	(3.2)	(23.3)
Other current liabilities	(3.8)	(2.2)	(1.1)	(7.1)
Total net assets acquired	**1.8**	**9.8**	**1.5**	**13.1**
Equivalent fair value	1.8	10.1	1.5	13.4
Non-controlling interests acquired				-
Total value of the business combination	**1.8**	**10.1**	**1.5**	**13.4**
(Goodwill) Badwill	**-**	**(0.3)**	**-**	**(0.3)**

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:

	CMV sales activities	CMV distribution activities	Cosea Ambiente Spa	Total business combination
Book value of net assets acquired	**0.2**	**10.1**	**1.4**	**11.7**
Adjustments for fair value valuation				
Property, plant and equipment		(0.4)		(0.4)
Intangible assets	8.5		0.1	8.6
Trade receivables	(5.9)			(5.9)
Deferred tax assets (liabilities)	(1.0)	0.1		(0.9)
Fair value of net assets acquired	**1.8**	**9.8**	**1.5**	**13.1**
Cash outlay			1.5	1.5
Issuance of equity instruments	1.8	10.1		11.9
Equivalent fair value	**1.8**	**10.1**	**1.5**	**13.4**

As regards the evaluation of the fair value of the tangible and intangible assets acquired, the management's evaluations, which also considered the recoverable value of said assets (calculated on the basis of the business plans of the acquired entities), have provisionally led, pending the conclusion of the valuation activities, to the identification of a significant difference associated with the transaction to acquire control of CMV Energia & Impianti Srl. Specifically, a customer list of 8.5 million euros was recorded and the value of trade receivables for 5.9 million euros was adjusted, gross of the related deferred tax effect.

Please see note 31 "Comments to the financial report" for an analysis of the cash flows associated with the combination operations.

2.02.04

Changes to the international accounting standards

Accounting standards, amendments and interpretations applicable from January 1st 2019

Beginning January 1st 2019, the following accounting standards and associated amendments as issued by the IASB and endorsed by the European Union, apply:

Changes to IFRS 9 - Financial Instruments (Regulation 498/2018). Document issued by IASB on October 12th 2017, applicable from January 1st 2019 with early application allowed. The amendments allow companies, if a specific condition is met, to valuate certain prepaid financial assets by means of so-called negative compensation at amortised cost, or at fair value with changes in the other components of the comprehensive income statement, instead of at fair value in the income statement.

Ifric 23 – Uncertainty concerning tax treatment (Regulation 1595/2018). This interpretation, published by the IASB on June 7th 2017 and applicable beginning January 1st 2019, aims at clarifying the requirements concerning the recognition and measurements established by IAS 12 in cases of regulatory uncertainty surrounding the treatment of income taxes.

Changes to IAS 28 - Investments in Associates and Joint Ventures (Regulation 237/2019). Document issued by IASB on October 12th 2017, applicable from January 1st 2019 with early application allowed. The amendments clarify that companies must use the provisions of IFRS 9 to account for long-term investments in associates or joint ventures for which the equity method is not applied.

Amendments to IAS 19 - Changes to the plan, reduction or liquidation (Regulation 402/2019). Document issued by IASB on February 7th 2018 and applicable beginning January 1st 2019. The amendments specify how expenses are to be determined when changes occur to a defined benefit plan.

On December 12th 2017 the IASB published the document **"Improvements to the International Financial Reporting Standards: 2015-2017 Cycle"** (Regulation 412/2019). These improvements include amendments to four existing international accounting standards:

- **IFRS 3 -** Business combinations. The amendment specifies that the investment previously held in a joint operation must be subjected to a new valuation when the company obtains control over it;
- **IFRS 11 -** Joint arrangements. It clarifies that the value of an investment previously held in a joint operation does not need to be reviewed when joint control is acquired over it;
- **IAS 12 -** Income taxes. The improvement clarifies that an entity is required to account for taxes related to the payment of dividends in the same way as dividends;
- **IAS 23 -** Financial expenses. Any loan originally entered into to build a specific asset is required to be considered as generic debt when the asset is available for its intended use or sale.

These amendments, applicable beginning January 1st 2019 with early application allowed, clarify, correct or remove redundant statements or formulations in the text of the standards in question.

With reference to the application of these amendments and new interpretations, there were no observable effects on the Group's financial statements. It should be noted that the effects on the financial statements deriving from the first application of IFRS 16 "Leases" are illustrated in section 2.02.02.

Accounting standards, amendments and interpretations that have not yet been endorsed by the European Union.

The following standards, associated amendments and changes of IFRSs (already approved by the IASB) and interpretations (already approved by the IFRS IC) are currently being endorsed by the relevant bodies of the European Union:

Changes to the references to the conceptual framework - Document issued by IASB on March 29th 2018 and applicable beginning January 1st 2020 with the objective of updating references to the conceptual framework found in the IFRS, the latter having been revised by the IASB during the course of 2018.

Changes to IFRS 3 - business combinations. Document issued by IASB on October 22nd 2018, applicable from January 1st 2020 with early application allowed. The amendments clarify the definition of business and will aid companies in assessing whether the acquisition concerns a business or rather a group of businesses. Specifically, the new definition stresses that the purpose of a business is to provide goods and services to customers, while the previous definition focused on returns in the form of dividends, cost savings or other economic benefits for investors.

Amendments to IAS 1 and IAS 8 - Definition of materials. Document issued by IASB on October 31st 2018, applicable from January 1st 2020 with early application allowed. The amendments clarify the definition of materials and the way it should be applied in order to aid companies in their choice of which information to include in their financial statements.

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 September 11th 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 January 1st 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 recognized 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 recognize the profit or loss for the entire interest previously held; while, if this is not the case, the entity must recognize the amount of profit or loss pertaining to the interest still held by the entity to be eliminated.

With reference to the new amendments and interpretations described above, the directors are currently evaluating what possible effects introducing them might have on the Group's consolidated financial statements.

2.02.05
Commentary notes to the financial statement formats

Please note that paragraphs 1.01 and 1.2 show an analysis of management performance in the first half of the year which can aid in better understanding the changes that occurred in the key items of operating expenses and revenues.

1 Revenues

	first six months of 2019	first six months of 2018	Changes
Revenues from sales and services	3,365.2	2,959.5	405.7
Changes in contract work in progress, semi-finished and finished products	6.4	7.2	(0.8)
Total	**3,371.6**	**2,966.7**	**404.9**

"Revenues from sales and services", the increase compared to the first half of 2018 mainly stems from the Gas and Electricity operating sectors. In particular, regarding the gas and electricity sectors there was an increase in volumes of both trading activities on the natural gas markets and the sale of electricity and methane gas as well as an increase of revenues from the sale of energy produced by the plants managed by the Group, partially offset by the decrease of trading activities on electricity. As regards the environmental sector, the activities of all the services managed increased.

Revenues are achieved mainly in Italy.

2 Other operating revenues

	first six months of 2019	first six months of 2018	Changes
Long-term contracts	130.2	100.3	29.9
White certificates	48.1	48.2	(0.1)
Operating grants and grants for separated waste collection	30.1	28.2	1.9
Grants related to plants	6.4	5.2	1.2
Use of provisions	5.9	4.2	1.7
Insurance refunds	0.9	1.2	(0.3)
Other revenues	27.4	22.5	4.9
Total	**249.0**	**209.8**	**39.2**

The most substantial changes by comparison with the previous fiscal year are described below.

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held in concession as per the interpretation of IFRIC 12 The change is due to a higher number of investments made as compared to the first six months of 2018, specifically in the methane gas distribution networks, public lighting plants and water systems under concession.

“White Certificates”, highlight the revenues calculated on the basis of energy efficiency objectives for the year as established by the GSE and accounted for in relation to the Energy and Environmental Services Fund. The value as at June 30th 2019 is substantially in line with the previous period, partly due to the market situation in which the price does not differ significantly from the previous year as a result of the decree by the Ministry of Economic Development of July 10th 2018, which introduced a maximum value of the contribution for distribution companies amounting to 250 euros per certificate.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 13.2 million euros (13.1 million euros in the first six months of 2018), mainly comprising incentives provided by the GSE for the production of electricity using photovoltaic plants and contributions received from public bodies, agencies or institutions for specific projects carried out by Group companies, and contributions from separated waste collection, amounting to 16.9 million euros (15.1 million euros in the first six months of 2018), consisting mainly of the value of packaging materials (cardboard, iron, plastic and glass) sold to the Conai consortia.

"Contributions against plant investments" is the revenue associated to the amortization amount deriving from the assets subject to contributions, mainly associated with the water cycle.

"Use of funds", this item is associated with the costs incurred internally and duly accounted for in relation to labour, leachate and use of vehicles.

"Other revenues" mainly represents proceeds from recovering the costs incurred for activities related to environmental, electrical and gas services.

3 Use of raw materials and consumables

	first six months of 2019	first six months of 2018	Changes
Gas earmarked for sale, net of changes in stocks	965.1	613.8	351.3
Electricity	541.6	554.9	(13.3)
White and grey certificates	53.6	56.9	(3.3)
Maintenance materials net of changes in stocks	32.9	31.5	1.4
Plastic materials net of changes in stocks	27.4	25.3	2.1
Water	23.5	25.4	(1.9)
Charges and revenues from derivatives	10.4	(16.9)	27.3
Methane gas for industrial use	9.2	9.9	(0.7)
Chemical products	9.1	8.8	0.3
Fuels, motor fuels and lubricants	8.5	8.0	0.5
Charges and revenues from certificate valuation	(0.7)	(4.8)	4.1
Consumables and miscellaneous	18.6	14.8	3.8
Total	**1,699.2**	**1,327.6**	**371.6**

"Gas earmarked for sale net of changes in stocks", the increase as compared to the first six months of 2018 is due to the greater volumes of trading activity on the wholesale natural gas markets and to the increase in sales to end customers.

"Electricity", the decrease as compared to the first six months of 2018 is mainly due to the lower volumes of trading activity, partially offset by the increase in sales to end customers.

"White and grey certificates" includes the purchase cost of the various types of environmental certificates incurred during the first half of 2019: 45.6 million euros in white certificates (48.8 million euros in 2018) and 7 million euros in grey certificates (8.1 million euros in 2018) and one million euros for RECs (renewable energy certificate system). The change from the previous period was due to the different purchasing dynamics in view of the Group's certificate needs.

"Plastic materials net of changes in stocks" includes the cost of purchasing plastic raw materials destined for subsequent processing, transformation and sales.

"Charges and revenues from certificate valuation" reflect the valuation of environmental certificates in the trading book.

For the item "Charges and revenues from derivatives", please see note 20.

4 Service costs

	first six months of 2019	first six months of 2018	Changes
Transport and storage	546.8	542.7	4.1
Work and maintenance charges	186.1	161.2	24.9
Waste transportation, disposal and collection	182.1	159.3	22.8
Fees paid to local authorities	34.0	33.9	0.1
IT and data processing services	22.6	19.9	2.7
Professional, legal and tax services	16.0	14.1	1.9
Other commercial services	15.5	23.0	(7.5)
Technical services	11.2	9.0	2.2
Recruitment, training and other staff costs	9.0	9.3	(0.3)
Insurance	8.0	7.8	0.2
Postal and telephone costs	7.5	7.0	0.5
Rents and leases payable	6.9	15.2	(8.3)
Bank fees and charges	4.9	5.4	(0.5)
Legal and financial announcements and advertising, communication with customers	3.9	3.8	0.1
Remuneration to statutory auditors and directors	3.2	3.0	0.2
Other service costs	17.4	17.0	0.4
Total	**1,075.1**	**1,031.6**	**43.5**

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution. The increase as compared with the first half of 2018 is mainly due to the increase in methane gas sales volumes to end customers leading to an increase in transport and storage costs.

"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 compared to the first half of 2018 is mainly due to greater investments in networks under concession, as already highlighted in note 2 "Other operating revenues", and to greater costs incurred in developing activities relating to the "decontamination" business.

“Waste transportation, disposal and collection”, the increase is due to the higher costs involved in the environment business unit, due both to an increase of waste collection activities and greater waste disposal costs.

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 management of gas, water and electricity cycle assets, and, to a lower degree, fees paid to municipalities for the use of telecommunication networks.

For the item "IT and data processing services", the increase is due both to higher fees paid on existing applications already used by the Group and to new applications as compared to the first half of 2018.

"Professional, legal and tax services", the change is mainly due to back office costs for the administrative management of contracts for gas and electricity customers.

"Other commercial services" includes the costs incurred in developing and managing sales activities, specifically natural gas and electricity sales and associated support structures. It is worth noting that, in view of transitioning the electric power market from the greater protection system to the deregulated market scheduled for July 1st 2020 and the resulting opportunities to expand the customer base, during the first half of the year the Group developed a series of commercial initiatives and adapted management systems in order to accurately monitor the incremental costs related to the new contracts. As required by IFRS 15, these incremental costs, involving mainly commissions paid to agents, were recorded as assets and will be depreciated over the average lifetime of new customers (churn rate). The decrease compared to the first half of 2018 therefore reflects, thanks to the new business processes, the recognition as assets of agency costs previously recorded entirely in the income statement. For further details on the assets recorded in the first half of 2019, please refer to note 15 "Intangible assets".

In relation to the change with respect to the first half of 2018, it should be noted that "Rents and leases payable", as at June 30th 2018 included fees paid for lease and rental contracts, amounting to 7 million euros, falling within the scope of application of accounting standard IFRS 16 beginning January 1st 2019. For further details, see paragraph 2.02.02 "Adoption of IFRS 16" and note 14 "Rights of use and leasing liabilities".

"Other costs for services" mainly includes costs concerning cleaning and security services, utilities, meter reading service and laboratory analyses.

5 Personnel costs

	first six months of 2019	first six months of 2018	Changes
Social security contributions	267.7	265.1	2.6
Post-employment and other benefits	0.4	0.4	-
Other costs	18.5	16.2	2.3
Total	**286.6**	**281.7**	**4.9**

The increase in labour costs of 4.9 million euros as compared with the first half of 2018 mainly reflects the increase in the number of employees during the period, an effect partially due to the business combination operations carried out during the first six months of 2019.

The average number of employees in the period in question, analysed by category, is as follows:

	first six months of 2019	first six months of 2018	Changes
Managers	149	150	(1)
Middle management	540	532	8
Clerks	4,711	4,585	126
Blue-collar workers	3,337	3,295	42
Total	**8,737**	**8,562**	**175**

Overall, the average cost of labour per capita for the first six months of 2019 was 32.8 thousand euros (32.9 thousand euros in the first half of 2018).

At June 30th 2019, the actual headcount of employees was 8,759 (8,555 as of June 30th 2018).

6 Other operating costs

	first six months of 2019	first six months of 2018	Changes
Taxation other than income taxes	7.2	6.8	0.4
State rentals	6.3	5.8	0.5
Landfill special tax	2.1	2.4	(0.3)
Losses on the sale and disposal of assets	0.9	1.3	(0.4)
Other minor charges	13.3	14.0	(0.7)
Total	**29.8**	**30.3**	**(0.5)**

"Taxation other than income taxes" mainly relates to taxes on buildings, stamp duties and registration fees, public area occupation fees and excise duties.

"State rentals" is mainly related to fees paid to the Emilia Romagna region, land reclamation consortia, sector agencies and mountain-area communities.

"Special landfill levy" refers to the relevant environmental tax for the period on landfills operated by the Group. The decrease as compared to 2018 was mainly due to the temporary suspension of drop offs at the Tre Monti landfill.

The item "Other minor charges" mainly includes compensation for damages, fines, penalties and other non-recurring charges.

7 Capitalized costs

	first six months of 2019	first six months of 2018	Changes
Increase in self-constructed assets	16.0	18.3	(2.3)

This item includes mainly the labour costs and other charges (such as materials and vehicle hours) directly attributable to the Group's self-constructed assets.

8 Amortisation, depreciation and provisions

	first six months of 2019	first six months of 2018	Changes
Property, plant and equipment amortisation	80.0	81.6	(1.6)
Rights of use amortisation	7.5	-	7.5
Intangible assets amortisation	111.8	106.0	5.8
Allowance for bad debts	39.6	44.5	(4.9)
Provisions for risks and charges	18.6	18.7	(0.1)
De-provisioning	(0.5)	(0.8)	0.3
Total	**257.0**	**250.0**	**7.0**

As breakdowns and further detail about these items, please refer to the comments under note 13 "property, plant and equipment", note 14 "Rights of use and leasing liabilities", note 15 "intangible assets", note 22 "trade receivables" and note 28 "Provisions for risks and charges".

For "Amortisation property, plant and equipment", the decrease is mainly due to the lower number of drop offs made to the Group's landfills as compared to the previous period, partially offset by the amortisation of new investments and the assets acquired as part of the business combination operations carried out in the first half of 2019. It should also be noted that as at June 30th 2018 this item included the depreciation of assets held under finance leases amounting to 0.6 million euros. As at June 30th 2019 such amortisations are included in the item "Rights of use amortisation". For further details, see note 14.

"Rights of use amortisation" includes the amortisation of assets recorded in relation to leasing contracts falling within the scope of application of accounting standard IFRS 16.

For "Intangible assets amortisation", the increase is mainly due to goods relating to public services under concession as a result of contract work carried out in previous years, in particular involving the methane gas distribution sector and water cycle. The higher value for the current period was also due to incremental costs incurred to obtain sales contracts with end customers recognised under intangible assets (as illustrated in note 4) and customer lists related to the acquisition of control of Sangroservizi Srl recorded at the end of 2018 and the sale of gas and electricity by CMV Energia & Impianti Srl in the first half of 2019.

The item "De-provisioning" includes the re-verification of the various funds in view of the fact that the underlying risks no longer exist.

9 Share of profits (losses) pertaining to joint ventures and associated companies

	first six months of 2019	first six months of 2018	Changes
joint venture share of net profits	3.8	4.4	(0.6)
associated companies share of net profits	2.7	4.2	(1.5)
Total	**6.5**	**8.6**	**(2.1)**

The share of profits/losses of joint ventures and associated companies includes the effects generated by the valuation of the companies included in the consolidation carried out using the equity method.

The "Joint venture share of net profits" mainly refers to the share of the Group's net income earned by Enomondo Srl, 1.1 million euros (1.2 million euros in the first half of 2018) and Estenergy Spa, 2.7 million euros (3.2 million euros in the first half of 2018).

The "Associated companies share of net profit" mainly refers to the profit earned by Aimag Spa, 1.1 million euros (1.7 million euros in the first half of 2018) and Sgr Servizi Spa, 1.7 million euros (2.1 million euros in the first half of 2018); as well as a 0.1 million euro loss by Set Spa (0.3 million euro profit in the first half of 2018) .

10 Financial income and expense

	first six months of 2019	first six months of 2018	Changes
Revenues from derivatives	47.8	35.2	12.6
Customers	14.9	15.2	(0.3)
Income from valuation at fair value of financial liabilities	2.2	-	2.2
Other financial income	2.9	10.2	(7.3)
Total income	**67.8**	**60.6**	**7.2**
Charges from derivatives	46.8	28.3	18.5
Financing and Bonds	45.6	45.4	0.2
Discounting of provisions and finance leases	10.8	9.0	1.8
Valuation at depreciated cost of financial liabilities	5.6	5.2	0.4
Loans	3.4	2.2	1.2
Factoring	1.1	3.1	(2.0)
Other financial expenses	1.1	1.1	-
Total expenses	**119.2**	**103.6**	**15.6**
Total net financial expense (Income)	**(51.4)**	**(43.0)**	**(8.4)**

The change in financial management is described, overall, in the Directors' Report.

For further details on "Loans" and "Financing and bonds", see note 26 "Non-current and current financial liabilities", while for "Income and charges from valuation at fair value of financial liabilities" and "Income and charges from derivatives", see note 20 "Derivative financial instruments".

"Other financial income" includes interest income on loans granted to companies valued through the equity method or subsidiaries for 1.3 million euros, as well as interest income from banks, dividends received from non-consolidated subsidiary companies and income related to discounted receivables.

The item "Discounting of provisions and finance leases" is broken down as follows:

	first six months of 2019	first six months of 2018	Changes
Post-closure landfills	5.9	6.0	(0.1)
Restoration of third-party assets	2.3	2.1	0.2
Leases	2.0	0.2	1.8
Employee leaving indemnity and other benefits	0.5	0,6	(0.1)
Plants dismantling	0.1	0.1	-
Total	**10.8**	**9.0**	**1.8**

The adoption of IFRS16 resulted in the recognition of leasing expenses amounting to 2 million euros in the first half of 2019. For further details, see paragraph 2.02.02 "Adoption of IFRS 16" and note 14 "Rights of use and leasing liabilities".

The item "Valuation at depreciated cost of financial liabilities" represents the breakdown (depreciation) of the expenses associated with financial liabilities for the entire duration of the loans using the effective interest method.

"Factoring" refers to the sale of receivables aimed at optimizing the management of the Group's working capital.

11 Taxes

This item is made up as follows:

	first six months of 2019	first six months of 2018	Changes
Ires	54.8	56.8	(2.0)
Irap	15.0	14.9	0.1
Substitute tax	0.3	0.3	-
Total	**70.1**	**72.0**	**(1.9)**

The tax due the first half of 2019 amounted to 70.1 million euros, generating a tax rate of 28.7%, improved as compared to 30.1% for the same period of the previous period. This significant improvement is particularly due to the benefits granted by the regulations that the Group was able to take advantage of. Please note, in particular, the effect that maxi and over amortisation had following significant investments in capital goods needed for the technological and digital transformation of the company as it moves towards Industria 4.0 as well as tax credit for research and development and the concessions relating to the patent box).
Below is a brief summary of tax litigation as of June 30th 2019:

- Notices of assessment for Ici served to Herambiente Spa and Hera Spa concerning the classification in the real estate registry of the Ferrara waste-to-energy plant. Notices of assessment issued over time relate to tax periods from 2008 to 2014 and altogether amount to 10.2 million euros. Regarding the notices of assessment for the years 2008 and 2009, the rulings by the tax committee of Ferrara issued in 2016 were all in favour of the Company. Subsequently, following the favourable, definitive rulings on the classification, on February 11th 2019 the Municipality of Ferrara issued orders for the total annulment of the assessments for the periods between 2008 and 2012 and the partial annulment for 2013 (for which EUR 0.7 million remain to be assessed). As of today, only the proceedings for 2014, amounting to 1.5 million euros, remain suspended until the favourable ruling concerning the land registry dispute, which has already been issued, is finalized. The Group, 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;
- Notices of assessment for ICI/IMU were served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. These notices of assessment relate to tax periods from 2011 to 2015 and altogether amount to 2.1 million euros. The Company filed appeals or complaints against these notices in February 2017. Some of these disputes were settled by judicial settlement in June and December 2018, resulting in an outlay of 1.8 million euros. The Group, having obtained the advice of its legal counsel, decided to maintain a provision of 0.2 million euros to cover residual risks;
- Tax audits to Herambiente Spa, for tax years from 2009 to 2013 and focused mainly on the amount the company owed in relation to the IRAP subsidy called "tax wedge". With respect to the 2009 tax period, the appeal hearing has not yet been scheduled after a favourable ruling for the company by the Provincial Tax Commission handed down in 2015. With regard to the 2010 and 2011 tax years, two sentences were handed down in 2017, also in the Company's favour. The Inland Revenue has filed appeals and a hearing has not yet been scheduled. In 2016, additional notices of assessment were served for the 2012 and 2013 tax years, against which the Company filed the relevant appeals. On November 10th 2017 the relative rulings were filed, both unfavourable to the Company. On May 8th 2018, the Company filed appeals against the abovementioned rulings. The Group, 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;
- Tax audits to Hera Trading Srl, concerning the tax periods from 2010 to 2014. The most significant of these notifications regards the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates for the purposes of calculating IRES. In 2016, a notice of assessment was served in relation to IRES 2011, for 2.1 million euros of tax, against which the Company appealed; on January 18th2018 the ruling was filed as unfavourable to the Company, but without the application of penalties, while on July 17th 2018, the Company filed an appeal. Against this ruling, on March 6th 2018, one third of the tax was paid, plus interests, for a total of 0.9 million euros; on March 29th 2018, the second third of the tax was paid, plus interests, for 0.7 million euros. On September 7th 2017 a similar assessment notice was served for IRES 2012, amounting to 0.5 million euros in taxes, for which a presidential suspension of execution was obtained. The hearing was held on

January 30th 2018 and the sentence, which was unfavourable to the company, was filed on May 8th 2018. An appeal was therefore lodged on December 7th 2018 and two-thirds of the amount was provisionally paid for EUR 0.3 million euros. On July 20th 2018 an assessment notice was served in relation to 2014, for 0.4 million against which an appeal was filed on October 17th 2018. In relation to that year, the suspension request was rejected and on December 20th 2018 one-third of the amount was provisionally paid for EUR 0.2 million euros. As of the current moment, the appeal hearing has yet to be scheduled. On September 20th 2018 an assessment notice was served in relation to Ires additional rate, so called Robin tax, 2013 for 0.4 million. On November 9th 2018 an appeal was filed and on February 13th 2019 one-third of the amount was provisionally paid. The ruling no.141/2019, handed down on June 4th 2019, was unfavourable for both cases. The Group, 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;

- Assessment notices for the tax periods from 2013 to 2017 for TOSAP and COSAP, notified on June 28th 2018 and July 20th 2018 to Hera Spa by the Municipality of Riccione, relating to the permanent occupation of public land with waste bins, for a total amount of 3.5 million euros. On September 26th 2018, the related appeals for Tosap were submitted and the hearing was held on March 13th 2018. On February 18th 2019, the company received an assessment notice for 2014 from the Municipality of San Giovanni in Marignano concerning Tosap, amounting to 25 thousand euros. An appeal was filed on April 17th 2019. On May 31st 2019, two additional assessment notices were received for the years 2015 and 2016, amounting to 25 and 24 thousand euros, respectively, and in this case as well, appeals will be filed within the terms required by law. The Group, having also consulted its lawyers, decided not to make any provision to the risk provision for the litigations in question.

12 Earnings per share

	first six months of 2019	first six months of 2018
Profit (loss) for the period attributable to holders of ordinary shares of the Parent entity (A)	166.2	158.1
Weighted average number of shares outstanding for the purposes of calculation of profit (loss) per share		
basic (B)	1,470,156,318	1,468,760,420
diluted (C)	1,470,156,318	1,468,760,420
Profit (loss) per share (in euros)		
basic (A/B)	**0.113**	**0.108**
diluted (A/C)	**0.113**	**0.108**

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 June 30th 2018, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	Jun 30th 2019	Dec 31st 2018	Changes
Land and buildings	576.8	591.7	(14.9)
Plants and machinery	1,147.7	1,174.1	(26.4)
Other movable assets	128.1	131.1	(3.0)
Assets under construction	107.7	104.2	3.5
Total operating assets	**1,960.3**	**2,001.1**	**(40.8)**
Investment property	2.4	2.6	(0.2)
Total	**1,962.7**	**2,003.7**	**(41.0)**

Property, plant and equipment are disclosed net of accumulated depreciation. Their composition and changes in the period are as follows:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
Jun 30th 2018									
Land and buildings	571.3	1.0	(1.6)	(9.0)	1.4	2.3	565.4	772.3	(206.9)
Plants and machinery	1,201.6	5.4	(2.1)	(58.6)	3.2	9.0	1,158.5	2,666.2	(1,507.7)
Other movable assets	120.3	3.8	(0.3)	(14.0)	-	12.2	122.0	454.9	(332.9)
Assets under construction	119.9	52.1	-	-	0.1	(22.4)	149.7	149.7	-
Total	**2,013.1**	**62.3**	**(4.0)**	**(81.6)**	**4.7**	**1.1**	**1,995.6**	**4,043.1**	**(2,047.5)**
Jun 30th 2019									
Land and buildings	591.7	1.9	(0.1)	(9.3)	1.6	(9.0)	576.8	799.6	(222.8)
Plants and machinery	1,174.1	7.5	(1.1)	(55.6)	0.7	22.1	1,147.7	2,748.9	(1,601.2)
Other movable assets	131.1	3.7	(0.2)	(15.1)	2.0	6.6	128.1	481.0	(352.9)
Assets under construction	104.2	47.3	(0.2)	-	0.1	(43.7)	107.7	107.7	-
Total	**2,001.1**	**60.4**	**(1.6)**	**(80.0)**	**4.4**	**(24.0)**	**1,960.3**	**4,137.2**	**(2,176.9)**

The breakdown and main changes within each category are commented on below.

"Land and buildings", totalling 576.8 million euros, consisted of 116.1 million euros in land and buildings and 460.7 million euros in buildings. These are mainly properties on which the majority of the sites and production plants stand.

"Plants and machinery", amounting to 1,147.7 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 and waste treatment. The main investments during the period relate to waste treatment activities and heat management for a total of 4.6 million euros and 2 million euros respectively.

"Other movable assets", equal to 128.1 million euros, include the equipment, waste disposal bins for 62.7 million euros, furniture and electronic machines for 15.6 million euros, and vehicles and cars for 49.8 million euros.

"Assets under construction and advance payments", amounting to 107.7 million euros, include mainly investment for development of district heating and electricity distribution and waste disposal plants.

"Other changes" covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial year, as well as the reclassification from Property, plant and equipment to Intangible assets, especially when goods used in activities under concession are involved.

For further details on the "Changes in the scope of consolidation", reference should be made to paragraph 2.02.03 "Scope of consolidation".

14 Intangible assets

	Jun 30th 2019	Dec 31st 2018	Changes
Industrial patents and intellectual property rights	76.3	78.6	(2.3)

Concessions, licences, trademarks and similar rights	70.3	74.9	(4.6)
Public services under concession	2,664.1	2,689.1	(25.0)
Intangible assets under construction and public services under concession	263.9	172.2	91.7
Intangible assets under construction	58.4	51.6	6.8
Customer lists	154.7	153.8	0.9
Other intangible assets	40.4	34.7	5.7
Total	**3,328.1**	**3,254.9**	**73.2**

Intangible assets are stated net of their accumulated amortisation and are broken down below with details of the changes:

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
Jun 30th 2018									
Industrial patents and intellectual property rights	55.8	0.8	-	(14.2)	0.1	29.4	71.9	381.5	(309.6)
Concessions, licences, trademarks and similar rights	86.7	0.2	-	(6.2)	-	-	80.7	385.8	(305.1)
Public services under concession	2,574.3	12.9	-	(75.0)	33.9	1.0	2,547.1	4,326.8	(1,779.7)
Intangible assets under construction and public services under concession	161.3	87.5	(0.2)	-	-	(10.4)	238.2	238.2	-
Intangible assets under construction	63.9	18.7	-	-	-	(32.0)	50.6	50.6	-
Customer lists	148.1	2.0	-	(6.5)	11.0	0.3	154.9	192.9	(38.0)
Other intangible assets	36.9	1.5	-	(4.1)	0.1	1.8	36.2	126.4	(90.2)
Total	**3,127.0**	**123.6**	**(0.2)**	**(106.0)**	**45.1**	**(9.9)**	**3,179.6**	**5,702.2**	**(2,522.6)**
Jun 30th 2019									
Industrial patents and intellectual property rights	78.6	0.7	-	(15.0)	0.1	11.9	76.3	418.5	(342.2)
Concessions, licences, trademarks and similar rights	74.9	0.1	-	(4.8)	0.4	(0.3)	70.3	389.2	(318.9)
Public services under concession	2,689.1	12.3	(0.2)	(77.8)	19.0	21.7	2,664.1	4,603.7	(1,939.6)
Intangible assets under construction and public services under concession	172.2	109.0	-	-	-	(17.3)	263.9	263.9	-
Intangible assets under construction	51.6	20.4	-	-	-	(13.6)	58.4	58.4	-
Customer lists	153.8	-	-	(7.6)	8.5	-	154.7	207.1	(52.4)
Other intangible assets	34.7	11.6	-	(6.6)	-	0.7	40.4	142.6	(102.2)
Total	**3,254.9**	**154.1**	**(0.2)**	**(111.8)**	**28.0**	**3.1**	**3,328.1**	**6,083.4**	**(2,755.3)**

The breakdown and main changes within each category are commented on below.

"Industrial patents and intellectual property rights," in the amount of 76.3 million euros, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licences, trademarks and similar rights," amounting to 70.3 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 concession agreements" - was first applied.

"Public services under concession", amounting to 2,664.1 million euros, include assets relating to gas distribution, electricity distribution (Imola area), the integrated water cycle and public lighting activities (except for the latter, as specified in note 18 "Current and non-current financial assets") provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC 12 interpretation. Investments for the period related mainly to the water networks, in the amount of 9.5 million euros, and gas distribution networks, in the amount of 2.1 million euros.

"Intangible assets under construction and public services under concession," amounting to 263.9 million euros, refers to investments related to these contracts that have yet to be concluded at the end of the fiscal period. The significant increase in investments compared to the previous period is mainly due to the works carried out on the water network under management and to the gas distribution activities.

"Intangible assets under construction", equal to 58.4 million euros, essentially comprises IT projects that are still incomplete.

"Customer lists", amounting to 154.7 million euros, are recorded as a result of business combination transactions and the consequent valuation of the assets acquired. The amortisation period of these customer lists is correlated to the churn rate identified for each individual operation.

The item "Other intangible assets", amounting to 40.4 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.

"Other changes" include reclassifications of assets under construction to their specific categories for assets that began to be used during the year and reclassifications to tangible assets, especially when goods used in activities under contract are involved.

For further details on the information outlined in the item "Changes in the scope of consolidation", reference should be made to paragraph 2.02.03 "Scope of consolidation".

15 Goodwill

	Jun 30th 2019	Dec 31st 2018	Changes
Goodwill	381.6	381.3	0.3

In accordance with the provisions of IAS 36 and in the absence of trigger events, as set forth by the standard itself, the impairment test on goodwill recorded by June 30th 2019 has not been prepared.

14 Rights of use and leasing liabilities

The retrospective application of international accounting standard IFRS 16 resulted in recognising as at January 1st 2019 non-current assets (rights of use) and current and non-current financial liabilities:

- almost all rights of use were calculated as net carrying amounts of the goods under leasing contracts, calculated as if the standard had been applied from the moment the contracts were activated, using the discount rate established at the transition date;

- leasing liabilities were calculated as the present value of the remaining future payments at the transition date, discounted using for each contract the marginal loan rate applicable at the transition date.

The following tables show the breakdown of rights of use (displayed net of the associated amortisation provision) and leasing liabilities at the transition date and the related movements as at June 30th 2019.

	Jun 30th 2019	Impacts at the transition date Jan 1st 2019	IAS 17 effect Jan 1st 2019
Non-current assets			
Right of use land and buildings	85.7	67.3	16.3
Right of use plants and machinery	8.9	4.2	5.3
Right of use other movable assets	18.4	19.5	
Total	**113.0**	**91.0**	**21.6**
Non-current liabilities			
Non-current leasing liabilities	93.0	82.7	12.2
Current liabilities			
Current leasing liabilities	17.9	13.9	1.7
Total	**110.9**	**96.6**	**13.9**

	Net opening balance	New contracts and contractual changes	Decreases	Depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
Jun 30th 2019									
Rights of use land and buildings	67.3	5.4	-	(3.9)	0.4	16.5	85.7	118.7	(33.0)
Rights of use plants and machinery	4.2	-	(0.1)	(0.5)	-	5.3	8.9	10.6	(1.7)
Rights of use other movable assets	19.5	1.6	-	(3.1)	0.4	-	18.4	30.8	(12.4)
Total	**91.0**	**7.0**	**(0.1)**	**(7.5)**	**0.8**	**21.8**	**113.0**	**160.1**	**(47.1)**

"Rights of use land and buildings", totalling 85.7 million euros, consisted of 81.2 million euros in rights of use of buildings and 4.5 million euros in rights of use of land. The rights of use for buildings refer mainly to contracts concerning the real estate structures used for headquarters and offices. The column "New contracts and contractual amendments" shows the leases signed in the first half of the year, as well as the change in the assumptions regarding their duration and contractual options. The column "Other changes" includes the value of contracts previously classified as financial leases (former IAS 17) and recorded under property, plant and equipment due to their nature.

"Rights of use of plant and machinery" equal 8.9 million euros and refer mainly to contracts signed by the companies of the Herambiente Group for purification and composting plants. "Other changes" for the first half of the year includes the reclassification of contracts previously recorded under property, plant and equipment.

"Rights of use of other movable assets" equal 18.4 million euros and refer mainly to contracts concerning IT infrastructures, operational vehicles and cars.

Financial liabilities are broken down below with details of the changes:

	Net opening balance	New contracts and contractual changes	Decreases	Financial expenses	Changes in the scope of consolidation	Other changes	Net closing balance
Jun 30th 2019							
Leasing liabilities	**96.6**	**6.9**	**(9.4)**	**2.1**	**0.8**	**13.9**	**110.9**
of which							
non-current liabilities	82.7						93.0
current liabilities	13.9						17.9

Financial liabilities due to leases mainly include financial payables arising from the rental fees of the Group's operating and administrative offices. The column "New contracts and contractual amendments" mainly includes contracts signed during the first six months of the year relating to real estate units and the assessment of the debt of some of the existing contracts, generated by the update of the valuation element of the contracts themselves, that is the reasonable certainty that the contractual options of renewal, purchase or early termination will be exercised. "Decreases" are generated by the reimbursement of contractual fees due in the first half of the year. "Other changes" includes the reclassification of the debt of contracts previously classified under financial leases (former IAS 17) and recorded financial liabilities.

The following table shows the liabilities for leases, broken down by due date within the year, due date within the 5th year and due date beyond the 5th year:

Type	Jun 30th 2019	**Due within the year**	**Due within 5th year**	**Due beyond 5th year**
Leasing liabilities	110.9	17.9	42.9	50.1

15 Intangible assets

	Jun 30th 2019	**Dec 31st 2018**	**Changes**
Industrial patents and intellectual property rights	76.3	78.6	(2.3)
Concessions, licences, trademarks and similar rights	70.3	74.9	(4.6)
Public services under concession	2,664.1	2,689.1	(25.0)
intangible assets under construction and public services under concession	263.9	172.2	91.7
intangible assets under construction	58.4	51.6	6.8
Customer lists	154.7	153.8	0.9
Other intangible assets	40.4	34.7	5.7
Total	**3,328.1**	**3,254.9**	**73.2**

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	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	Of which amortisation provision
June 30th 18									

Industrial patents and intellectual property rights	55.8	0.8	-	(14.2)	0.1	29.4	71.9	381.5	(309.6)
Concessions, licences, trademarks and similar rights	86.7	0.2	-	(6.2)	-	-	80.7	385.8	(305.1)
Public services under concession	2,574.3	12.9	-	(75.0)	33.9	1.0	2,547.1	4,326.8	(1,779.7)
intangible assets under construction and public services under concession	161.3	87.5	(0.2)	-	-	(10.4)	238.2	238.2	-
intangible assets under construction	63.9	18.7	-	-	-	(32.0)	50.6	50.6	-
Customer lists	148.1	2.0	-	(6.5)	11.0	0.3	154.9	192.9	(38.0)
Other intangible assets	36.9	1.5	-	(4.1)	0.1	1.8	36.2	126.4	(90.2)
Total	**3,127.0**	**123.6**	**(0.2)**	**(106.0)**	**45.1**	**(9.9)**	**3,179.6**	**5,702.2**	**(2,522.6)**
Jun 30th 2019									
Industrial patents and intellectual property rights	78.6	0.7	-	(15.0)	0.1	11.9	76.3	418.5	(342.2)
Concessions, licences, trademarks and similar rights	74.9	0.1	-	(4.8)	0.4	(0.3)	70.3	389.2	(318.9)
Public services under concession	2,689.1	12.3	(0.2)	(77.8)	19.0	21.7	2,664.1	4,603.7	(1,939.6)
intangible assets under construction and public services under concession	172.2	109.0	-	-	-	(17.3)	263.9	263.9	-
intangible assets under construction	51.6	20.4	-	-	-	(13.6)	58.4	58.4	-
Customer lists	153.8	-	-	(7.6)	8.5	-	154.7	207.1	(52.4)
Other intangible assets	34.7	11.6	-	(6.6)	-	0.7	40.4	142.6	(102.2)
Total	**3,254.9**	**154.1**	**(0.2)**	**(111.8)**	**28.0**	**3.1**	**3,328.1**	**6,083.4**	**(2,755.3)**

The breakdown and main changes within each category are commented on below.

"Industrial patents and intellectual property rights," in the amount of 76.3 million euros, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licences, trademarks and similar rights," amounting to 70.3 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 2,664.1 million euros, include assets relating to gas distribution, electricity distribution (Imola area), the integrated water cycle and public lighting activities (except for the latter, as specified in note 18 'Current and non-current financial assets') provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC interpretation 12. Investments for the year related mainly to the water networks, in the amount of 9.5 million euros, and gas distribution networks, in the amount of 2.1 million euros.

"Intangible assets under construction and public services under concession," amounting to 263.9 million euros, refers to investments related to the these same contracts that have yet to be concluded at year-end. The significant increase in investments compared to the previous period is mainly due to the works carried out on the water network under management and the activity of gas distribution.

"Intangible assets in progress and advance payments", equal to 58.4 million Euros, essentially comprises IT projects that have yet to be completed.

"Customer lists", amounting to 154.7 million euros, are recorded as a result of business combination transactions and the consequent valuation of the assets acquired. The amortisation period of these customer lists is correlated to the churn rate identified for each individual transaction.

The item "Other intangible assets", amounting to 40.4 million euros, mainly includes rights to use and lease networks and infrastructures for the transfer and installation of telecommunications networks, in addition to long-term contractual rights. Investments in the first half of the year included 10.2 million euros in activities relating to agency costs incurred to acquire new gas and electricity customers, which were previously recorded entirely in the income statement. For further details on the activities deriving from incremental costs, please refer to the information already provided in note 4 "Service Costs".

"Other changes" include reclassifications of assets under construction to their specific categories for assets that began to be used during the year and reclassifications to tangible assets, especially when goods used in activities under contract are involved.

For further details on the information outlined in the item "Changes in the scope of consolidation", reference should be made to paragraph 2.02.03 "Scope of consolidation".

16 Goodwill

	Jun 30th 2019	Dec 31st 2018	Changes
Goodwill	381.6	381.3	0.3

In accordance with the provisions of IAS 36 and in the absence of trigger events, as set forth by the standard itself, the impairment test on goodwill recorded by June 30th 2019 has not been prepared.

17 Equity investments

	Jun 30th 2019	Dec 31st 2018	Changes
Investments valued using the equity method	130.4	136.0	(5.6)
Other Equity investments	13.3	13.1	0.2
Total	**143.7**	**149.1**	**(5.4)**

The changes in joint ventures and associated companies as compared to December 31st 2018 take into account the pro-quota losses and profits reported by the respective companies (including the other components of the comprehensive income statement) as well as the reduction of the value for any dividends that were distributed. The share of profit/(loss) pertaining to companies accounted for by the equity method is shown in note 9 "Share of profit (loss) of joint ventures and associated companies".

Changes in consolidated investments using the net equity method are as follows:

	Dec 31st 2018	Investments	Valuation net equity	Dividends paid out	Other changes	Jun 30th 2019
Aimag Spa	49.0	-	1.1	(2.2)	-	47.9
Enomondo Srl	16.1	-	1.1	(2.0)	-	15.2
EstEnergy Spa	11.3	-	2.7	(5.2)	-	8.8
Set Spa	35.4	-	(0.1)	-	-	35.3
Sgr Servizi Spa	23.1	-	1.7	(2.7)	-	22.1
Other minor	1.1	-	-	-	-	1.1
Total	**136.0**	**-**	**6.5**	**(12.1)**	**-**	**130.4**

Investments in companies not included in the scope of consolidation underwent the following changes:

	Dec 31st 2018	Investments	Disinvestments	Depreciation	Other changes	Jun 30th 2019
Calenia Energia Spa	7.0	-	-	-	-	7.0
Veneta Sanitaria Finanza di Progetto Spa	3.6	-	-	-	-	3.6
Other minor	2.5	0.2	-	-	-	2.7
Total	**13.1**	**0.2**	**-**	**-**	**-**	**13.3**

18 Current and non-current financial assets

	Jun 30th 2019	Dec 31st 2018	Changes
Loan receivables	66.1	65.8	0.3
Portfolio securities	2.5	2.5	-
Receivables for construction services	26.9	17.4	9.5
Other financial receivables	36.5	32.7	3.8
Total non-current financial assets	**132.0**	**118.4**	**13.6**
Loan receivables	7.2	8.6	(1.4)
Portfolio securities	0.1	0.1	-
Other financial receivables	45.2	28.6	16.6
Total current financial assets	**52.5**	**37.3**	**15.2**
Total cash and cash equivalents	**619.4**	**535.5**	**83.9**
Total financial assets, cash and cash equivalents.	**803.9**	**691.2**	**112.7**

"Loan receivables", comprises loans, regulated at market rate, made to the following companies:

	Jun 30th 2019			Dec 31st 2018		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe SpA	8.1	0.8	8.9	8.5	0.8	9.3
Calenia Energia Spa	13.7	-	13.7	14.6	2.5	17.1
Set Spa	22.9	2.8	25.7	24.3	2.7	27.0
Tamarete Energia Srl	11.9	3.6	15.5	12.9	2.6	15.5
Other minor	9.5	0.0	9.5	5.5	-	5.5
Total	**66.1**	**7.2**	**73.3**	**65.8**	**8.6**	**74.4**

In the absence of trigger events, the loans are subject to an impairment test at the end of the year. In the previous years, the outcome of this test determined value adjustments totalling 14.9 million euros.

"Portfolio securities" include 2.5 million euro in bonds, funds and insurance policies to guarantee post-mortem management of the landfill managed by the subsidiary Asa Scpa. The book value of these securities is substantially in line with their fair value as of 30 June 2018. These securities are measured at fair value through other comprehensive income components.

"Receivables for construction services", are recorded in relation to municipalities for construction services for public lighting systems in compliance with the financial activity model provided for by the IFRIC 12 interpretation. The collection of these credits will take place according to a predetermined amortization plan that covers the duration of the concession or assignment contract.

For "Other financial receivables", the non-current section refers to the following financial positions:

- Loan to the City of Padua, regulated at market rates, for the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 17.9 million euros;
- indemnities due to the Group as outgoing manager at the end of the period of gas distribution service management assignment in the amount of 12.2 million euros from the “Collinare” Consortium of Municipalities and in the amount of 3.9 million euros from the Municipalities of Vigarano Mainarda, Goro and Castello d'Argile;
- a multi-year repayment plan signed in 2018 with the Municipality of Riccione for a total of 1.6 million euros.

For "Other financial receivables", the current section is mainly comprised of:

- public grant receivables to be received from various different subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region, among others) in the amount of 15.4 million euros

- Receivables for collections to be received for customers acquired by Hera Comm Srl paid to CMV Energia & Impianti Srl in the amount of 11.4 million euros;
- receivables for collections to be received from the Consorzio Stabile Enrgie Locali (Csel) following the award of the public tender for the lighting service (launched by Consip to award the contract to serve public administrations) in the amount of 10.5 million euros.
- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the commencement of the calls for tender, in the amount of 4.7 million euros;

To better understand the financial dynamics taking place during the first half of the 2019 financial year, see the financial statement and the comments shown in the management report.

19 Deferred tax assets and liabilities

	Jun 30th 2019	Dec 31st 2018	Changes
Pre-paid tax assets	264.8	243.4	21.4
Offsetting of deferred tax liabilities	(89.0)	(85.3)	(3.7)
Substitute tax credit	0.8	1.1	(0.3)
Total net deferred tax assets	**176.6**	**159.2**	**17.4**
Deferred tax liabilities	130.6	128.4	2.2
Offsetting of deferred tax liabilities	(89.0)	(85.3)	(3.7)
Total net deferred tax liabilities	**41.6**	**43.1**	**(1.5)**

"Pre-paid tax assets" arise from timing differences between reported profit and taxable profit, mainly in relation to bad debt provisions, risks and expenses funds, instances of civil depreciation that are greater than those relevant for tax purposes, and the redemption of goodwill and controlling interests.

"Deferred tax liabilities" arise from timing differences between reported profit and taxable profit, mainly in relation to greater tax deductions taken in previous years for provisions and amounts of property, plant and equipment not relevant for tax purposes.

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.

20 Derivative financial instruments

Non-current assets and liabilities					
		Jun 30th 2019		Dec 31st 2018	
Underlying amounts hedged	Fair Value Hierarchy	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Loans	2	54.0	59.9	45.3	37.9
Total non-current derivatives		**54.0**	**59.9**	**45.3**	**37.9**
Current assets and liabilities					
		Jun 30th 2019		Dec 31st 2018	
Underlying amounts hedged	Fair Value Hierarchy	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Loans	2	18.7	6.6	14.8	2.8
Commodity	3	0,.1	10.4	10.0	1.2
Commodity	2	45.0	45.4	87.1	62.2
Total current derivatives		**63.8**	**62.4**	**111.9**	**66.3**
Total financial instruments - derivatives		**117.8**	**122.3**	**157.2**	**104.2**

Derivative financial instruments underwritten by the Group are intended to hedge loans and commodity price fluctuations, as well as trading activities, albeit only to a limited extent.

The net fair value of non-current assets and liabilities in the first half of 2019 was negative and amounted to 5.9 million euros (positive in the amount of 7.4 million euros at December 31st 2018). Specifically, interest rate derivatives had a negative fair value of 29.9 million euros (negative in the amount of 11.8 million euros at December 31st 2018), while the fair value of derivatives taken out to hedge the exchange rate and fair value of foreign currency loans in the form of cross currency swaps was positive and amounted to 24 million euros (positive in the amount of 19.2 million euros at December 31st 2018). The negative change in the net fair value of non-current assets and liabilities as compared to December 31st 2018 is equal to 13.3 million euros and is mainly due to the decreasing trend in interest rate curves; this effect is partially offset by the positive change in exchange rate derivatives, equal to 4.8 million euros, due to the considerable appreciation of the Japanese yen against the euro during the first half of 2019.

Financial instruments reported as current assets and liabilities represent derivative contracts whose execution is expected to take place within the next financial year. The net fair value of current assets and liabilities in the first half of 2019 was positive and amounted to 1.4 million euros (45.6 million euros at December 31st 2018). The negative change in fair value compared with December 31st 2018 can be attributed to commodity derivatives and is generated by a decrease in the volumes underlying electricity contracts, as well as by the different dynamics of the single national rate during the first half of 2019.

During the first six months of 2019, no transfers took place between the different levels of fair value indicated above.

On the basis of the underlying transactions and related management objectives, financial derivative instruments can be divided into the following classes:

Hedging relationships						
	Jun 30th 2019			Dec 31st 2018		
	Fair value assets	Fair value liabilities	Effect net	Fair value assets	Fair value liabilities	Effect net
Cash flow hedge	13.5	45.6	(32.1)	33.6	10.4	23.2

Fair value hedge	24.0	25.8	(1.8)	19.2	23.7	(4.5)
Non hedge accounting	80.4	51.0	29.4	104.4	70.1	34.3
Totale fair value	**117.8**	**122.3**	**(4.5)**	**157.2**	**104.2**	**53.0**

Operating management						
	first six months of 2019			**first six months of 2018**		
	income	**expenses**	**Effect net**	**income**	**expenses**	**Effect net**
Cash flow hedge		(0.4)	(0.4)	3.5	-	3.5
Non hedge accounting	77.9	(87.9)	(10.0)	54.7	(41.3)	13.4
Total operating income (expenses)	**77.9**	**(88.3)**	**(10.4)**	**58.2**	**(41.3)**	**16.9**

Financial operations						
	first six months of 2019			**first six months of 2018**		
	income	**expenses**	**Effect net**	**income**	**expenses**	**Effect net**
Cash flow hedge	0.2	(0.2)	0.0	0.1	(0.6)	(0.5)
Fair value hedge	7.0	(5.2)	1.8	11.5	(4.1)	7.4
Non hedge accounting	40.7	(41.5)	(0.8)	23.6	(23.6)	0.0
Total financial income (expenses)	**47.8**	**(46.8)**	**1.1**	**35.2**	**(28.3)**	**6.9**

Derivatives designated as cash flow hedges refer to:

- variable rate loans underwritten by the Group;
- a highly probable future loan transaction with a total nominal value of 400 million euros and an expected issue date in 2020;
- scheduled purchases of electricity and methane gas, considered highly probable.

Derivatives designated as fair value hedges of financial liabilities recorded in the financial statements (fair value hedges) relate to the bond loan in Japanese yen with a notional residual value of 20 billion yen or 149.8 million euros (converted at the original exchange rate being hedged).

Derivatives not included in hedging strategies (non-hedge accounting) relate to:

- restructuring of the derivative portfolio (through mirroring) carried out in previous years with the aim of rebalancing the ratio between fixed and variable rate debt. This restructuring resulted in revoking certain hedging relationships and underwriting new derivative contracts that do not qualify for hedge accounting, but whose primary purpose is to hedge against fluctuations in interest rates.
- hedging transactions on the purchase of raw materials, but which cannot be formally qualified as hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are reported as operating costs.

With reference to commodity derivatives, it should be noted that a review of the internal organisational model and simultaneous adaptation of management systems have led to the Group defining new procedures that make it possible to identify the nature of the transaction (hedging vs. trading) and to produce the appropriate information set in order to formally identify the purpose of the derivative instrument for a larger number of contracts than was possible in the past. Such a development will therefore make it possible to reduce transactions classified as "non-hedge accounting" even though they are actually carried out for the purpose of substantial hedging.

In relation to fair value hedging, as of 30 June 2019 the breakdown of income and charges relating to underlying liabilities, adjusted for gains and losses attributable to the hedged risk, is as follows:

Underlying amounts	**first six months of 2019**	**first six months of 2018**

hedged						
	income	expenses	Effect net	income	expenses	Effect Net
Assessment of financial liabilities	2.2	(4.8)	(2.6)	-	(9.3)	(9.3)

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 and Fair Value hedges) 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.

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. Only a residual portion of these financial instruments are underwritten for speculative purposes.

21 Inventories

	Jun 30th 2019	Dec 31st 2018	Changes
Raw materials and stocks	81.1	95.1	(14.0)
Materials earmarked for sale and final products	18.6	15.1	3.5
Contract work in progress	49.8	47.1	2.7
Total	**149.5**	**157.3**	**(7.8)**

"Raw materials and stocks", stated net of an obsolescence provision, mainly comprise gas stocks, in the amount of 34.1 million euros (53.6 million euros as at December 31st 2017), spare parts and equipment used for maintenance and running of operating plants and networks, equal to 38.9 million euros (33.8 million euros as at December 31st 2017) and plastic materials earmarked for regeneration in the amount of 8.1 million euros (7.7 million euros as at December 31st 2017).

"Materials earmarked for sale and final products" mainly consists of:

- GVG system - Steam Grid Generator and complementary plant components for a total of 9.6 million euros (the value assessed during the previous financial year is confirmed in the lack of significant new elements to be used in identifying the recoverable value).
- plastic products made in the Group's regeneration plants equal to 8.2 million euros (5.1 million euros as of December 31st 2017).

The item "contract work in progress" includes multi-year contracts for plant construction work, mainly in relation to gas, water, heat management and public lighting.

22 Trade receivables

	Jun 30th 2019	Dec 31st 2018	Changes

Receivables from customers	1,574.5	1,408.6	165.9
Allowance for bad debts	(368.6)	(342.1)	(26.5)
loans to customers for bills and invoices not yet issued	579.9	775.7	(195.8)
Total	**1,785.8**	**1,842.2**	**(56.4)**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after June 30th 2019, as well as receivables for revenues coming due during the period, referring to the water sector, which will be billed in the following months in accordance with the billing methods for final customers established by Aeegsi.

Changes in the provisions for bad debts were as follows:

	Final balance previous period	Adoption of IFRS 9	Opening balance	Provisions	Changes scope of consolidation	Uses and other movements	Closing balance
Jun 30th 2018	271.0	18.2	289.2	44.5	0.8	(18.1)	316.4
Jun 30th 2019	342.1	-	342.1	39.6	6.8	(19.9)	368.6

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on future-oriented analyses of the receivables regarding the general body of customers (in relation to the age of the receivables, the type of recovery action undertaken and the status of the debtor), as described in the following paragraph "credit risk".

The change in the scope of consolidation as of June 30th 2019 reflects the partial proportional demerger of CMV Energia & Impianti Srl into Hera Comm Srl for 6.5 million euros and the acquisition of Cosea Ambiente Srl for 0.3 million euros.

Credit risk

The value of trade receivables reported in the financial statements at June 30th 2019 represents the Group's maximum exposure to credit risk. The Group's credit management model makes it possible to analytically determine the different risks associated with the collectability of trade receivables from customers as soon as they arise and progressively according to their increasing seniority. This approach allows the company to reduce the concentration and exposure to credit risk posed by both business and household customers. With regard to mass client base receivables, write-downs are carried out on the basis of future-oriented analysis regarding the amount of probable future income, taking into consideration the seniority of the receivables, the type of recovery action undertaken and the status of the creditor. From time to time, analyses are conducted on the individual credit positions yet to be resolved, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down.

23 Current tax assets and liabilities

	Jun 30th 2019	Dec 31st 2018	Changes
Income tax receivables	16.5	14.8	1.7
IRES refund receivables	19.5	19.5	-
Total current tax assets	**36.0**	**34.3**	**1.7**
Income tax payables	68.9	6.0	62.9
Total current tax liabilities	**68.9**	**6.0**	**62.9**

"Income tax credits" refer to the excess advance IRES and IRAP payments over the tax amount payable as well as advance payments made in the first half of 2019.

The "IRES refund credit" refers to the requests for IRES refund due for the period 2007-2011, following the deductibility of IRAP from IRES related to labour costs and the like under Law Decree 201/2011.

"Income tax payables" includes the IRES and IRAP amounts allocated in relation to the profit produced in the first half of 2019.

24 Other current assets

	Jun 30th 2019	Dec 31st 2018	Changes
Energy efficiency bonds and emissions trading	73.7	55.1	18.6
Security deposits to suppliers	50.1	53.2	(3.1)
Prepaid costs	37.2	18.3	18.9
VAT, excise and additional taxes	35.5	38.7	(3.2)
Fund for electricity and environmental services for standardisation and continuity income	18.3	24.0	(5.7)
Incentives from renewable sources	17.1	29.7	(12.6)
Advances to suppliers and employees	12.0	12.6	(0.6)
Other receivables	54.5	49.6	4.9
Total	**298.4**	**281.2**	**17.2**

"Energy efficiency bonds and emissions trading", includes:

- white certificates, 56.9 million euros (39.6 million euros as at December 31st 2018);
- green certificates, 9.8 million euros (unchanged as of December 31st 2018);
- grey certificates, 7 million euros (5.7 million euros as at December 31st 2018);

In relation to white certificates, the increase in the value of the portfolio is mainly due to the recording by area of the amount of certificates recognized during the period, in preparation for receiving the entire amount reported the previous year.
With regard to green certificates, by virtue of the change in the incentive mechanism under which a preferential tariff is now granted for the sale of electricity produced from renewable sources, the portfolio relating to this type of security will be discontinued, with a negative effect in terms of valuation, at the time they are delivered to the GSE, or sold on the market.
In relation to grey certificates, the increase as compared to the previous year is mainly due to the higher quantities held in the portfolio.

"Security Deposits", amounting to 50.1 million euros (53.2 million euros as of December 31st 2018), include:

- security deposit made to Acosea Impianti S.r.l. in the amount of 12.5 million euros;
- deposits provided as security for participation in foreign platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity, natural gas and certificates, totalling 28.1 million euros;
- security deposits required by Customs amounting to 2.3 million euros.

"Prepaid costs" mainly refers to the future portion of services and outsourced processing, costs incurred for insurance coverage and guarantees, and personnel costs (especially with reference to the accrued portion of the fourteenth monthly salary). The increase as compared with the previous financial year is due to annual costs that have been paid in the first half of the year.

"VAT, excise and additional taxes", is comprised of tax credits receivables to the treasury for value added tax in the amount of 13.2 million euros and for excise and additional taxes in the amount of 22.3 million euros. The change as compared to December 31st 2018 is attributable to a decrease of 17.5 million euros in receivables for value added tax (30.7 million euros at December 31st 2018) and an increase of 14.3 million euros in receivables for excise and additional taxes (8 million euros as at December 31st 2018). These changes should be interpreted together with the same change shown in note 30 "Other current liabilities". In particular, with regard to excise duties and additional taxes, the procedures that govern the financial relations with the tax authorities should be taken into account: as a matter of fact, advance payments made during the year are calculated on the basis of the quantities of gas and electricity billed in the previous year. These methods can generate credit or debit positions with differences that may be significant even between one period and another.

For "Fund for electricity and environmental services for standardisation and continuity income", amounting to 18.3 million euros (24 million euros at December 31st 2018), the decrease is mainly due to a lower receivable for components and equalisation of gas distribution, only partially offset by the higher receivable for components of electricity distribution and for receivables due from the cash desk connected with the water cycle.

"Incentives from renewable sources", amounting to 17.1 million euros (29.7 million euros at December 31st 2018), consist of receivables from the GSE for the new incentive mechanism to promote the production of electricity from renewable sources, which replaced the mechanism for recognising green certificates. The decrease compared to the previous year is due to the collection of almost all receivables relating to the years 2016, 2017 and 2018.

25 Share capital and reserves

Compared to December 31st 2018, shareholders' net equity decreased by 7.9 million euros due mainly to the combination of the following effects:

- overall revenues for the period in the amount of 128.9 million euros;
- the distribution of dividends in the amount of 160.5 million euros;
- increase due to transactions on treasury shares, in the amount of 19.7 million euros;
- increase due to changes in the scope of consolidation, in the amount of 11.9 million euros;
- decrease due to the adoption of accounting standard IFRS 16, in the amount of 5.1 million euros;
- decrease due to variations in equity investment in consolidated companies, in the amount of 2.8 million euros.

The statement of changes in net equity is shown in section 2.01.05.

Share capital
The share capital as at June 30th 2019 amounted to 1,471.5 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 June 30th 2019 was 17.3 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 1,009.7 million euros, includes retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 1,073.9 million euros, cumulative losses in the other components of comprehensive income equal to 58 million euros and negative reserves for operations on treasury shares in the amount of 6.2 million euros. The latter reflect the transactions carried out on treasury shares by the parent company and subsidiaries as at June 30th 2019. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 4.2 million euros.
The change in the scope of consolidation, amounting to 11.9 million euros, refers to the acquisition of the balance sheets relating to the sale and distribution activities of CMV Energia & Impianti Srl and CMV Servizi Srl, respectively. The operation was in fact carried out through the partial, proportional demerger into subsidiaries Hera Comm Srl and Inrete Distribuzione Energia Spa through a dedicated capital increase, as described in more detail in paragraph 2.02.03 "Scope of consolidation".
With regard to the effects associated with the first application of the new IFRS 16 standard, please refer to paragraph 2.02.02 "Adoption of IFRS 16" for a detailed explanation of these effects.

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.

26 Current and non-current financial liabilities

	Jun 30th 2019	Dec 31st 2018	Changes
Bonds and loans	2,767.0	2,651.7	115.3

Payables for the acquisition of controlling interests and potential payments	17.4	17.4	-
Other financial liabilities	3.1	3.3	(0.2)
Total non-current financial liabilities	**2,787.5**	**2,672.4**	**115.1**
Bonds and loans	456.6	463.5	(6.9)
Payables for the acquisition of controlling interests and potential payments	1.6	9.1	(7.5)
Other financial liabilities	61.9	67.0	(5.1)
Overdrafts and interest expenses	76.8	70.3	6.5
Total current financial liabilities	**596.9**	**609.9**	**(13.0)**
Total financial liabilities	**3,384.4**	**3,282.3**	**102.1**

"Bonds and loans" increased mainly as a result of the following new loans underwritten by the Group:

- loan disbursed by BNL Spa on January 14th 2019 with a face value of 75 million euros and repaid on December 20th 2023;
- loan disbursed by BPER Banca Spa on February 13th 2019 with a nominal value of 50 million euros and repayment on January 25th 2022.

"Payables for the acquisition of controlling interests and potential payments" include the amounts still to be paid to transferor shareholders as part of the business combination transactions concluded in the period or in previous periods, as well as the estimate of the potential payments foreseen by the agreements signed at the time of the acquisition, as of the balance sheet date. At June 30th 2019, this item mainly related to the acquisition of:

- Aliplast Group in the amount of 17.4 million euros in the non-current portion and 0.5 million euros in the current portion;
- Biogas Srl, merged into Herambiente Spa in 2017, amounting to 0.7 million euros.

The item "Other financial liabilities", in relation to the portion due after the current period, includes 3.1 million euros due to the Municipal Pension Fund of the Municipality of Trieste. The current part mainly consists of payables due to:

- collections from customers under safeguard, customers for last resort services in the gas sector and customers affected by the 2012 earthquakes in relation to advances already received from the Energy and Environmental Services Fund, for 21.2 million euros (20.8 million euros as at December 31st 2018);
- reimbursement of disbursements by the GSE amounting to 10.2 million euros;
- collection of receivables factored without recourse still to be transferred to factoring companies at year-end, in the amount of 9.8 million euros (13.7 million euros as at December 31st 2018);
- Advances related to contracts for the exchange of electric power carried out on the EEX platform, which provide for the daily settlement of differentials, equal to 6.1 million euros (27.6 million euros as at December 31st 2018);
- RAI licence fee collection to be transferred to inland revenue in the amount of 5.7 million euros (3 million euros at December 31st 2018);
- payments made by CMV Energia & Impianti Srl in the amount of 2.8 million euros in relation to the balance sheet received;
- double payments received from customers under safeguard equal to 2.6 million euros.

The table below shows the financial liabilities broken down by category as at June 30th 2019, with an indication of the portion expiring within the period, within 5 years and after 5 years:

Type	Residual amount Jun 30th 2019	Portion due within the period	Portion due within 5th year	Portion due beyond 5th year
Bond	2,430.0	398.0	962.2	1,069.8
Bank loans	793.6	58.6	458.4	276.6
Payables for the acquisition of controlling interests and potential payments	19.0	1.6	17.4	
Other financial liabilities	65.0	61.9	3.1	
Overdrafts and interest expenses	76.8	76.8		

Total	**3,384.4**	**596.9**	**1,441.1**	**1,346.4**

The main conditions of the bonds outstanding as of June 30th 2019 are as follows:

Financing and Bonds	Negotiation	Duration (years)	Maturity	Nominal value (mln)	Coupon	Annual interest rate
Eurobond	Listed	10	Dec 3rd 19	394.6 Eur	Annual	4.50%
Bond	Listed	8	Oct 4th 21	289.8 Eur	Annual	3.25%
Bond	Listed	10	May 22nd 23	68.0 Eur	Annual	3.375%
Green bond	Listed	10	Jul 4th 24	500.0 Eur	Annual	2.375%
Bond	Unlisted	15	Aug 5th 24	20,000 Jpy	Six monthly	2.93%
Bond	Listed	12	May 22nd 25	15.0 Eur	Annual	3.50%
Bond	Listed	10	Oct 14th 26	400.0 Eur	Annual	0.875%
Bond	Unlisted	15/20	May 14th 27/32	102.5 Eur	Annual	5.25%
Bond	Listed	15	Jan 29th 28	700.0 Eur	Annual	5.20%

At June 30th 2019, outstanding bonds with a nominal value of 2,619.7 million euros (unchanged from December 31st 2018) and a carrying amount at amortised cost of 2,433.5 million euros (2,428.1 million euros at December 31st 2018) had a fair value of 3,011 million euros (2,890.8 million euros at December 31st 2018) determined by market prices, where available.
There are no covenants on the debt except those, for a few loans, which requires the company not to have even one agency lower its corporate rating below investment grade (BBB-). As of the balance sheet date this covenant has been complied with.

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 December 31st 2019, the Group had unused "committed" lines of credit amounting to approximately 300 million euros, long-term lines of credit, stipulated in December 2018, for 350 million euros of which 225 million were used, as well as wide margins on "uncommitted" credit lines amounting to 542 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 1.10 "Financial policy and rating".

27 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 changes in the existing employee benefit plans in the first half of 2019 are shown below:

	Dec 31st 2018	Service cost	Financial expense	Actuarial income(losses)	Uses and other movements	Changes scope of consol.	Jun 30th 2019
Post-employment	115.3	0.4	0.4	1.3	(3.6)	0.9	114.7

Tariff reduction	6.4	-	0.1	0.9	(0.2)	-	7.2
Premungas	4.0	-	-	0.2	(0.3)	-	3.9
Gas discount	3.8	-	-	0.2	(0.1)	-	3.9
Total	**129.5**	**0.4**	**0.5**	**2.6**	**(4.2)**	**0.9**	**129.7**

The item “Service Cost” regards companies with a small number of employees for whom the employee severance indemnity fund continues to represent a defined benefit plan. "Financial charges" are calculated by applying a specific discount rate for each company, determined on the basis of the average financial life of the bond. "Actuarial gains/(losses)" reflects the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recorded directly in the comprehensive income statement.

The item "Uses and other movements", equal to 4.2 million euros, is composed almost of the amounts paid to employees during the year.

28 Provisions for risks and charges

	Dec 31st 2018	Provisions	Financial expense	Uses and other movements	Changes scope of consol.	Jun 30th 2019
Provision for restoration of third-party assets	199.9	5.0	2.3	-	-	207.2
Provision for closure and post-closure landfill costs	147.6	0.3	5.9	(7.6)	-	146.2
Provision for legal cases and disputes brought by personnel	16.3	1.4	-	(1.9)	0.2	16.0
Plants dismantling provision	7.6	-	0.1	-	-	7.7
Provisions for waste disposal	7.0	6.1	-	(6.3)	-	6.8
Other provisions for risks and charges	80.2	5.8	-	(0.1)	0.4	86.3
Total	**458.6**	**18.6**	**8.3**	**(15.9)**	**0.6**	**470.2**

The "provision for restoration of third-party assets", totalling 207.2 million euros, includes provisions made in relation to law and contractual requirements for the Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the 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 landfill closure and post-closure expenses", equal to 146.2 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 managed. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting and provision procedure due to changes in the assumptions about future outlays, following the change in estimates on closed landfills. Uses represent the effective outlays during the year.

The "provision for legal cases and disputes brought by personnel", amounting to 16 million euros, reflects the outcomes of lawsuits and disputes brought by employees. The provision for the period mainly relates to disputes with business customers.

The item "Plants dismantling provision" equal to 7.7 million euros represents the amount set aside to cover future decommissioning work on waste to energy plants at the end of their useful life.

"Waste disposal fund", amounting to 6.8 million euros, is represented by the estimated costs of disposal of the waste already stored at the Group's plants. The provisions, amounting to 6.1 million euros, reflect the estimated costs of contributions for the first half of 2019 not yet processed at the end of the period, while the uses, amounting to 6.3 million euros, represent the costs incurred during the first half of 2019 for the processing of waste that was residual at the end of the previous year.

The item "Other provisions for risks and charges", amounting to 86.3 million euros, comprises provisions made against sundry risks. Below, there is a description of the main items:

- 18.8 million euros related to the potential risk of the amount of the WTE green certificates not being recognised calculated according to the difference between auxiliary services resulting from self-consumption and services estimated on the basis of the benchmark percentage;
- 11.3 million euros, due to the potential liability related to existing obligations (guarantee on financial exposure given by AcegasApsAmga S.p.A.) in case of abandonment of the operations run by the foreign subsidiary Aresgas (Bulgaria).
- 7.4 million euros in view of the risk following the publication of Ministerial 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 2011 and 2012;
- 7.1 million euros for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill.
- 6.7 million (of which 2.2 million euros set aside in the first half) relating to the dispute that arose in relation to subsidiary Hestambiente Srl in relation to receiving Cip6 incentives for the waste to energy plant in Trieste for the years 2010-2012;
- 6 million euros for uncertainties regarding how to calculate the reimbursement value of the networks when participating in tenders for the gas distribution service in certain areas already served by the Group;
- 3.3 million euros for the risk arising from the Authority's resolution 527/2016, which, in keeping with the findings of the GSE, established that the Fund for Energy and Environmental Services recover the amounts that would have been unduly received for the electricity produced by the Granarolo (Bo) WTE plant from the company Frullo Energia Ambiente Srl .

29 Trade payables

	Jun 30th 2019	Dec 31st 2018	Changes
Payables to suppliers	433.6	602.0	(168.4)
Payables to suppliers for invoices not yet received	675.7	758.4	(82.7)
Total	**1,109.3**	**1,360.4**	**(251.1)**

Nearly all trade payables are the result of transactions carried out in Italy.

30 Other current liabilities

	Jun 30th 2019	Dec 31st 2018	Changes
Payables for advances to the fund for energy and environmental services:	263.6	274.1	(10.5)
plant investment grants	193.2	190.7	2.5

VAT, excise and additional taxes	122.8	31.5	91.3
Fund for components and equalization of the Electricity and Gas Sectors	116.1	76.6	39.5
Security deposits from clients	113.7	101.2	12.5
Payables to social security institutions	50.6	47.0	3.6
Personnel	48.0	48.7	(0.7)
Payables for damage in customs	13.9	13.6	0.3
Employee witholding	12.4	16.6	(4.2)
Anticipated revenues and other accrued expenses	10.0	9.7	0.3
Other payables	76.7	57.2	19.5
Total	**1,021.0**	**866.9**	**154.1**

"Liabilities for advances to the Fund for energy and environmental services" comprises non-interest-bearing advances granted by the electricity sector Equalization Fund, as detailed below:

- 229.5 million euros in compliance with the integration mechanism set forth by resolution 370/2012/R/Eel and 456/2013/R/Eel by the Authority in charge of regulating the energy networks and environment (Arera), for overdue and unpaid receivables from customers managed as protected customers up to December 31st 2016;
- 32.1 million euros in compliance with the re-integration mechanism set forth in Law 239 of 23 August 2004 and by Arera's Tivg for the delinquency charges for services of last resort in the natural gas sector (Fui, Ftf and Fdd) until the 2016-2017 thermal year.
- 1.6 million euros in compliance with the recognition mechanism established by ARERA resolution 627/2015/R/com for overdue charges related to the supply of electricity, gas and integrated water service to the populations affected by the May 20th 2012 earthquakes in the Emilia-Romagna region.

"Plant investment grants" refers mainly to investments made in the water and environment sector; this item decreases in proportion to the amount of depreciation calculated on the fixed assets in question and increases as a result of new investments subject to grants. Specifically, this item includes 41.6 million euros in contributions related to the new Servola purification plant, built in the Municipality of Trieste, and 33.2 million euros in contributions related to the FoNI fund (new water system investment fund), 18.1 million euro in grants for constructing sewerage networks and 16.4 million euros in contributions related to the construction of laminating tanks and submarine ducts in the Rimini area. The change as compared to December 31st 2018 is mainly due to the grants received for investments in the water sector, net of the company's share for the period.

"VAT, excise and additional taxes" includes payables for VAT in the amount of 8.1 million euros (0.9 million euros at December 31st 2018), and excise and additional taxes in the amount of 114.7 million euros (30.6 million euros at December 31st 2018). 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.

The item "Fund for components and equalization of the Electricity and Gas Sectors" reflects debt in relation to the energy and environmental services fund, amounting to:

- A total of 106.1 million euros for system components for the natural gas, electrical and water services, an increase of 40.8 million euros compared to December 31st 2018.
- equalisation on the distribution and measurement of gas and on the distribution and sale of electricity for a total of 10 million euros, down by 1.3 million euros compared to December 31st 2018;

"Security deposits from customers" reflect the amount paid by customers for gas, water and electricity provision contracts.

"Payables to social security institutions" and "Employee withholdings" relate to contributions and withholdings owed to social security institutions and the inland revenue in relation to compensation for June.

“Personnel" includes the vacation time accrued and not used, as well as the productivity bonuses and additional monthly wages for the entire 2018 financial period, accounted for by department as of June 30th 2019.

"Payables for damage in customs", amounting to 13.9 million euros, includes the value of insurance deductibles that the Group must repay directly to damaged third parties or insurance companies.

The item "other payables" is mainly composed of the following:

- liabilities owed to minority shareholders for dividends, amounting to 13.3 million euros (3.9 million euros as at December 31st 2018);
- other tax payables in the amount of 7.3 million euro (2.2 million euros as at December 31st 2018);
- payables to users for payments on account and specific tariff subsidies amounting to 10 million euros (3.9 million euros as of December 31st 2018);
- payables related to the obligation to return Energy Efficiency Certificates for 3.9 million Euros, comprising almost entirely grey certificates, to the competent authorities (6 million euros as of December 31st 2018).

31 Comments to the consolidated cash flow statement

Investments in companies and business operations

During the first half of 2019, the Group acquired control of the gas and electricity sales activities of CMV Energia&Impianti Srl and of the gas distribution activities of CMV Servizi Srl, including the entire holding in A Tutta Rete Srl. The acquisitions were made through partial proportional demerger operations and therefore no cash disbursements took place. In addition, the Group was awarded the tender for the acquisition of Cosea Ambiente Spa, a company that manages waste services in 20 municipalities in the Tuscan-Emilian Apennines. The table below details the main cash disbursements and cash holdings acquired:

Jun 30th 2019	CMV distribution activities	Cosea Ambiente Spa	Total investments
Cash outlays leading to the acquisition of control		(1.5)	(1.5)
cash holdings acquired	0.2	0.7	0.9
Investments in equity holdings, net of liquid assets	**0.2**	**(0.8)**	**(0.6)**

Acquisition of Interests in consolidated companies

The value refers to the outlay related to the purchase of non-controlling interests in Acantho Spa and Marche Multiservizi Spa, as described in section 2.02.03 "Scope of consolidation".

The main changes in liabilities generated by financing activities

The table below shows the changes in financial liabilities that occurred in the first half of 2019, broken down into cash and non-monetary flows.

Type	Jun 30th 2019	Dec 31st 2018	Changes	Non-cash flows				Cash flows
				Acquisitions divestitures	differences in exchange rates	Changes in fair value	Other changes	
Banks and financing coming due after the current financial period	2,787.5	2,672.4	115.1	4.1		2.6	(19.2)	127.6
Banks and financing coming due during the current financial period	596.9	609.9	(13.0)	9.4			23.4	(45.8)
Lease payables	110.9	13.9	97.0	0.8			98.8	(2.6)
Liabilities generated by financing activities	**3.495,3**	**3,296.2**	**199.1**	**14.3**	**-**	**2.6**	**103.0**	**79.2**

The item "Other changes" relating to the item "Lease payables" includes the financial debt recorded at January 1st 2019 in relation to the first application of IFRS 16, as described in paragraph 2.02.02 "Adoption of IFRS 16".

2.02.06 Reporting by operational sector

Reporting by operational sectors is based on the approach management uses to monitor the performance of the Group by homogeneous business areas. The net costs and assets for business support functions, in keeping with the internal control model, are entirely associated to operational businesses.

As at June 30th 2019, the Hera Group is organized according to the following operating sectors:

- **Gas:** includes the costs of distributing and selling gas and GPL as well as district heating and heating management;
- **Electricity:** includes the costs of producing, distributing and selling electricity.
- **Water Cycles:** includes aqueduct, purification and sewage services;
- **Environment:** includes waste collection, treatment and recycling services;
- **Other services:** includes public lighting, telecommunications and other minor services.

Assets and liabilities by operational sector for the year 2018 and the first half of 2019 are outlined:

Jun 30th 2019	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets	1,550.5	559.5	1,910.9	1,249.8	133.1	5,403.8
Goodwill	94.0	42.1	42.9	197.7	4.9	381.6
Equity investments	58.2	42.6	18.3	24.6	-	143.7
Fixed assets not attributed						135.0
Net fixed assets	**1,702.7**	**644.2**	**1,972.1**	**1,472.1**	**138.0**	**6,064.1**
attributed net working capital	9.2	181.5	(176.6)	88.7	0.6	103.4
net working capital not attributed						(43.6)
Net working capital	**9.2**	**181.5**	**(176.6)**	**88.7**	**0.6**	**59.8**
Other provisions	(163.7)	(24.6)	(144.1)	(262.8)	(4.7)	(599.9)
Net invested capital	**1,548.2**	**801.1**	**1,651.4**	**1,298.0**	**133.9**	**5,524.0**

Dec 31st 2018	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets	1,500.6	555.6	1,874.6	1,207.2	120.6	5,258.6
Goodwill	93.8	42.1	43.0	197.6	4.8	381.3
Equity investments	62.1	42.6	18.7	25.7	-	149.1
Fixed assets not attributed						116.1
Net fixed assets	**1,656.5**	**640.3**	**1,936.3**	**1,430.5**	**125.4**	**5,905.1**
attributed net working capital	7.6	168.3	(154.9)	34.8	(2.3)	53.5
net working capital not attributed						61.9
Net working capital	**7.6**	**168.3**	**(154.9)**	**34.8**	**(2.3)**	**115.4**
Other provisions	(159.1)	(24.6)	(141.4)	(258.4)	(4.7)	(588.2)
Net invested capital	**1,505.0**	**784.0**	**1,640.0**	**1,206.9**	**118.4**	**5,432.3**

The most significant results by operational sector for the first half of 2019 and same period of the year before are outlined as follows:

first six months of 2019	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	1,451.0	1,133.2	414.4	565.6	48.0	8.3	3,620.6
Revenues within the cycle	46.3	73.4	2.6	24.9	18.2	16.6	182.0
Total direct revenues	**1,497.3**	**1,206.6**	**417.0**	**590.5**	**66.2**	**24.9**	**3,802.6**
Indirect revenues	4.7	1.8	13.8	4.6	0.0	(24.9)	-
Total revenues	**1,502.0**	**1,208.4**	**430.8**	**595.1**	**66.2**	**-**	**3,802.6**
EBITDA	**195.6**	**86.3**	**122.8**	**126.3**	**14.9**	**-**	**545.9**
Direct amortisations and provisions	65.4	27.0	57.6	67.6	9.9	29.5	257.0
Indirect amortisations and provisions	3.9	1.6	13.1	10.8	0.2	(29.5)	-
Amort. and prov. Totals	**69.2**	**28.6**	**70.7**	**78.3**	**10.2**	**-**	**257.0**
Operating profit	**126.3**	**57.7**	**52.1**	**48.0**	**4.7**	**-**	**288.9**

first six months of 2018	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total
Direct revenues	1,076.6	1,111.2	396.7	530.4	50.7	10.8	3,176.5
Revenues within the cycle	46.5	70.4	2.7	26.9	16.9	14.5	177.9
Total direct revenues	**1,123.1**	**1,181.6**	**399.4**	**557.4**	**67.6**	**25.4**	**3,354.4**
Indirect revenues	5.7	2.6	12.9	4.1	-	(25.4)	-
Total revenues	**1,128.8**	**1,184.2**	**412.3**	**561.4**	**67.7**	**-**	**3,354.5**
EBITDA	**188.4**	**84.0**	**112.8**	**125.9**	**12.6**	**-**	**523.6**
Direct amortisations and provisions	57.0	34.0	58.9	67.2	8.1	24.9	250.0
Indirect amortisations and provisions	3.0	1.0	11.4	9.3	0.2	(24.9)	-
Amort. and prov. Totals	**60.0**	**34.9**	**70.3**	**76.5**	**8.2**	**-**	**250.0**
Operating profit	**128.3**	**49.0**	**42.5**	**49.4**	**4.3**	**-**	**273.6**

2.03 Net financial indebtedness

2.03.01
Net financial indebtedness

		Jun 30th 2019	Dec 31st 2018
a	**Cash and cash equivalents**	**619.4**	**535.5**
b	**Other current financial receivables**	**52.5**	**37.3**
	Current bank debt	(76.8)	(70.3)
	Current portion of bank debt	(444.5)	(451.5)
	Other current financial liabilities	(63.5)	(76.1)
	Current lease payables	(17.9)	(1.7)
c	**Current financial debt**	**(602.7)**	**(599.6)**
d=a+b+c	**Current net financial debt**	**69.2**	**(26.8)**
	Non-current bank debt and bonds issued	(2,772.9)	(2,644.3)
	Other non-current financial liabilities	(20.5)	(20.7)
	Current lease payables	(93.0)	(12.2)
e	**Non-current financial debt**	**(2,886.4)**	**(2,677.2)**
f=d+e	**Net debt - CONSOB Communication No. 15519/2006**	**(2,817.2)**	**(2,704.0)**
g	**non-current financial receivables**	**132.0**	**118.4**
h=f+g	**Net financial indebtedness**	**(2,685.2)**	**(2,585.6)**

2.03.02 Net financial indebtedness according to the Consob notice DEM/6064293 of 2006

		Jun 30th 2019					Dec 31st 2018				
			A	B	C	D		A	B	C	D
a	**Cash and cash equivalents**	**619.4**	-	-	-	-	**535.5**	-	-	-	-
	of which related parties										
b	**Other current financial receivables**	**52.5**					**37.3**				
	of which related parties		-	6.4	2.6	1.4		0.1	5.3	2.7	3.9
	Current bank debt	(76.8)	-	-	-	-	(70.3)	-	-	-	-
	Current portion of bank debt	(444.5)	-	(0.8)	-	-	(451.5)	-	(0.8)	-	-
	Other current financial liabilities	(63.5)	-	-	(0.2)	-	(76.1)	-	-	(0.4)	-
	Current lease payables	(17.9)	-	-	(2.5)	(0.1)	(1.7)	-	-	-	-
c	**Current financial debt**	**(602.7)**					**(599.6)**				
	of which related parties		-	(0.8)	(2.7)	(0.1)		-	(0.8)	(0.4)	-
d=a+b+c	**Current net financial debt**	**69.2**					**(26.8)**				
	of which related parties		-	5.6	(0.1)	1.3		0.1	4.5	2.3	3.9
	Non-current bank debt and bonds issued	(2,772.9)	-	-	-	-	(2,644.3)	-	-	-	-
	Other non-current financial liabilities	(20.5)	-	-	(3.0)	-	(20.7)	-	-	(3.3)	-
	Current lease payables	(93.0)	-	-	(13.7)	(0.4)	(12.2)	-	-	-	-
e	**Non-current financial debt**	**(2,886.4)**					**(2,677.2)**				
	of which related parties		-	-	(16.7)	(0.4)		-	-	(3.3)	-
f=d+e	**Net debt - CONSOB Communication No. 15519/2006**	**(2,817.2)**					**(2,704.0)**				
	of which related parties		-	5.6	(16.8)	0.9		0.1	4.5	(1.0)	3.9
g	**non-current financial receivables**	**132.0**					**118.4**				
	of which related parties		-	36.5	18.1	29.6		-	38.9	18.3	26.9
h=f+g	**Net financial indebtedness**	**(2,685.2)**					**(2,585.6)**				
	of which related parties		-	42.1	1.3	30.5		0.1	43.4	17.3	30.8

Legend of column headings for correlated parts:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04 Financial statement formats as per Consob resolution 15519/2006

2.04.01 Income statement as per Consob resolution 15519/ 2006

	notes	first six months of 2019	of which related parties						first six months of 2018	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	3,371.6	-	44.3	147.5	5.0	196.8	5.8%	2,966.7	-	29.9	147.6	7.5	185.0	6.2%
Other operating revenues	2	249.0	-	0.1	5.6	-	5.7	2.3%	209.8	-	0.1	3.6	-	3.7	1.8%
Use of raw materials and consumables	3	(1,699.2)	-	(8.6)	-	(22.0)	(30.6)	1.8%	(1,327.6)	-	(10.8)	-	(24.0)	(34.8)	2.6%
Service costs	4	(1,075.1)	-	(7.1)	(10.0)	(11.8)	(28.9)	2.7%	(1,031.6)	-	(6.4)	(12.6)	(11.5)	(30.5)	3.0%
Personnel costs	5	(286.6)	-	-	-	-	-		(281.7)	-	-	-	-	-	
Other operating costs	6	(29.8)	-	(0.1)	(0.7)	(0.2)	(1.0)	3.4%	(30.3)	-	-	(0.6)	(0.5)	(1.1)	3.6%
Capitalized costs	7	16.0	-	-	-	-	-		18.3	-	-	-	-	-	
Amortisation, depreciation and provisions	8	(257.0)	-	-	(1.0)	-	(1.0)	0.4%	(250.0)	-	-	-	-	-	
Operating revenues		**288.9**	**-**	**28.6**	**141.4**	**(29.0)**	**141.0**		**273.6**	**-**	**12.8**	**138.0**	**(28.5)**	**122.3**	
Share of profits (losses) pertaining to associated companies	9	6.5	-	6.5	-	-	6.5	100.0%	8.6	-	8.6	-	-	8.6	100.0%
Financial income	10	67.8	-	1.1	-	0.2	1.3	1.9%	60.6	-	1.2	-	0.2	1.4	2.3%
Financial expense	10	(119.2)	-	-	(0.4)	-	(0.4)	0.3%	(103.6)	-	-	(0.1)	-	(0.1)	0.1%
Financial operations		**(44.9)**	**-**	**7.6**	**(0.4)**	**0.2**	**7.4**		**(34.4)**	**-**	**9.8**	**(0.1)**	**0.2**	**9.9**	
Earnings before taxes		**244.0**	**-**	**36.2**	**141.0**	**(28.8)**	**148.4**		**239.2**	**-**	**22.6**	**137.9**	**(28.3)**	**132.2**	
Taxes	11	(70.1)	-	-	-	-	-		(72.0)	-	-	-	-	-	
Net profit for the year		**173.9**	**-**	**36.2**	**141.0**	**(28.8)**	**148.4**		**167.2**	**-**	**22.6**	**137.9**	**(28.3)**	**132.2**	
To attribute to:															
Shareholders of the parent company		166.2							158.1						
Minority shareholders		7.7							9.1						
Earnings per share	**12**														
basic		**0.113**							**0.108**						
diluted		**0.113**							**0.108**						

Legend of column headings for correlated parts:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04.02 Statement of financial position as per Consob resolution 15519/ 2006

	notes	Jun 30th 2019	of which related parties						Dec 31st 2018	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	13	1,962.7	-	-	-	-	-		2,003.7	-	-	-	-	-	
Rights of use	14	113.0	-	-	-	-	-		-	-	-	-	-	-	
Intangible assets	15	3,328.1	-	-	-	-	-		3,254.9	-	-	-	-	-	
Goodwill	16	381.6	-	-	-	-	-		381.3	-	-	-	-	-	
Equity investments	17	143.7	0.2	131.8	-	7.2	139.2	96.9%	149.1	0.2	137.2	-	7.2	144.6	97.0%
Current and non-current financial assets	18	132.0	-	36.5	18.1	29.6	84.2	63.8%	118.4	-	38.9	18.3	26.9	84.1	71.0%
Deferred tax assets	19	176.6	-	-	-	-	-		159.2	-	-	-	-	-	
Derivative financial instruments	20	54.0	-	-	-	-	-		45.3	-	-	-	-	-	
Total Non-current assets		**6,291.7**	**0.2**	**168.3**	**18.1**	**36.8**	**223.4**		**6,111.9**	**0.2**	**176.1**	**18.3**	**34.1**	**228.7**	
Current assets															
Inventories	21	149.5	-	-	-	-	-		157.3	-	-	-	-	-	
Trade receivables	22	1,785.8	-	12.5	62.8	16.3	91.6	5.1%	1,842.2	0.1	21.8	66.6	17.4	105.9	5.7%
Current financial assets	18	52.5	-	6.4	2.6	1.4	10.4	19.8%	37.3	0.1	5.3	2.7	3.9	12.0	32.2%
Current tax assets	23	36.0	-	-	-	-	-		34.3	-	-	-	-	-	
Other current assets	24	298.4	-	4.4	1.2	18.2	23.8	8.0%	281.2	-	0.8	1.0	17.6	19.4	6.9%
Derivative financial instruments	20	63.8	-	-	-	-	-		111.9	-	-	-	-	-	
Cash and cash equivalents	18, 31	619.4	-	-	-	-	-		535.5	-	-	-	-	-	
Total current assets		**3,005.4**	**-**	**23.3**	**66.6**	**35.9**	**125.8**		**2,999.7**	**0.2**	**27.9**	**70.3**	**38.9**	**137.3**	
TOTAL ASSETS		**9,297.1**	**0.2**	**191.6**	**84.7**	**72.7**	**349.2**		**9,111.6**	**0.4**	**204.0**	**88.,6**	**73.0**	**366.0**	

Legend of column headings for correlated parts:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

	notes	Jun 30th 2019	of which related parties	Dec 31st	of which related parties

			A	B	C	D	Total	%	2018	A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	25														
Share capital		1,471.5	-	-	-	-	-		1,465.3	-	-	-	-	-	
Reserves		1,009.7	-	-	-	-	-		913.5	-	-	-	-	-	
Profit (losses) for the period		166.2	-	-	-	-	-		281.9	-	-	-	-	-	
Group net equity		**2,647.4**	**-**	**-**	**-**	**-**	**-**		**2,660.7**	**-**	**-**	**-**	**-**	**-**	
Non-controlling interests		191.4	-	-	-	-	-		186.0	-	-	-	-	-	
Total net equity		**2,838.8**	**-**	**-**	**-**	**-**	**-**		**2,846.7**	**-**	**-**	**-**	**-**	**-**	
Non-current liabilities															
Non-current financial liabilities	26	2,787.5	-	-	3.0	-	3.0	0.1%	2,672.4	-	-	3.3	-	3.3	0.1%
Current lease payables	14	93.0	-	-	4.0	0.4	4.4		12.2	-	-	-	-	-	
Post-employment and other benefits	27	129.7	-	-	-	-	-		129.5	-	-	-	-	-	
Provisions for risks and charges	28	470.2	-	-	-	-	-		458.6	-	-	-	-	-	
Deferred tax liabilities	19	41.6	-	-	-	-	-		43.1	-	-	-	-	-	
Derivative financial instruments	20	59.9	-	-	-	-	-		37.9	-	-	-	-	-	
Non-current liabilities		**3,581.9**	**-**	**-**	**7.0**	**0.4**	**7.4**		**3,353.7**	**-**	**-**	**3.3**	**-**	**3.3**	
Current liabilities															
Current financial liabilities	26	596.9	-	0.8	0.3	-	1.1	0.2%	609.9	-	0.8	0.4	-	1.2	0.2%
Current lease payables	14	17.9	-	-	1.7	0.1	1.8		1.7	-	-	-	-	-	
Trade payables	29	1,109.3	-	18.4	14.4	21.8	54.6	4.9%	1,360.4	0.3	10.9	18.1	25.0	54.3	4.0%
Current tax liabilities	23	68.9	-	-	-	-	-		6.0	-	-	-	-	-	
Other current liabilities	30	1,021.0	-	1.9	5.0	0.4	7.3	0.7%	866.9	-	2.3	6.5	0.2	9.0	1.0%
Derivative financial instruments	20	62.4	-	-	-	-	-		66.3	-	-	-	-	-	
Total current liabilities		**2,876.4**	**-**	**21.1**	**21.4**	**22.3**	**64.8**		**2,911.2**	**0.3**	**14.0**	**25.0**	**25.2**	**64.5**	
TOTAL LIABILITIES		**6,458.3**	**-**	**21.1**	**28.4**	**22.7**	**72.2**		**6,264.9**	**0.3**	**14.0**	**28.3**	**25.2**	**67.8**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**9,297.1**	**-**	**21.1**	**28.4**	**22.7**	**72.2**		**9,111.6**	**0.3**	**14.0**	**28.3**	**25.2**	**67.8**	

Legend of column headings for correlated parts:
A non-consolidated subsidiaries
B Associated and jointly controlled companies
C Related companies with significant influence (shareholder municipalities)
D Other related parties:

2.04.03 Financial statement as per Consob resolution 15519/2006

	Jun 30th 2019	Of which correlated parts
Earnings before taxes	**244.0**	
Adjustments to reconcile net profit to the cashflow from operating activities		
Amortization and impairment of property, plant and equipment	87.5	
Amortization and impairment of intangible assets	111.8	
Allocation to provisions	57.7	
Effects from valuation using the equity method	(6.5)	
Financial (income) expenses	51.4	
(Capital gains) losses and other non-monetary elements	(2.7)	
Change in provision for risks and charges	(16.2)	
Change in provision for employee benefits	(4.4)	
Total cash flow before changes in net working capital	**522.6**	
(Increase) decrease in inventories	7.6	
(Increase) decrease in trade receivables	37.8	14.3
Increase (decrease) in trade payables	(275.5)	0.3
Increase/decrease in other current assets/liabilities	131.6	(1.9)
Changes in working capital	**(98.5)**	
Dividends collected	7.9	7.9
Interest income and other financial income collected	25.5	1.3
Interest expenses and other financial charges paid	(62.2)	(0.1)
Taxes paid	(10.8)	
Cash flow from operating activities (a)	**384.5**	
Investments in property, plant and equipment	(60.5)	
Investments in intangible assets	(154.1)	
Investments in companies and business units net of cash and cash equivalents	(0.6)	(0.1)
Sale price of property, plant and equipment	1.3	
(Increase) decrease in other investment activities	(24.9)	1.5
Cash flow from (for) investing activities (b)	**(238.8)**	
New issue of long-term binds	127.6	
Repayments and other net changes in financial payables	(45.8)	(0.4)
Lease payments	(9.4)	(0.6)
Acquisition of Interests in consolidated companies	(2.8)	
Dividends paid out to Hera shareholders and non-controlling interests	(151.1)	(59.0)
Changes in treasury share	19.7	
Cash flow from (for) financing activities (c)	**(61.8)**	
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	
Increase (decrease) in cash and cash equivalents (a+b+c+d)	**83.9**	
Cash and cash equivalents at the beginning of the period	535.5	
Cash and cash equivalents at the end of the period	619.4	

2.04.04 List of correlated parts

The figures in the table as at June 30th 2019 refer to the correlated parties listed below:

Group A - Non-consolidated subsidiaries

Black Sea Comp.Compr.Gas Ltd
SiGas Doo

Group B- affiliated and jointly controlled companies:

Adria Link Srl
Aimag Spa
Centro Idrico di Novoledo Srl
Energo Doo
Enomondo Srl
EstEnergy Spa
H.E.P.T. Co. Ltd
Natura Srl in liquidation
Oikothen Scarl in liquidation
Q.tHermo Srl
S2A Scarl
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 Padua
Municipality of Ravenna
Municipality of Rimini
Municipality of Trieste
CON.AMI
Holding Ferrara Servizi Srl
Ravenna Holding Spa
Rimini Holding Spa

Group D - Other related parties

Acosea Impianti Srl
Acquedotto del Dragone Impianti Spa
Aloe Spa
Amir Spa - Asset
Aspes Spa
Baldassi Srl
Calenia Energia Spa
Cartasi
CO.RA.B. Srl
Dama Srl
Eurizon Capital Sgr Spa
Executive Advocacy Srl
Fiorano Gestioni Patrimoniali Srl

Formigine Patrimonio Srl
Imola Gru Srl
Istituto Centrale Banche Popolari
KT Finance Srl
Maranello Patrimonio Srl
Rabofin Srl
Rest Srl
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Scr Servizi Srl
Serramazzoni Patrimonio Srl
Sinapsi Srl
Sis Società Intercomunale di Servizi Spa in liquidation
Società Italiana Servizi Spa - Asset
Te.Am Srl
Teikos Lab Srl
Unica reti - Asset
Vallicelli Sollevamenti Srl
Auditors, directors, strategic executives, family members of strategic executives

2.04.05 Commentary notes to the relations with correlated parts

Service management

In most of the areas it serves competence and in almost all of shareholding municipalities for the provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna, Rimini, Padua, Udine, Trieste, Gorizia and Pesaro, the Hera Group holds the concession for the local public services of economic interest (distribution of natural gas through local gas pipelines, integrated water service and environmental services, including sweeping, waste collection, transport and recovery and disposal). The electricity distribution service is carried out in the areas of Modena and Imola, and in the municipalities of Trieste and Gorizia. Other public utilities (including urban district heating, heat management and public lighting) are carried out in a free market regime or through specific agreements with the local authorities concerned. Through specific relations with the local authorities and / or local agencies, Hera is also responsible for waste treatment and disposal services, not included in urban hygiene activities.

Water sector

The water services managed by the Hera Group are carried out in the areas served in the Emilia-Romagna, Veneto, Friuli-Venezia Giulia and Marche regions. It is carried out on the basis of conventions with the relevant local agencies, with a variable duration, which is usually twenty years.

Hera's management of the integrated water service includes the combined activities of collection, purification and distribution of potable water for residential and industrial use as well as the sewerage and purification service. The agreements signed with the local area authorities also require the operator to carry out the planning and construction of new networks and plants aimed at providing the service. The conventions regulate the economic aspects of the contractual agreement, as well as the modes of managing the service, and the performance and quality standards.

Beginning in 2012, authority for rates was transferred from the state to the national agency ARERA which, as part of this task it has been assigned, approved a transitional rate method for the period 2012-2013, a two-year period of consolidation from 2014 to 2015 and a rate method in force for 2016-2019; under this last measure (Authority Resolution no. 664/2015/ R/IDR) the National Authority also updated the agreements on the basis of a model it established. The adjustment for 2016-2019 is in continuity with the 2014-2015 two-year period; each operator is granted revenue (VRG) independently of the trends of the volumes distributed and it is established on the basis of operating costs (efficient and exogenous) and capital costs in relation to the investments made.

For the purpose of carrying out the service, the operator uses networks, facilities and other equipment owned by the company itself or the municipalities or asset companies. These assets, part of the inaccessible water stores, or granted or leased to the provider, must be returned to the municipalities, asset companies or local area authorities at the end of the concession to be made available to the incoming provider. Any work carried out by Hera for the water service must be returned to above mentioned entities following payment or the residual value of the assets in question.

Hera's relations with users are regulated by provisioning regulations as well as Service Charters drafted on the basis of templates approved by local area authorities in compliance with provisions set out by ARERA regarding the quality of the service and the resource.

Environment sector

The municipal waste service managed by Hera in the area it serves is provided on the basis of agreements with local authorities and comprises the exclusive management of the collection, transportation, sweeping and cleaning of streets, preparations for waste recovery or disposal, etc. Agreements with local authorities regulate the economic aspects of the contract as well as the methods used to organize and manage these services and the quantity and quality of the services provided. The payments due to the operator for the services rendered, including municipal waste disposal/treatment/recovery activities, have been defined annually on the basis of the national rate method (Presidential Decree 158/1999), as supplemented by the regional regulation as far as waste disposal is concerned (Reg. no. . 467/2015), as well as, beginning in 2013, first the Tares and then Tari and TCP (Detailed charge rate) regulations. The 2019 amounts approved by local authorities were invoiced to individual municipalities or citizens, in which case the detailed fee is applied.

To run treatment plants for municipal waste, the Hera Group is required to obtain provincial authorizations; furthermore, for 2019, the subsidiary Herambiente signed with Atersir the service contract established by article 16 of Regional Law 23 of Emilia Romagna, dated 2011, for the disposal of unsorted waste.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (so-called Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report on operations. Inrete Distribution Energy Spa, an Hera Group company that took over natural gas and electricity distribution from Hera SpA, takes advantage of longer residual terms established for operators that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions issued by the agency in charge of this sector (ARERA). The area in which the Hera Group company Inrete Distribuzione Energia Spa provides methane gas distribution services is divided into rate zones in which a uniform distribution rate is applied to different categories of customers. The main tariff regulations in force at the time of approval of these half-yearly financial statements are Resolutions 667/2018/R/gas of December 18th 2018 (Update of tariffs for gas distribution and metering services, for the year 2019), which replaced 859/2017/R/Gas in force for 2018, and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2019, as per Article 40 of the GDR, the various gas tariff options, as per Article 65 of the GDR, and the amounts stemming from the two-monthly advance equalization relating to the natural gas distribution service, as per Article 45 of the GDR and Article 775/2016/R/Gas of December 22nd 2016 (Infra-period update of the tariff regulation for gas distribution and metering services, for the three-year period 2017-2019). RTDG approval for the 2017-2019 three-year period) that served to approve the new version of the regulations governing tariffs for natural gas distribution and metering services for the regulatory period 2014-2019 (RTDG), following the changes regarding recognized operating costs, determining the component of the tariff to cover the cost of metrological checks, accounting for the system costs of metering and management at a distance and concentrators and defining the standard costs of electronic measurement units for the 2017-2019 three-year period. Beginning January 1st 2014, in fact, the new Regulation governing gas distribution and metering service rates for the regulation period 2014-2019 (RTDG 2014-2019) went into effect, approved with resolution 367/2014/R/gas as subsequently modified and supplemented. Under the provisions of article 28 of the RTDG 2014-2019, the obligatory natural gas distribution and metering rates are differentiated into six rate areas:

- the northwest area, which includes the regions of Valle d'Aosta, Piedmont and Liguria;
- the northeast area, including the regions of Lombardy, Trentino - Alto Adige, Veneto, Friuli - Venezia Giulia, and Emilia - Romagna;
- the central area, comprising the regions of Tuscany, Umbria and the Marche;
- the central-southeastern area, including the regions of Abruzzo, Molise, Apuglia and Basilicata;
- the central-southwestern area, including the Lazio and Campania regions;
- the southern area, including the regions of Calabria and Sicily .

The value of the components referred to in paragraph 27.3, sections c), d), e), f), g) and h) of the RTDG 2014-2019 is established by the Authority and subject to quarterly updating.
Consistent with the provisions of article 40, paragraph 9 of the RTDG, the fixed components of the mandatory rate for distribution and metering services have been divided into three bands based on the class of their size group.
With regard to electricity, the contracts (lasting thirty years and renewable pursuant to the current regulations) govern power distribution activities comprising, inter alia, the management of distribution networks and the operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development projects, and metering. The contract may be suspended or terminated, on the judgement of the sector Authority, if defaults and violations occur on the part of the concessionary company that seriously affect the performance of the distribution and metering of electricity. The concessionary company is obliged to apply the rates set by current regulations and resolutions adopted by the sector Authority. The rate regulations in effect at the time the half-yearly financial statements attached to this report are approved is that of the Authority's resolution 654/2015/R/Eel of December 23rd 2015 (Rate regulations for electricity transmission, distribution and metering, for the regulatory period 2016-2023), which replaced the previous Authority resolution Arg/elt no.

199/2011 and subsequent amendments and additions (Official directives for the provision of electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions on economic conditions for the provision of connection services), in force until December 31st 2015.

The mandatory rate for distribution services covers the costs of transporting electricity along distribution networks. The rate has a trinomial-type structure and is expressed in hundredths of a euro per sampling point per year (fixed component), euro cents per KW per year (power component) and euro cents per kWh consumed (energy component).

The mandatory tariff for the distribution service is updated annually by the sector authority (ARERA) by means of a specific provision, therefore on December 18th 2018 resolution 671/2018/R/Eel was approved updating, for the year 2019, the mandatory tariffs for the distribution services and measurement of electricity for non-domestic customers as well as the economic conditions for providing connection services to the electricity grids. The resolution also provided for the extension until December 31st 2019 of the deadline for defining the criteria for tariff regulation for withdrawing and emitting power and reactive energy at high and extra-high voltage withdrawal points and the extension until December 31st 2019 of the reduction in charges for residential customers who would like to change the level of contractually committed power provided for in Article 8-bis of the ICT. Also on December 18th 2018, the sector authority (ARERA) approved resolution 673/2018/R/eel updating the tariffs for providing network services (transmission, distribution and measurement) for domestic customers for 2019.

2.05 Equity investments: List of consolidated companies

Subsidiaries

Registered name	Registered office	Share capital where not otherwise specified	Percentage held		Total interest
			direct	indirect	
Parent company: Hera Spa	Bologna	1,489,538,745			
Acantho Spa	Imola (BO)	23,573,079	80.64%		80.64%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasApsAmga Servizi Energetici Spa	Udine	11,168,284		100.00%	100.00%
Alimpet Srl	Borgolavezzaro (NO)	50,000		75.00%	75.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sarl	La Wantzenau (Francia)	25,000		75.00%	75.00%
Aliplast Iberia SL	Calle Castilla -Leon (Spagna)	815,000		75.00%	75.00%
Aliplast Polska Spoo	Zgierz (Polonia)	1,200,000 PLN		75.00%	75.00%
AresGas Ead	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
Aresenergy Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
Asa Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
A Tutta Rete Srl	Cento (FE)	100,000		100.00%	100.00%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Blu Ranton Srl	Pescara	100,000		84.00%	84.00%
Cosea Ambiente Spa	Castel di Casio (BO)	477,526	100.00%		100.00%
EnergiaBaseTrieste Srl	Trieste	180,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	100,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Herambiente Spa	Bologna	271,648,000	75.00%		75.00%
Herambiente Servizi Industriali Srl	Bologna	1,748,472		75.00%	75.00%
Hera Comm Srl	Imola (BO)	53,595,899	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		84.00%	84.00%
Hera Luce Srl	Cesena	1,000,000		100.00%	100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		57.89%	57.89%
Heratech Srl	Bologna	2,000,000	100.00%		100.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Inrete Distribuzione Energia Spa	Bologna	10,091,815	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	16,388,535	46.70%		46.70%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		46.70%	46.70%
Sangroservizi Srl	Atessa (CH)	10,000		100.00%	100.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Scarl	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 entities

Registered name	Registered office	Share capital (euros)	Percentage held		Total interest
			direct	indirect	
Enomondo Srl	Faenza (RA)	14,000,000		37.50%	37.50%
EstEnergy Spa	Trieste	1,718,096		51.00%	51.00%

Associated companies

Registered name	Registered office	Share capital (euros)	Percentage held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
Q.tHermo Srl	Florence	10,000		39.50%	39.50%
Set Spa	Milan	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 share capital of these companies consists of 67,577,681 euros of ordinary shares and 10,450,000 of related shares.

2.06 Declaration on the consolidated financial statement 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 abbreviated half-year financial statements for the first half of 2019.

2 – We also declare that:

2.1 – the abbreviated half-year 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 intermediate directors' report includes a reliable analysis of the significant events that occurred during the first six months of the year and their impact on the abbreviated half-year report, along with a description of the major risks and uncertainties for the remaining six months of the year. The intermediate directors' report furthermore includes a reliable analysis of the significant transactions with related parties.

The CEO	The Manager in charge of the corporate accounting statements
Stefano Venier	Luca Moroni

Bologna, 30 July 2019

2.08 Report by the independent auditor

Deloitte.

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Hera S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Hera S.p.A. and subsidiaries (the "Hera Group"), which comprise the statement of financial position as of June 30, 2019 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of Hera Group as at June 30, 2019 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
August 2, 2019

This report has been translated into the English language solely for the convenience of international readers.

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