Consolidate half-year financial report

as at 30 june 2017

GRUPPO HERA

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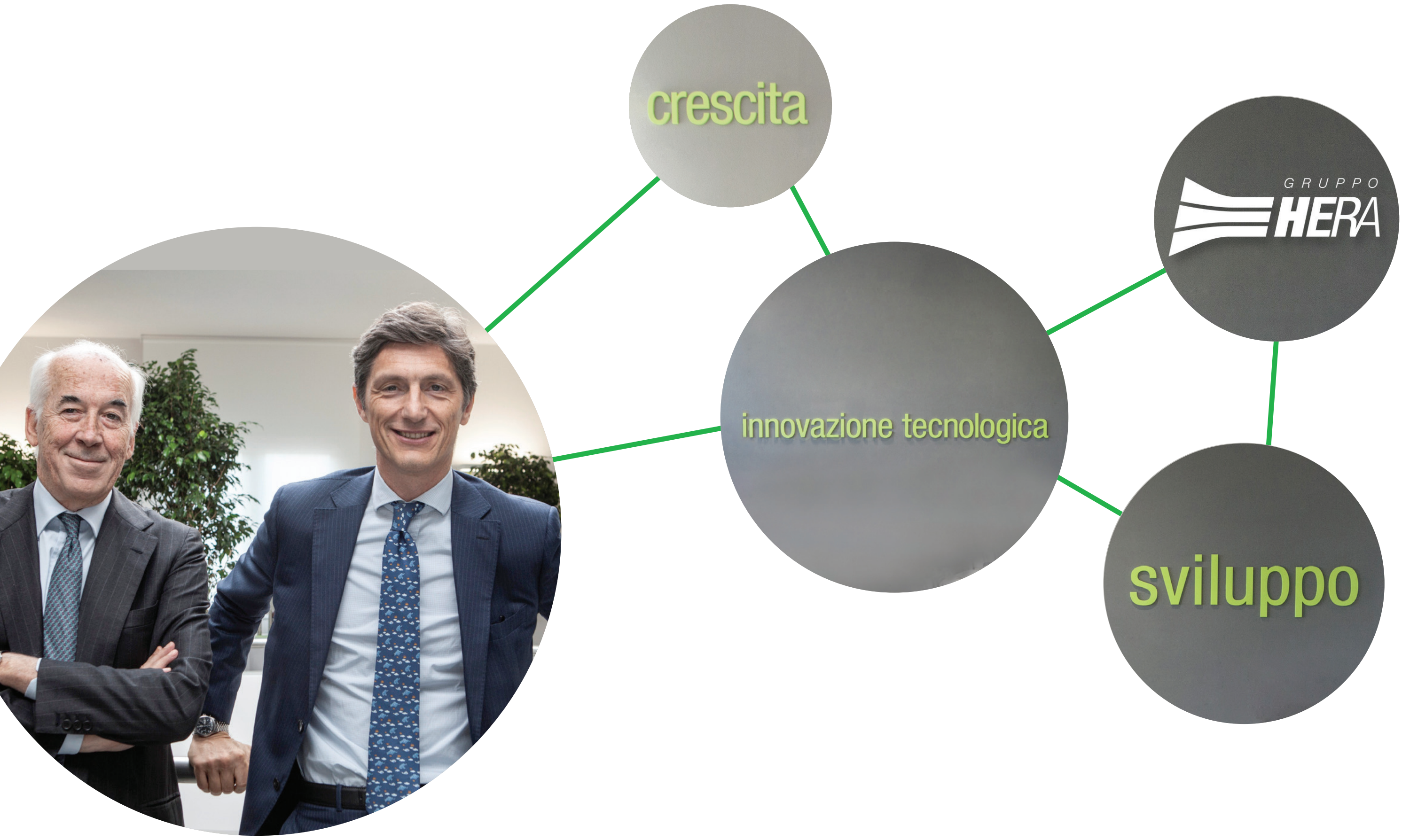
INTRODUCTION



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	Aldo Luciano
Director	Stefano Manara
Director	Danilo Manfredi
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	Sara Lorenzon
Member	Erwin P.W. Rauhe
Member	Duccio Regoli
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	Federica Seganti
Ethics Committee	
Chairman	Massimo Giusti
Member	Mario Viviani
Member	Filippo Maria Bocchi
Independent auditing firm	
	Deloitte & Touche S.p.A.

CORPORATE STRUCTURE

Parent company Hera Spa: effective operations management

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: leading the environmental sector

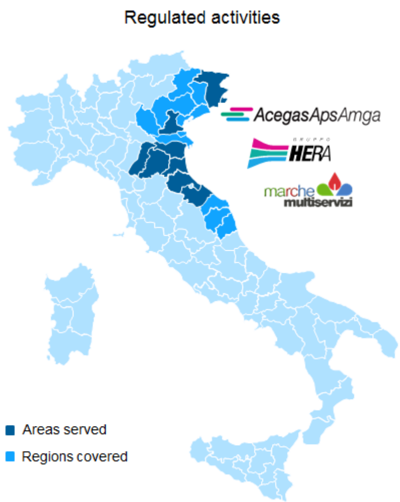
Herambiente Spa, 75% of which is owned by Hera Spa, was established in 2009 as a waste-disposal spin-off, ensuring coordinated plant management across the nation. Herambiente Spa in turn established the company Herambiente Servizi Industriali (Hasi Srl), targeted at an industrial customer base.

Hera Comm: 2.3 million energy customers

HeraComm Srl, 100% controlled by Hera Spa, with 2.3 million customers, represents the Group on national energy markets.

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

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 operations have been achieved by 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 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.

Hera Spa

Herambiente S.p.A.	75%
*HestAmbiente	70%
Fea Srl	51%
Herambiente Servizi Industriali Srl	100%
Enomondo Srl	50%
Asa Scpa	51%
Feronia Srl	70%
Waste Recycling Spa	100%
Aliplast Spa	40%

Hera Comm Srl	100%
So.Sel. Spa	26%
Gran Sasso Srl	100%
SGR Servizi Spa	29,61%
Hera Comm Marche Srl	57,38%
Hera Servizi Energia Srl	57,89%
Amga Energia & Servizi Srl	100%
Amga Calore & Impianti Srl	100%

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

Other companies

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

* In addition to the 30% held by AcegasApsAmga Spa.
** In addition to the 5% held by Herambiente. Sviluppo Ambiente Toscana Srl in turn holds 40% of Q.tHermo Srl.
The companies partially owned by AcegasApsAmga Spa are: Black Sea Company for Compressed Gas Ltd, Centro Idrico di Novoledo Srl, Adria Link Srl, EnergiaBase Trieste Srl, La Dolomiti Ambiente Spa, Estenergy Spa, Sinergie Spa and Aresgas AD. During 2017, shares held in SIGAS Doo by AcegasApsAmga are expected to be divested.
The companies partially owned by Aliplast are: Alimpet Srl, Alipackaging Srl, Cerplast Srl, Umbroplast Srl, Variplast Srl, Aliplast France Recyclage Sarl, Aliplast Iberia SL and Aliplast Polska SPOO.

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 of forging strong links with the areas in which it operates 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 richness represent the promise of a sustainable future; and **suppliers**, key elements in the value chain and partners for growth".*

DIRECTORS' REPORT

1.01 OVERVIEW OF GROUP MANAGEMENT PERFORMANCE AND DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

Operating APMs and investments

Operating APMs and investments (€/mln)	Jun 2017	Jun 2016	Abs. change	% Change
Revenues (*)	**2,754.0**	2,502.8	+251.2	+10.0%
EBITDA	**505.9**	470.1	+35.8	+7.6%
EBITDA/Revenues ratio (*)	*18.4%*	*18.8%*	*-0.4 p.p.*	
Operating profit	**262.2**	257.4	+4.8	+1.9%
Operating profit/Revenues ratio (*)	*9.5%*	*10.3%*	*-0.8 p.p.*	
Net profit	**148.0**	128.2	+19.8	+15.5%
Net profit/revenues ratio (*)	*5.4%*	*5.1%*	*+0.3 p.p.*	
Net investments	**151.8**	152.2	-0.4	-0.3%

(*) The amount of 2016 Revenues has been corrected (with no effect on results) due to the reclassification of system charges. For details, see paragraph "1.01.01 Operating and financial results".

Financial APMs

Financial APMs (€/mln)	Jun 2017	Dec 2016	Abs. change	% Change
Property,plant and equipment	5,652.6	5,564.5	+88.1	+1.6%
Net working capital	88.6	99.9	-11.3	-11.3%
Provisions	(552.5)	(543.4)	-9.1	-1.7%
Net invested capital	5,188.7	5,121.0	+67.7	+1.3%
Net financial debt	**(2,611.7)**	(2,558.9)	-52.8	-2.1%

Definition of Alternative Performance Measures (APM)

The Hera Group uses Alternative Performance Measures (APM) to more effectively convey information about the profitability of the businesses in which it operates as well as its equity and financial situation. In accordance with the guidelines published 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 by adding together "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 at the level of 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 analyse trends and compare the efficiency achieved in different periods.

Ebitda on revenues, operating profit on revenues and net income on revenues is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and measures the Group's operating performance by representing a proportion, in terms of percentage, of Ebitda, operating profit and net profit 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 at the level of each business unit), also allowing for a comparison with previous periods, making it possible to analyse 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 a useful measure for evaluating the Group's net assets as a whole, also allowing for a comparison with previous periods. In this way it is possible to analyse trends and compare the efficiency 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, including comparisons with previous periods. In this way it is possible to analyse trends and compare the efficiency 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 cope with possible future liabilities, also allowing for a comparison with previous periods. In this way it is possible to analyse trends and compare the efficiency achieved in different periods.

Net invested capital is determined 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 a useful measure in evaluating all of the Group's current and non-current operating assets and liabilities, as specified above.

Net financial 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 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 analyse trends and compare the efficiency 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

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 debt.

Funds from operations is calculated as Ebitda minus doubtful accounts, interest expenses, income taxes and use of reserves and severance pay. This measure 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 activities’ ability to generate cash flow.

Roi, or return on net invested capital, is defined as the ratio between net operating earnings and net invested capital, and is 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 it is intended to measure 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, and is 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 measure 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 Ebitda plus changes in net working capital, net of increases in doubtful accounts, the use of reserves and severance pay, operating and financial investments, financial income and expenses and income taxes. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to measure a company’s capacity to generate cash flow and therefore its ability to finance itself.

1.01.01 OPERATING AND FINANCIAL RESULTS

Constant growth in all indicators

All of the Hera Group's indicators for the first half of 2017 showed growth. In particular, Ebitda rose by 7.6%, operating profits by 1.9% and net profits by 15.5%.
These significant results, achieved thanks to the Group's consolidated multi-business strategy, are to be considered within an increasingly challenging context defined by regulatory and competitive factors, within which Hera proved its balance and agility, combining the two strategic levers of internal and external growth.
The main corporate and business operations having an effect on the first half of 2017 are described below.

- In September 2016 Hera Comm Srl was awarded the Friuli Venezia-Giulia and Emilia Romagna portion of the last resort gas supply service (FUI) for the period between 1 October 2016 and 30 September 2018, along with 5 portions of the default service in gas distribution between 1 October 2016 and 30 September 2018.

- As of 1 November 2016 the company Gran Sasso Srl, which is involved in free market electricity and gas sales in the L'Aquila, Pescara and Chieti areas, became part of the Group's consolidated scope.

- In November 2016, in the national tender held by the Single Purchaser for 2017-18 safeguarded services, Hera Comm Srl was awarded six portions in eleven regions of Italy.

- On 1 February 2017 Waste Recycling Spa acquired the "plants" corporate branch of the Pisa company Teseco Srl, a leading figure in industrial waste treatment and recovery.

- In January 2017 Herambiente Spa signed a binding deal with Aligroup Srl for the acquisition of the Aliplast Group, a leading operator in the segment of plastic waste collection and recycling with subsequent regeneration, using an integrated process that transforms all waste into products ready to be reused. The operation came to a conclusion on 3 April 2017 following the fulfilment of the condition precedent, i.e. the approval of the Italian antitrust authority. As of the 2017 half-year report, each company of the Aliplast Group is entirely consolidated and contributes to the results of the Hera Group with effects involving operations and equity backdated to 1 January 2017.

In order to respect sector regulations concerning unbundling, with effective date 1 July 2016 Hera Spa conferred its corporate branch dealing with electricity and gas distribution to Inrete Distribuzione Energia Spa.

On 1 January 2017 Heratech Srl, a company that manages works requested by customers (new connections, technical opinions, urbanisation, etc.), became operational for all network services managed by the Group. It furthermore deals with planning and implementing plants and networks and other highly specialised technical activities, for both the Group and third parties. The company is 100% controlled by Hera Spa

This consolidated income statement reflects the application of accounting principle Ifric12 "Service concession arrangements". The effect of applying this principle, which leaves the results unchanged, is that investments made in goods granted under concession, only including network services, are acknowledged in the income statement.

It should also be noted that as of this half-year report dated 30 June 2017 the Group has recorded system charges incurred for the period in question concerning electricity and gas services in the income statement among "service costs" when involving charges received from third-party distributors, and among "revenues" when involving the corresponding amounts included in bills for end customers, for an amount of € 347.7 million. Previously, these tariff components had been recorded in debt and credit receivables among the other "current assets/liabilities". This being said, the Group has reformulated the income statement for the first six months of 2016, as well as the balance sheet at 31 December 2016, with the same criterion described above, in order for the two periods to be correctly compared. In particular, as regards the income statement for the first six months of 2016, this re-statement led to an increase of € 350.1 million in "revenues" and "service costs". In this regard, see also paragraph 2.02.01 of the explanatory notes.

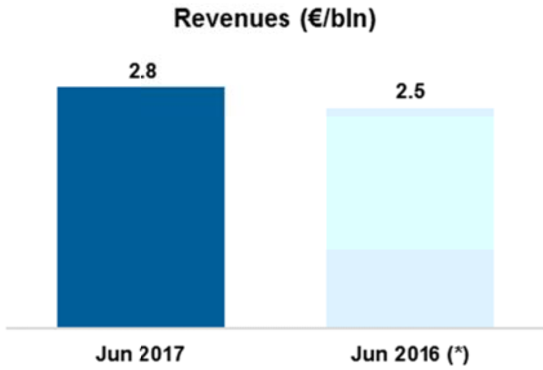
The following table shows the operating results for the first six months of 2016 and 2017:

Constant and increasing growth

Income statement (€/mln)	**Jun 2017**	**% Inc.**	**Jun 2016 as adjusted**	**% Inc.**	**Abs. change**	**% Change**
Revenue	2,754.0		2,502.8		+251.2	+10.0%
Other operating revenue	202.3	7.3%	162.0	6.5%	+40.3	+24.9%
Raw materials	(1,178.4)	-42.8%	(998.0)	-39.9%	+180.4	+18.1%
Service costs	(981.7)	-35.6%	(920.4)	-36.8%	+61.3	+6.7%
Other operating costs	(25.8)	-0.9%	(20.8)	-0.8%	+5.0	+24.1%
Personnel costs	(282.5)	-10.3%	(266.7)	-10.7%	+15.8	+5.9%
Capitalised costs	17.9	0.6%	11.2	0.4%	+6.7	+59.7%
EBITDA	**505.9**	**18.4%**	**470.1**	**18.8%**	**+35.8**	**+7.6%**
Amort. & Prov.	(243.7)	-8.9%	(212.7)	-8.5%	+31.0	+14.6%
EBIT	**262.2**	**9.5%**	**257.4**	**10.3%**	**+4.8**	**+1.9%**
Financial operations	(45.9)	-1.7%	(58.0)	-2.3%	-12.1	-20.9%
Pre-tax profit	**216.3**	**7.9%**	**199.4**	**8.0%**	**+16.9**	**+8.5%**
Taxes	(68.3)	-2.5%	(71.2)	-2.8%	-2.9	-4.1%
Net profit of the period	**148.0**	**5.4%**	**128.2**	**5.1%**	**+19.8**	**+15.5%**
Attributable to:						
Shareholders of the Parent Company	**141.0**	**5.1%**	**121.0**	**4.8%**	**+20.0**	**+16.5%**
Non-controlling interests	7.0	0.3%	7.2	0.3%	-0.2	-2.6%

€ 2.8 billion in revenues

In the first half of 2017, revenues came to € 2,754.0 million, up € 251.2 million or roughly 10.0% over the € 2,502.8 million in the same period of 2016. 2017 benefited from the entrance of the Aliplast Group, which contributed with roughly € 54 million, and Gran Sasso Srl, with € 6.4 million. Not including these changes in the scope of consolidation, growth in revenues settled at € 190.8 million, mainly due to greater activity in trading, amounting to roughly € 128 million, higher revenues for the price of raw material in electricity for € 70 million, higher volumes of gas sold for € 28 million and higher regulated revenues in water services for roughly € 20 million, offsetting the reduction and the lower revenues for lesser volumes sold and transported outside the electricity network for roughly € 14 million.



(*) The 2016 data reflects the reclassification of system charges described above

The remaining reduction in revenues, coming to € 41 million, refers to the effect of the sale of green certificates last year amounting to roughly € 24 million (with an equal effect on costs), and lower revenues for environmental and energy efficiency certificates that were recorded in a different way, reclassified from revenues to other revenues and proceeds, coming to € 17 million.

Other operating revenues grew compared to the same period of the previous year by € 40.3 million or 24.9%. This growth is mainly due to the aforementioned restatement of environmental and energy efficiency certificates amounting to roughly € 17.0 million from "revenues" to "other operating revenues", and higher Ifric12 revenues coming to € 12.0 million, higher revenues for energy efficiency certificates amounting to € 10.0 million and, lastly, a higher contribution for sorted waste.

Costs for raw and other materials rose by € 180.4 million or 18.1% compared to 30 June 2016; this rise, not including the change in scope of operations due to the entrance of the Aliplast Group and Gran Sasso Srl, amounting to roughly € 29.3 million, and the change in the remainder of the portfolio of environmental certificates for roughly € 24 million, is due to greater activity in trading, an increase in the price of raw material in electricity, higher volumes of gas sold and a higher cost per unit of energy efficiency certificates.

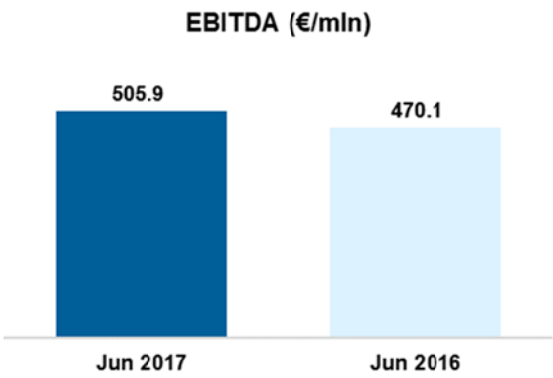
Other operating costs, not including the change in scope due to the entrance of the Aliplast Group and Gran Sasso Srl, amounting to roughly € 16.4 million, increased by € 50.0 million overall (€ 45.3 million in higher costs for services and € 4.7 million in higher operating expenses). Mention must also go to the roughly € 17.0 in higher Ifric12 costs, higher costs for implementation of works for third parties, higher costs of disposal and collection for the higher volumes treated and for the development of new projects in the area of sorted waste.

Personnel costs rose by € 15.8 million or 5.9%, going from € 266.7 million in June 2016 to € 282.5 million at the same date in 2017. This increase is mainly due to higher retribution foreseen by the national labour contract and to changes in scope, of which the most significant involve the waste area with the entrance of the Aliplast Group and the corporate branch of Teseco Srl, coming to € 8.4 million overall. These increases were only partially offset by a lower average presence.

Capitalised costs at June 2017 rose compared to the same period in the previous year by € 6.7 million or 59.7%, for greater works on plants and projects implemented on goods belonging to Group companies, including the different corporate breakdown following the birth of Inrete Distribuzione Energia Spa and Heratech Srl.

Ebitda at € 505.9 million (+7.6%)

Ebitda settled at € 505.9 million, showing an increase of € 35.8 million or 7.6% over June 2016. This growth in Ebitda can be ascribed to the good performance shown by all areas of the Group, but the energy areas in particular thanks to higher earnings in the sales business due to the new portions of the safeguarded and default markets. Positive results were seen in the integrated water cycle and the waste area as well.

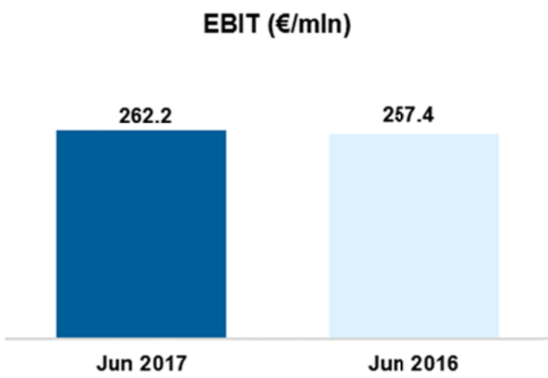


For further details, see the analyses of each single business area.

Amortisation and provisions rose overall by € 31.0 million or 14.6%, going from € 212.7 million in June 2016 to € 243.7 million at the same date in 2017. Amortisations increased due to new investments in regulated businesses and the change in scope due to the companies of the Aliplast Group and the sales companies. Provisions for doubtful debts rose, in particular in the sales company Hera Comm Srl, owing to the tenders awarded for safeguarded customers.

Ebit at € 262.2 million (+1.9%)

Ebit reached € 262.2 million in June 2017, up € 4.8 million or 1.9% over the € 257.4 million seen in the same period in 2016.



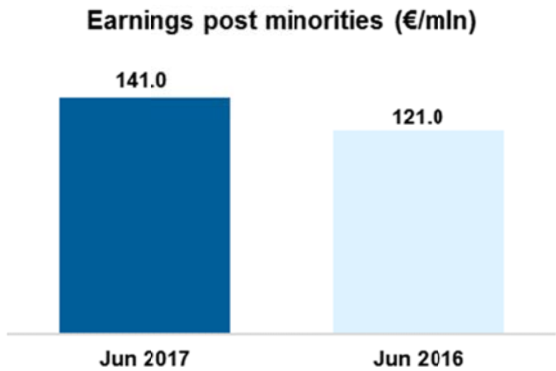
The results of financial management at the end of the first half of 2017 came to € 45.9 million, improving by € 12.1 million or 20.9% compared to the same period in 2016. The good performances were due to lower average debt and efficiency in rates obtained among other things thanks to the effects of the liability management operations set in place during 2016. Higher earnings involving recovery of default indemnities from safeguarded customers also had a positive impact on the results.

Pre-tax profits grew by € 16.9 million, going from the € 199.4 million seen in June 2016 to the € 216.3 recorded in the first half of 2017.

Income taxes pertaining to the first half of 2017 amounted to € 68.3 million, defining a tax rate of 31.6%, with a clear improvement compared to the 35.7% seen in the same period of the previous year. The reasons for this decrease are mainly tied to a fall in the Ires rate, that went from 27.5% in previous years to 24% as of 2017, in addition to lower taxes coming to € 4.5 million that ensued from the opportunities grasped through a broader consolidated fiscal scope of operations. Note furthermore the continuous commitment to obtaining all benefits recognised by law, in particular the tax credit for research and development, the increase in deductions for amortisations and the patent box.
Net profits rose by 15.5%, equivalent to € 19.8 million, going from € 128.2 million in the first half of 2016 to € 148.0 million in the same period in 2017.

Earnings post minorities at € 141.0 million (+16.5%)

Group net profits reached € 141.0 million, with a € 20.0 million increase over June 2016.



1.01.02 ANALYSIS OF THE GROUP'S FINANCIAL STRUCTURE AND INVESTMENTS

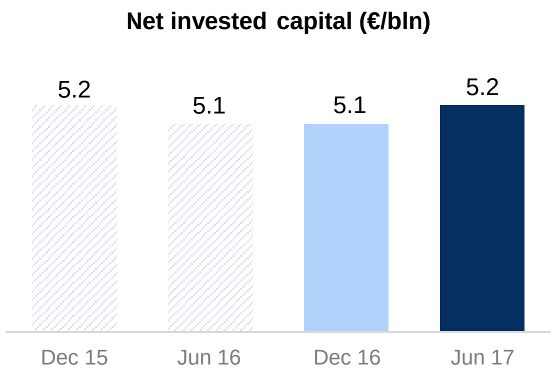
Group's magnitude increases

The table below shows changes in the Group's net invested capital and sources of financing for the period ended 30 June 2017.

Invested capital and sources of financing (€/mln)	30 Jun 17	% Inc.	31 Dec 16	% Inc.	Abs. change	% Change
Net non-current assets	5,652.6	108.9%	5,564.5	108.7%	+88.1	+1.6%
Net working capital	88.6	1.7%	99.9	2.0%	(11.3)	(11.3%)
(Provisions)	(552.5)	-10.6%	(543.4)	-10.6%	(9.1)	(1.7%)
Net invested capital	**5,188.7**	100.0%	5,121.0	100.0%	+67.7	+1.3%
Equity	(2,577.0)	49.7%	(2,562.1)	50.0%	(14.9)	(0.6%)
Net debt	(2,611.7)	50.3%	(2,558.9)	50.0%	(52.8)	(2.1%)
Long-term borrowings	*(2,723.3)*	*52.5%*	*(2,757.5)*	*53.8%*	*+34.2*	*+1.2%*
Net cash/short term borrowings	*111.6*	*-2.2%*	*198.6*	*-3.9%*	*(87.0)*	*(43.8%)*
Total sources of financing	**(5,188.7)**	-100.0%	(5,121.0)	100.0%	(67.7)	+1.3%

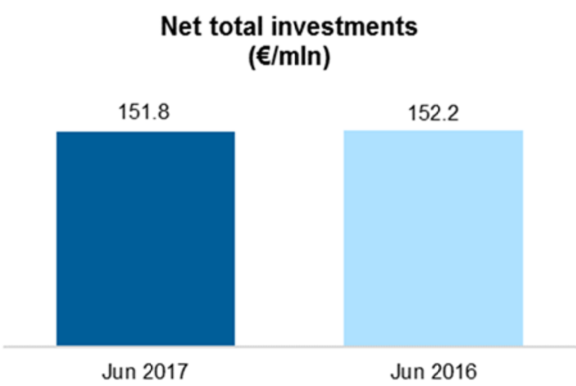
Net invested capital comes to € 5.2 billion

At 30 June 2017, net invested capital increased over 31 December 2016 by € 67.7 million. This change is entirely due to the acquisition of the shareholding in the Aliplast Group by the company Herambiente Spa. Efficiency in managing net working capital was also confirmed, which fell by an additional € 11.3 million.



Net investments totalling € 151.8 million in the first half-year

In the first half of 2017, Group investments amounted to € 151.8 million, benefiting from € 18.8 million in capital grants, of which € 2.6 million for the New investments fund (FoNI), as provided for by the tariff method for the integrated water service. Including capital grants, the Group's overall investments came to € 170.6 million, up € 13.4 million compared to June 2016 against net investments essentially in line with the previous year, as an effect of higher capital grants. Net investments, in fact, went from € 152.2 million in June 2016 to € 151.8 million in June 2017, with a reduction of € 0.4 million.



The following table shows a subdivision by sector, with separate mention of capital grants:

Strong commitment continues in operating investments in plants and infrastructures

Total investments (€/mln)	**Jun 2017**	Jun 2016 as adjusted	Abs. change	% Change
Gas area	39.2	40.3	-1.1	-2.7%
Electricity area	10.5	11.2	-0.7	-6.2%
Water cycle area	68.2	61.1	+7.1	+11.6%
Waste management area	20.9	17.5	+3.4	+19.4%
Other services area	8.7	5.5	+3.2	+58.2%
Headquarters	22.6	21.6	+1.0	+4.6%
Total operating investments	**170.1**	157.2	+12.9	+8.2%
Total financial investments	0.5	0.0	+0.5	+100.0%
Total gross investments	**170.6**	157.2	+13.4	+8.5%
Capital contributions	18.8	5.0	+13.8	+276.0%
of which FoNI (New Investment Fund)	*2.7*	*3.0*	*-0.3*	-10.0%
Total net investments	**151.8**	152.2	-0.4	-0.3%

Operating investments came to € 170.1 million, growing by 8.2% over the first half of 2016, and it mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale substitution of metres, and the depuration and sewerage areas.

At Group headquarters, investments in corporate buildings, IT systems and the vehicle fleet

Remarks on investments in each single area are included in the analysis by business area.

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote-control structures. Overall, investments in structures increased by € 1.0 million compared to the previous year, mainly in IT systems.

Provisions come to € 552.5 million

In 2017, provisions amounted to € 552.5 million, up over December 2016 thanks to period provisions that were higher than outflows for usage.

Equity at € 2.6 billion

Equity increased by € 14,9 million, going from € 2,562.1 million at 31 December 2016 to € 2,577.0 million at 30 June 2017, first and foremost owing to the contribution coming from period results of € 148.0 million, which entirely financed dividend payments totalling € 140.4 million.

RECONCILIATION BETWEEN SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation between separate and consolidated financial statements	Net profit	Equity
Balances as per Parent's Company's separate financial statements	165.9	2,301.3
Excess of equity over the carrying amounts of Investments in consolidated companies	(17.7)	(9.7)
Consolidation adjustments :		
- Measurement with the equity method of investments reported at cost in the separate financial statement	(2.8)	43.0
- Difference between purchase price and book value of corresponding p	(4.9)	122.1
- Elimination of intercompany transactions	0.5	(23.2)
Total	**141.0**	**2,433.5**
Restoration of third-party assets	7.0	143.5
Balances as per consolidated financial statements	**148.0**	**2,577.0**

1.01.03 ANALYSIS OF NET CASH (NET DEBT)

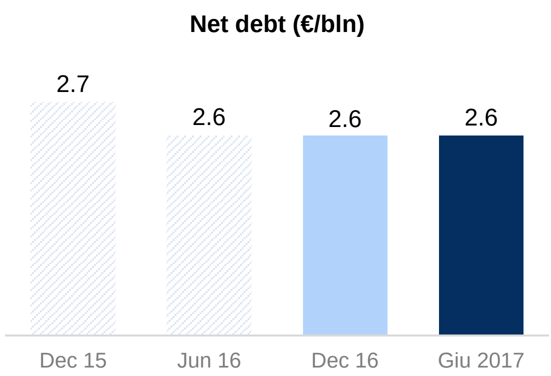
A solid financial position

(€/mln)		**30 Jun 17**	31 Dec 16
a	**Cash and cash equivalents**	**324.0**	351.5
b	**Other current financial receivables**	**35.1**	29.4
	Current bank debt	(107.9)	(72.1)
	Current portion of bank debt	(57.5)	(71.7)
	Other current financial liabilities	(80.1)	(36.2)
	Finance lease payments maturing within 12 months	(2.0)	(2.3)
c	**Current financial debt**	**(247.5)**	(182.3)
d=a+b+c	**Net current financial debt**	**111.6**	198.6
	Non-current bank debt and other sources of financing	(2,828.1)	(2,847.8)
	Other non-current financial liabilities	(4.3)	(5.0)
	Finance lease payments maturing after 12 months	(14.9)	(14.9)
e	**Non-current financial debt**	**(2,847.3)**	(2,867.7)
f=d+e	**Net debt - Consob communication n° 15519 of 28/07/2006**	**(2,735.7)**	(2,669.1)
g	**Non-current financial receivables**	**124.0**	110.2
h=f+g	**Net financial debt**	**(2,611.7)**	(2,558.9)

Borrowings show an average term to maturity of 8 years, with 68% maturing after over 5 years.
The amount of current financial debt, € 247.5 million, is mainly made up roughly € 55.8 million in bank loans reaching maturity, roughly € 49.6 million in accrued interest, roughly € 58.2 million in the use of current credit lines, and financial debt for the acquisition of Aliplast Spa coming to roughly € 53.1 million. The amount concerning non-current bank debt and bonds is largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (77% of the total), with repayment at maturity.

Net debt comes to € 2.61 billion

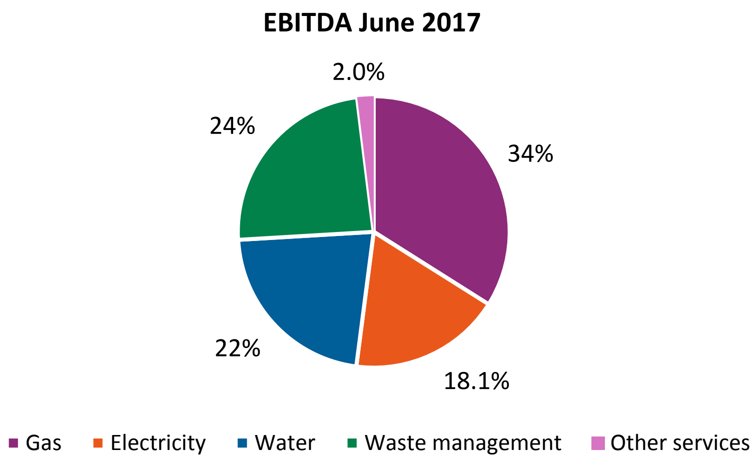
Net financial debt increased by € 52.8 million, going from € 2,558.9 million at 31 December 2016 to € 2,611.7 million at 30 June 2017.
Cash flows generated by management in the first half-year, totalling € 188.8 million, amply contributed to financing the acquisition of the Aliplast Group (roughly € 100 million) in addition to dividend payments amounting to over € 140 million.



1.02 ANALYSIS BY BUSINESS AREA

An analysis of the results achieved by management in the various business areas in which the Group operates is provided below, including: the gas area, which covers services in natural gas and LPG distribution and sales, district heating and heat management; the electricity area, which covers services in electricity production, distribution and sales; the integrated water cycle area, which covers aqueduct, purification and sewerage services; the waste management area, which covers services in waste collection, treatment, recovery and disposal; the other services area, which covers services in public lighting and telecommunications, as well as other minor services. After the second half of 2016, the Hera Group revised the arrangement of its own multi-business portfolio in order to improve and simplify financial reporting on its industrial structures: the industrial cogeneration business has been transferred from the electricity area to the gas area, bringing it together with heat management, which furthermore respects the Group's organizational outlook. For a correct comparison with the current representation, the respective 2016 data has been reclassified.

Contribution coming from the Group's various areas towards overall Ebitda shows a balanced mix, in line with its multi-business strategy



The Group's income statements include corporate headquarter costs and reflect intercompany transactions accounted for 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, as shown in the Group's consolidated income statement. The business areas affected by Ifric 12 are: natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

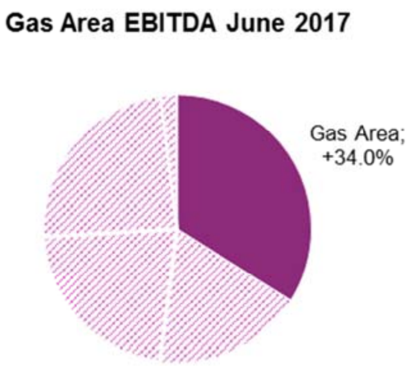
The new organisational and corporate configuration ensuing from the creation of Inrete Distribuzione Energia Spa and Heratech Srl has led to a different representation of personnel costs and operating costs within the various business areas, while remaining globally unchanged.

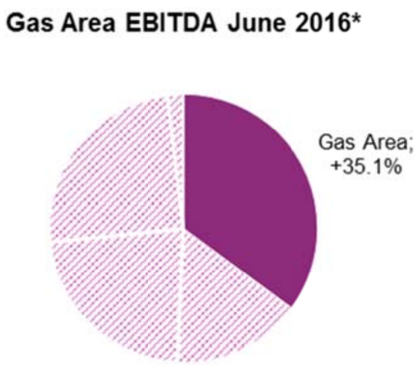
1.02.01 GAS

Gas: an increase in Ebitda

The gas area, at the end of the first half of 2017, showed growth over the same period of the previous year as regards both Ebitda and volumes sold. This result was partially obtained thanks to the company Hera Comm Srl being awarded five portions of the default gas distribution service for the period between 1 October 2016 and 30 September 2018 and one portion of the last resort gas service for the period between 1 October 2016 and 30 September 2018. Compared to the first half of 2016, the revenue covering the underlying cost of amortisation related to investments made in the reference period for the consolidated first-half report.

Contribution to Group Ebitda drops





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

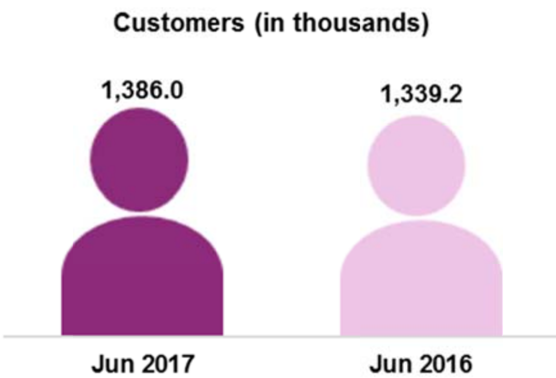
Gas area Ebitda grows by 4.0%

(€/mln)	Jun 2017	Jun 2016 as adjusted	Abs. change	% Change
Area EBITDA	**171.8**	**165.2**	**+6.6**	**+4.0%**
Group EBITDA	**505.9**	470.1	+35.8	+7.6%
Percentage weight	34.0%	35.1%	-1.1 p.p.	

(*)Note that the data pertaining to June 2016 has been corrected to account for the reclassification of the industrial cogeneration business. The effect on the 2016 data of the first reclassification amounts to € 3.2 million in Ebitda, or 0.6%.

1.4 million gas customers

The number of gas customers rose by 3.5% over the same period in 2016. This trend is due to both marketing actions set in place and the portions of default gas distribution and last resort gas awarded. The wider customer base was also supported by the acquisition of Gran Sasso Srl, which brought roughly 16,300 customers. The contribution coming from the new portions awarded amounts to roughly 25,000 customers.



15.0% increase in volumes sold

Volumes of gas sold rose by 294.7 million m^3 or 15.0%, going from 1,963.0 million m^3 at 30 June 2016 to 2,257.7 million m^3 at the same date in 2017. This change is mainly due to growth in trading volumes, which came to 228.7 million m^3 (10.1% of total volumes). The volumes sold to final customers showed a 5.4% increase over June 2016, thanks to the broader customer base and the contribution coming from Gran Sasso Srl, amounting to roughly 10.2 million m^3. Note furthermore that the larger amount of portions awarded in the tender for default and last resort gas services allowed the volumes sold in the first half of 2017 to increase by roughly 21.1 million m^3. Not including these changes in scope of operations, the increase in volumes came to 2.8%.

The following table summarises operating results for the gas area:

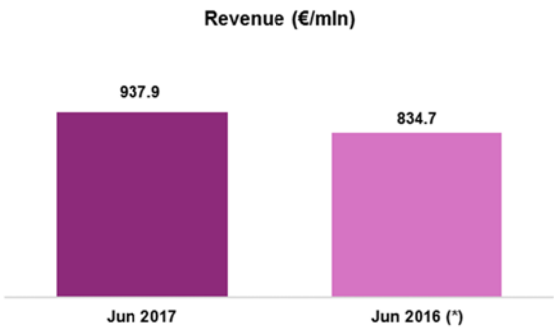
Gas: growth in overall Ebitda

Income statement (€/mln)	Jun 2017	% Inc.	Jun 2016 as adjusted	% Inc.	Abs. change	% Change
Revenues	**937.9**		834.7		+103.2	+12.4%
Operating costs	**(714.4)**	-76.2%	(606.1)	-72.6%	+108.3	+17.9%
Personnel costs	**(57.3)**	-6.1%	(67.5)	-8.1%	-10.2	-15.1%
Capitalised costs	**5.6**	0.6%	4.1	0.5%	+1.5	+36.7%
EBITDA	**171.8**	18.3%	165.2	19.8%	+6.6	+4.0%

Note that pro forma data has been prepared for June 2016 in order to account for both the reclassification of the industrial cogeneration business from the electricity area to the gas area, and the insertion of system charges in the income statement, as for 2017. The effect on the 2016 data of the first reclassification amounts to € 3.2 million in Ebitda, consisting of € 6.4 million in revenues, € 2.9 million in operating costs and € 0.4 million in personnel costs. The second reclassification increases revenues and operating costs to the same degree, € 34.6 million.

Gas revenues reach € 937.9 million

Revenues went from € 834.7 million at 30 June 2016 to € 937.9 million at 30 June 2017, showing € 103.2 million or 12.4% in growth. The main reasons for this lie in the sales and trading businesses: increased revenues from trading amounting to roughly € 49 million and the higher price of raw materials in gas sales for € 4.5 million, which included a 5% increase in the cost of natural gas at the TTF; the higher volumes of natural gas sold, not including changes in the scope of operations, contributed with roughly € 13 million; roughly € 8.5 million in new portions of the default service awarded; and the acquisition of Gran Sasso Srl, amounting to roughly € 6.6 million.



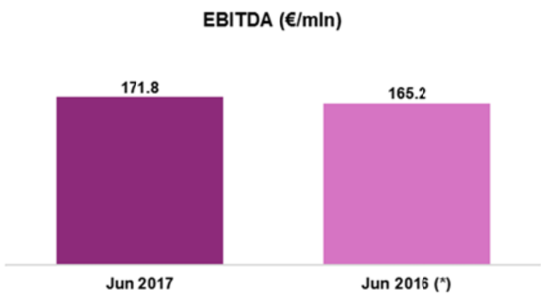
(*) The 2016 data reflects the reclassifications described above

Furthermore, contributions from energy efficiency certificates rose by roughly € 10 million, due to the higher value per unit, as did revenues from the gas distribution service, for the previously mentioned revenues covering amortisation costs.
Lastly, note the higher revenues in the district heating service, amounting to roughly € 2.4 million, and higher revenues for Ifric12 works and subcontracting.

The increase in revenues had a virtually proportional effect on operating and personnel costs, which went from € 673.6 million overall at 30 June 2016 to € 771.7 million in 2017, thus showing a total increase of € 98.1 million. This rise was mainly due to greater volumes sold, a higher price of raw materials, a larger amount of trading and the higher cost per unit of energy efficiency certificates.

Gas Ebirta: € 171.8 million

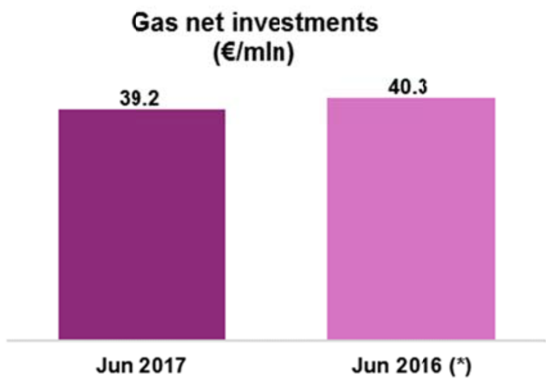
Ebitda increased by € 6.6 million or 4.0%, going from € 165.2 million in the first half of 2016 to € 171.8 million in 2017, thanks to higher earnings in trading activities, larger amounts of gas sold and the wider scope of the default service.



(*) The 2016 data reflects the reclassifications described above

Net investments in the Gas Area: € 39.2 million

In the first half of 2017, investments in the Gas Area came to € 39.2 million, showing a € 1.1 million decrease compared to the same period in 2016. In gas distribution, a € 1.6 million increase was seen, mainly owing to activities in regulatory upgrading pursuant to resolution 554/15 (ex-resolution 631/13) for a large-scale meter substitution, which also involved lower-class devices (G4-G6), and lesser non-recurring maintenance on networks and plants. Requests for new connections in the first half of 2017 were similar to those seen in the previous year and thus continued to reflect the overall economic situation.



(*)The 2016 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area.

Investments fell by € 2.8 million in district heating and heat management, including € 2.1 million in district heating mainly due to the higher amount of work done in the first half of 2016 on the Bologna Barca and Forlì Campus plants, and € 0.7 million in heat management, especially in the company Sinergie Spa. In new district heating connections a slight drop was seen compared to the previous year.

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

Gas (€/mln)	**Jun 2017**	**Jun 2016 as adjusted**	Abs. change	% Change
Networks and plants	31.5	29.9	+1.6	+5.4%
RH/Heat management	7.6	10.4	-2.8	-26.9%
Total Gas Gross	**39.2**	40.3	-1.1	-2.7%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Gas Net	**39.2**	40.3	-1.1	-2.7%

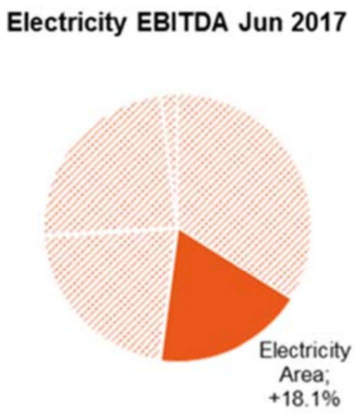
The 2016 data has been corrected to reflect the reclassification of the industrial cogeneration business from the electricity area to the gas area, for a total of € 0.5 million.

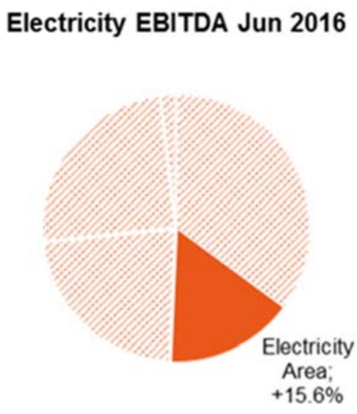
1.02.02 ELECTRICITY

Electricity: increase in Ebitda

Ebitda pertaining to the electricity area grew over the first half of 2016, both in itself and as a contribution to overall Group Ebitda.
Sales activities widened the customer base and Hera Comm Srl was awarded national tenders by the Single Purchaser for 2017-18 safeguarded services, winning six portions across eleven of Italy's regions, with a different mix than in the previous period; lastly, production activities showed a good performance once again in asset management.

Contribution to Group Ebitda: +2.5%





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

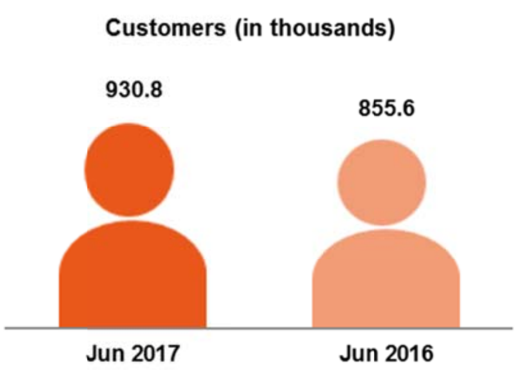
Ebitda in the Electricity area grows by 25.2%

(€/mln)	Jun 2017	Jun 2016 as adjusted	Abs. change	% Change
Area EBITDA	**91.6**	**73.1**	**+18.5**	**+25.2%**
Group EBITDA	**505.9**	470.1	+35.8	+7.6%
Percentage weight	18.1%	15.6%	+2.5 p.p.	

(*)Note that the data pertaining to June 2016 has been corrected to account for the reclassification of the industrial cogeneration business. The effect on the 2016 data of the first reclassification amounts to € 3.2 million in Ebitda, or 0.6%.

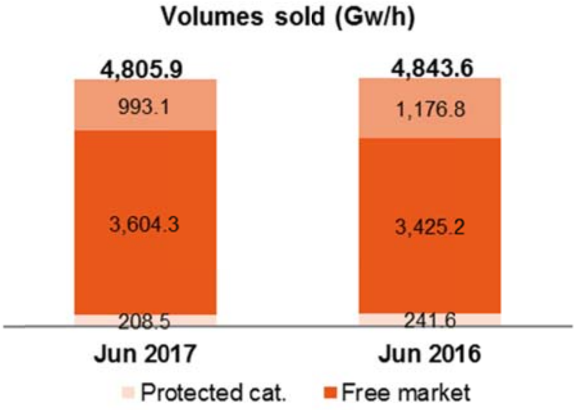
931 thousand electricity customers

The number of electricity customers showed an 8.8% increase (75.2 thousand), mainly due to growth on the free market, which came to 15.9%, confirming the trend seen in recent years owing to a reinforcement of marketing and the broadened customer base gained in 2016 with the acquisition of the company Gran Sasso Srl, which contributed with roughly 3.5 thousand customers.



Volumes sold in line with the previous year

Volumes of electricity sold went from 4,843.6 GWh in the first half of 2016 to 4,805.9 GWh in 2017, showing an overall decrease of 0.8%. Volumes sold on the free market grew by 5.2%, containing the drop seen in volumes sold to safeguarded customers, mainly owing to a different mix of portions awarded, who proved to consume less energy than the previous customers.



The following table summarises operating results for the area:

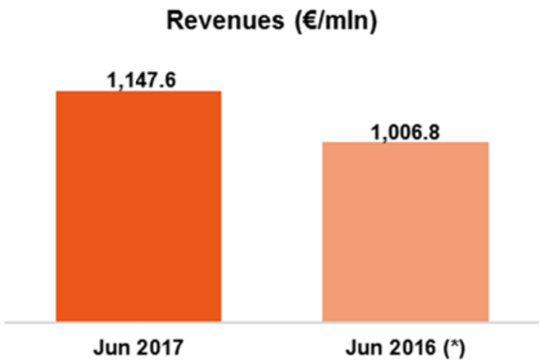
Electricity: Ebitda grows by 25.2%

Income statement (€/mln)	Jun 2017	% Inc.	Jun 2016 as adjusted	% Inc.	Abs. change	% Change
Revenues	**1,147.6**		1,006.8		+140.8	+14.0%
Operating costs	**(1,039.0)**	-90.5%	(911.2)	-90.5%	+127.8	+14.0%
Personnel costs	**(22.5)**	-2.0%	(26.4)	-2.6%	-3.9	-14.8%
Capitalised costs	**5.5**	0.5%	3.9	0.4%	+1.6	+40.9%
EBITDA	**91.6**	8.0%	73.1	7.3%	+18.5	+25.2%

Note that pro forma data has been prepared for June 2016 in order to account for both the reclassification of the industrial cogeneration business and the insertion of system charges in the income statement, as for 2017. The effect on the 2016 data of the first reclassification amounts to € 3.2 million in Ebitda, consisting of € 6.4 million in revenues, € 2.9 million in operating costs and € 0.4 million in personnel costs. The second reclassification increases revenues and operating costs to the same degree, € 315.5 million.

Revenues from electricity: € 1,147.6 million

Revenues rose by 14.0%, going from € 1,006.8 million in the first half of 2016 to € 1,147.6 million in 2017. The main reasons for this growth include: a rise in the price of energy (Pun, nationwide price), up 33% over the previous year, which led to higher revenues amounting to € 70 million in sales, € 79 million in trading and roughly € 14 million in energy production in thermoelectric plants. Revenues for volumes sold fell, coming to roughly € 3.5 million, as did those for extra-network transportation, by € 9 million. Revenues for regulated services dropped, owing to lower revenues covering amortisation costs.

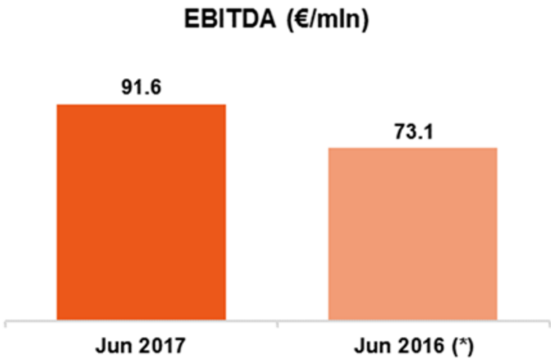


(*) The 2016 data reflects the reclassifications described above

The increase in revenues was reflected to an equal degree by rising operating and personnel costs, which went from € 937.6 million overall at 30 June 2016 to € 1,061.5 million in 2017, thus showing a total growth of € 123.9 million. This change is mainly due to an increase in the cost of materials.

Electricity Ebitda at € 91.6 million

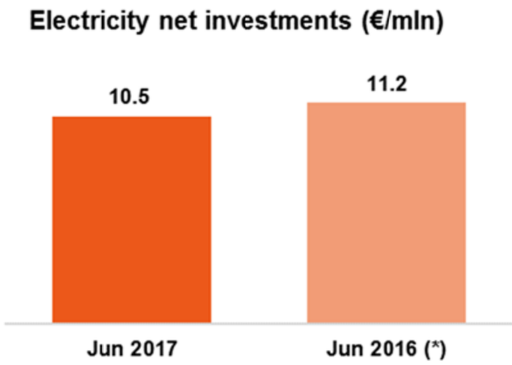
At the end of the first half of 2017, Ebitda rose by € 18.5 million or 25.2%, going from 73.1 million at 30 June 2016 to € 91.6 million in the same period in 2017, thanks to higher earnings in sales on the free market and to safeguarded customers, as well as higher earnings in electricity production.



(*) The 2016 data reflects the reclassifications described above

Net investments in the Electricity Area: € 10.5 million

In the Electricity Area, investments in the first half of 2017 came to € 10.5 million, down € 0.7 million compared to the € 11.2 seen in the previous year.
Interventions mainly concerned non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the same period in the previous year, non-recurring maintenance fell by € 0.7 million, for the most part due to the more extensive interventions carried out on the Imola Cogen plant in the first half of 2016.
As regards requests for new connections in this area, a slight rise was seen compared to the first half of the previous year.



(*) The 2016 data reflects the reclassification of the industrial cogeneration business from the electricity area to the gas area

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

Eletricity (€/mln)	**Jun 2017**	Jun 2016	Abs. change	% Change
Networks and plants	10.5	11.2	-0.7	-6.2%
Total Electricty Gross	**10.5**	11.2	-0.7	-6.2%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Electricity Net	**10.5**	11.2	-0.7	-6.2%

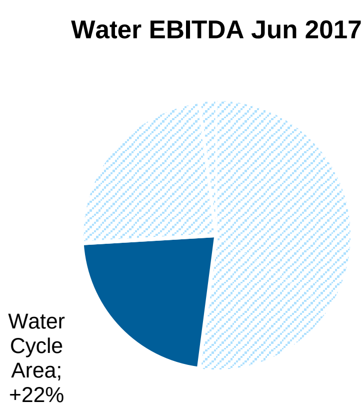
The 2016 data has been corrected to reflect the reclassification of the industrial cogeneration business from the electricity are to the gas are, for an overall amount of € 0.5 million.

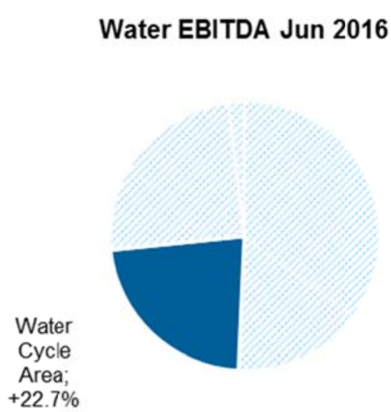
1.02.03 INTEGRATED WATER CYCLE

Integrated Water Cycle: Ebitda up in absolute terms

In the first half of 2017, the integrated water cycle area recorded € 4.7 million of growth in Ebitda, up 4.4%. As regards current regulations, note that 2017 is the second year in which the tariff method defined by the Authority for electricity and gas (hereinafter the Authority) for 2016-2019 (resolution 664/2015) was applied, and that compared to the first half of 2016 the revenue covering the underlying cost of amortisation related to investments made in the period covered by the consolidated half-year report, is recognized on an accrual basis. Furthermore, with resolution 655/15, in force as of July 2016, the minimum standards of contractual quality have been defined, including both general and specific standards such as further requirements for help desks, invoicing and estimates. Through this resolution, mechanisms for recognising commercial quality have been introduced.

Contribution to Ebitda: -0.7%





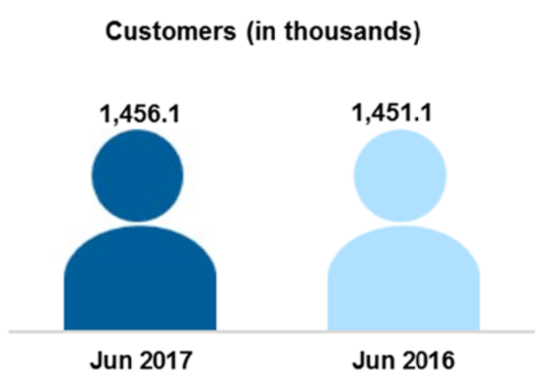
The following table shows the changes occurred in terms of Ebitda:

Water Cycle Area Ebitda rises by 4.4%

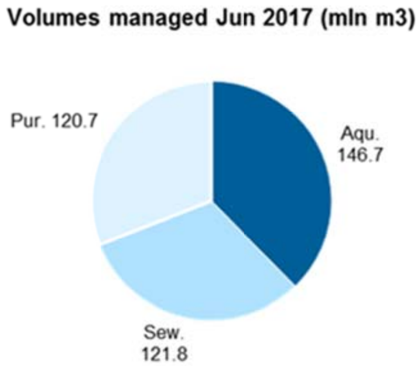
(€/mln)	Jun 2017	Jun 2016	Abs. change	% Change
Area EBITDA	**111.3**	106.6	+4.7	+4.4%
Group EBITDA	**505.9**	470.1	(25.9)	(5.5%)
Percentage weight	22.0%	22.7%	+2.4 p.p.	

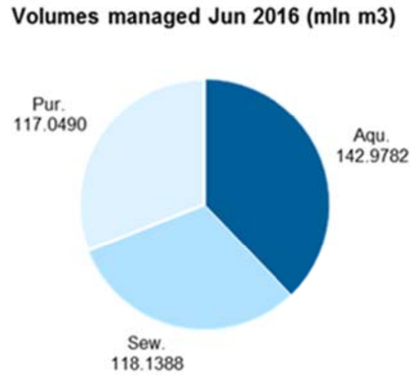
Water Cycle: 1.5 million customers

The number of water customers settled at 1.5 million, rising by 5.0 thousand or +0.3% over the first half of 2016. This is part of a trend of internal growth seen across the areas served by the Group, in particular in the Emilia-Romagna area managed by Hera Spa.



The main quantitative indicators of the area are as follows:





146.7 million m^3 managed in the aqueduct

The volumes dispensed through the aqueduct showed a 3.7 million m^3 (roughly 2.6%) growth over the figures seen in June 2016: this can be traced to both higher consumption across all areas served and the higher amount of rain seen in the first half of 2016 compared to the same period in 2017. Furthermore, growth was also seen in the amount managed in sewerage (roughly 3.1%) and purification (roughly 3.6%) over June 2016. The volumes dispensed, following Aeegsi resolution no. 664/2015, are an indicator of the activities of the areas in which the Group operates and are subject to equalisation thanks to regulations that call for regulated revenues to be recognised independently of volumes distributed.

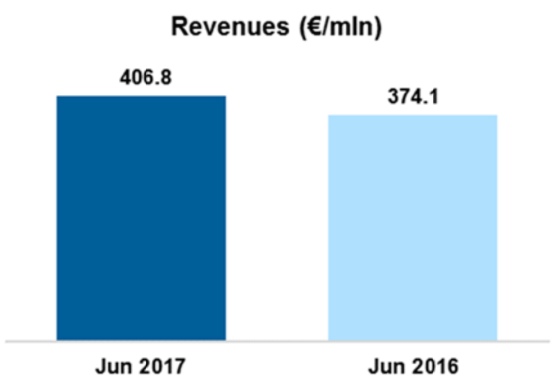
The table below synthesises the income statement for the water area:

Integrated water cycle: increase in Ebitda

Income statement (€/mln)	Jun 2017	% Inc.	Jun 2016	% Inc.	Abs. change	% Change
Revenues	**406.8**	-	374.1	-	+32.7	+8.7%
Operating costs	**(208.2)**	-51.2%	(193.3)	-51.7%	+14.9	+7.7%
Personnel costs	**(90.0)**	-22.1%	(75.2)	-20.1%	+14.8	+19.7%
Capitalised costs	**2.6**	0.6%	1.1	0.3%	+1.5	+139.2%
EBITDA	**111.3**	27.4%	106.6	28.5%	+4.7	+4.4%

Revenues from the Integrated Water Cycle come to € 406.8 million

Revenues showed an 8.7% increase, going from € 374.1 million in June 2016 to € 406.8 million in the first half of 2017. There are various reasons for this: higher revenues from dispensing coming to roughly € 20.4 million, as a result of the tariffs provided for by the Aeegsi for the three-year period 2016-2019 (Mti-2); higher revenues covering the underlying cost of amortisation and the recognition of commercial quality; higher revenues for the application of accounting principle

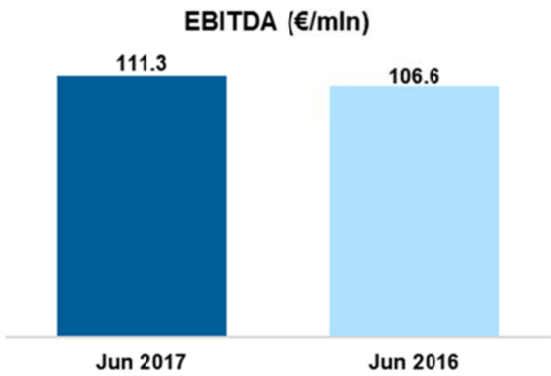


Ifric12, amounting to roughly € 7.0 million; higher revenues for commissions and subcontracted works coming to roughly € 7.0 million.

Operating and personnel costs rose by € 29.7 million or 11.1% overall; this increase is due to a higher price of electricity for plant functioning, higher volumes or raw material purchased, higher costs for commissions and subcontracted works as well as for Ifric12.

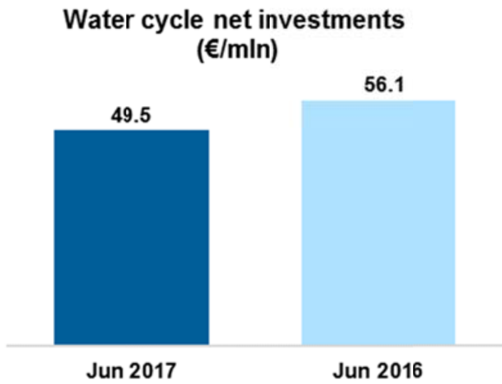
Ebitda at € 111.3 million

Ebitda showed a growth of € 4.7 million or 4.4%, going from € 106.6 million in June 2016 to € 111.3 million in 2017, resulting from the combination of roughly € 20.4 million in higher revenues from dispensing, € 6.0 million in higher equalisable costs and the higher cost of personnel.



Net investments in the Integrated Water Cycle Area: € 49.5 million

Net investments in the Integrated Water Cycle Area amounted to € 49.5 million, falling by € 6.6 million compared to the previous year owing to higher capital grants, which were up by € 13.8 million. Not including capital grants, investments in this area came to € 68.2 million, with a € 7.1 increase over the previous year.



The interventions mainly involved extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.

Investments were made totalling € 27.8 million in the aqueduct, € 17.3 million in sewerage and € 23.2 million in purification.

Among the more significant works, note in particular: in the aqueduct, upgrading interconnections in the Modena area water system, a significant upgrading of an abduction conduct in the Ferrara area and anti-earthquake upgrading of water plants; in sewerage, continued progress in works for the Rimini Seawater Protection Plan, in addition to redevelopment of the sewerage network in other areas; in purification, the higher investments compared to the previous year depended above all on the ongoing work done in upgrading the Servola purification plant, in the area served by AcegasApsAmga Spa.

Requests for new water and sewerage connections dropped compared to the same period of the previous year.

Capital grants amounting to € 18.8 million included € 2.6 million pertaining to the tariff component provided for by tariff method for the New Investments Fund (FoNI) and rose compared to the first half of 2016 by € 13.8 million.

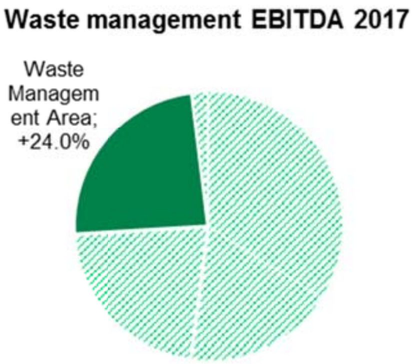
Details of operating investments in the Integrated Water Cycle Area are as follows:

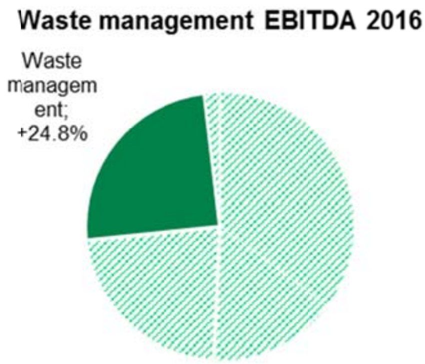
A higher amount of capital grants, coming to € 13.8 million, caused a € 6.6 million decrease in net investments

Water Cycle Area (€/mln)	Jun 2017	Jun 2016	Abs. change	% Change
Aqueduct	27.8	30.4	-2.6	-8.6%
Purification	23.2	13.1	+10.1	+77.1%
Sewage	17.3	17.6	-0.3	-1.7%
Total Water Cycle Gross	**68.2**	61.1	+7.1	+11.6%
Capital contributions	18.8	5.0	+13.8	+276.0%
of which FoNI (New Investment Fund)	*2.7*	*3.0*	-0.3	-10.0%
Total Water Cycle Net	**49.5**	56.1	-6.6	-11.8%

1.02.04 WASTE MANAGEMENT

At 30 June 2017 the waste management area accounted for 24.0% of Group Ebitda, with its own Ebitda rising by 4.1% over the first six months of 2016. Over the first half-year, the waste management area reinforced its organisational structure through the acquisition of the Aliplast Group, a national leader in plastic recycling, and the "plants" corporate branch of the Pisa company Teseco Srl, a leader in industrial waste treatment and recovery. These significant operations allowed the Group to further widen its commercial offer and its own range of plants.





Waste Management: Ebitda rises

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

(€/mln)	Jun 2017	Jun 2016	Abs. change	% Change
Area EBITDA	**121.3**	**116.5**	**+4.8**	**+4.1%**
Group EBITDA	**505.9**	470.1	+35.8	+7.6%
Percentage weight	24.0%	24.8%	-0.8 p.p.	

Commercial waste: +6.5%

Volumes marketed and treated by the Group in 2016 are as follows:

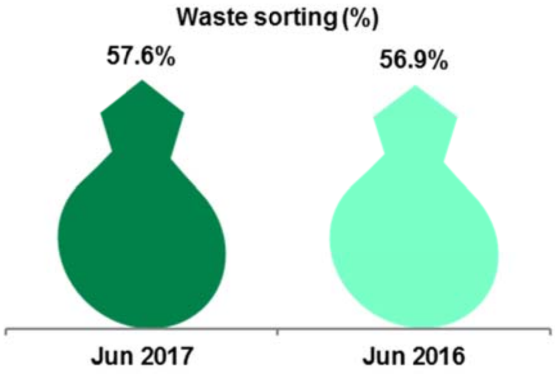
Quantitative data (thousand of tonnes)	Jun 2017	Jun 2016	Abs. change	% Change
Urban waste	1,013.4	1,007.6	+5.8	+0.6%
Commercial waste	1,254.5	1,178.1	+76.4	+6.5%
Waste marketed	**2,267.9**	**2,185.8**	**+82.1**	**+3.8%**
Plant by-products	1,303.0	1,276.3	+26.7	+2.1%
Waste treated by type	**3,570.8**	**3,462.1**	**+108.7**	**+3.1%**

An analysis of the volumes treated shows an 3.8% increase in waste marketed, mainly due to a rise in commercial waste coming to 6.5%, thanks to commercial initiatives aimed at plant saturation, intermediation channel and new market development, and an increase in total plants due to the acquisition of the "plants" corporate branch of Teseco Srl and the Aliplast Group.
Urban waste showed an increase compared to the same period in the previous year, thanks to a higher amount of sorted waste and shore cleaning, which rose by 1.6% overall and offset the lesser amount of unsorted waste, which fell by 0.6%.

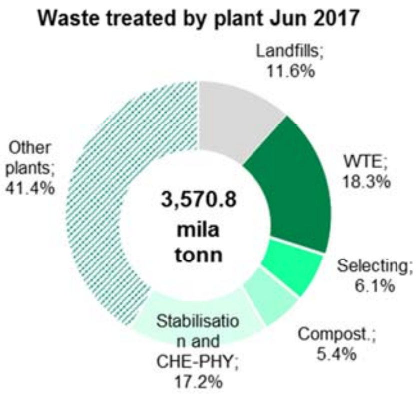
The increase in by-products is mainly due to the increase in the total number of plants, due to the acquisition of the “plants” corporate branch of Teseco Srl.

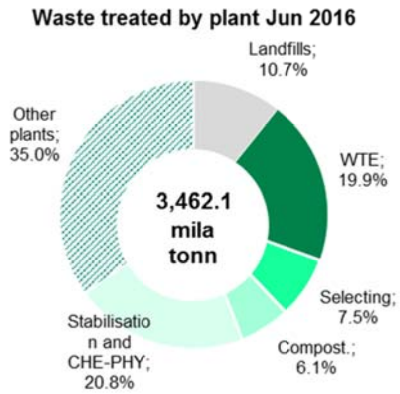
+0.7% in sorted waste collection

Collection of sorted urban waste showed further progress, passing from 56.9% in June 2016 to 57.6% in the first half of 2017. Over the first six months of 2017, in the areas served by Hera Spa, sorted waste collection increased by 0.5%, in those served by Marche Multiservizi it rose by 1.7% and in the Triveneto area growth settled at 0.9%.



Rise in waste disposed of





Quantitative data (thousand of tonnes)	**Jun 2017**	Jun 2016	Abs. change	% Change
Landfills	414.3	370.5	+43.8	+11.8%
Waste-to-energy plants	653.5	687.4	-33.9	-4.9%
Selecting plant and other	218.9	258.8	-39.9	-15.4%
Composting and stabilisation plants	192.8	211.3	-18.5	-8.8%
Stabilisation and chemical-physical plants	613.6	721.4	-107.8	-14.9%
Other plants	1,477.6	1,212.7	+264.9	+21.8%
Waste treated by plant	**3,570.8**	**3,462.1**	**+108.7**	**+3.1%**

The Hera Group operates in the entire waste cycle, with 94 plants used for urban and special waste treatment and disposal and plastic material regeneration. The most important of these include: 10 waste to energy plants, 11 composters/digesters and 15 selecting plants. The entry of the corporate branch of Teseco Srl contributed with three chemical-physical plants, one inertisation plant and a storage plant, while the entry of the Aliplast Group contributed with six selecting plants and three material transformation plants.

Waste treatment grew by 3.1% over the first half of 2016. As regards landfills, the increase is due to the greater availability of the Ravenna and Tremonti plants, following the authorisations obtained. Concerning waste to energy plants, the reduction in waste treated compared to the same period in 2016 is due to both a change in the classification of a few plants, included within "Other plants", and a different scheduling of plant suspensions and planned maintenance. The lower quantity of selection plants can be ascribed to a change in the classification of a few plants in the "Other plants" category. The quantitative decrease in the chain of inertisation and chemical-physical plants is due to a change in the classification of a few plants in the "Other plants" category. Lastly, the chain of "Other plants" benefited from a greater degree of intermediation, a different representation (mentioned above) of a few plants in this category and the acquisitions of the Aliplast Group and the "plants" corporate branch of Teseco Srl.

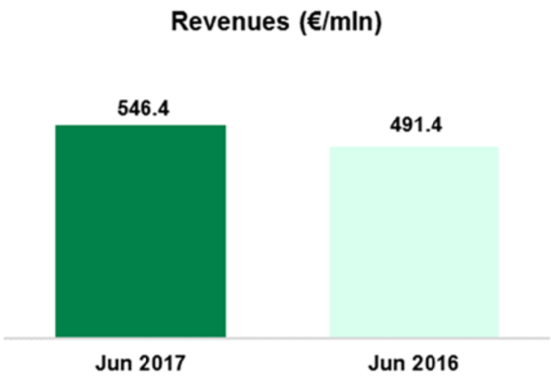
The table below summarises the operating results of the area:

Waste: Ebitda rises

Income statement (€/mln)	**Jun 2017**	% Inc.	**Jun 2016**	% Inc.	Abs. change	% Change
Revenues	**546.4**		491.4		+55.0	+11.2%
Operating costs	**(325.5)**	-59.6%	(288.4)	-58.7%	+37.1	+12.9%
Personnel costs	**(102.5)**	-18.8%	(88.0)	-17.9%	+14.5	+16.5%
Capitalised costs	**2.9**	0.5%	1.5	0.3%	+1.4	+95.7%
EBITDA	**121.3**	22.2%	116.5	23.7%	+4.8	+4.1%

Waste management revenues: € 546.4 million

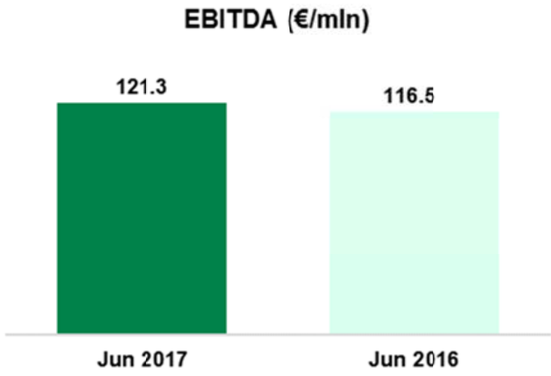
Revenues for the first semester of 2017 rose by 11.2%, or € 55.0 million, going from € 491.4 million in June 2016 to € 546.4 million in the same period of 2017. Not including the changes in scope of operations due to the entry of the Aliplast Group, which contributed with € 54.5 million, and lower sales for green certificates amounting to roughly € 24 million (passing to costs), the waste management area showed a roughly € 25 million increase in revenues over the previous year. This change is due to higher volumes treated thanks to the development of market activities, changes in the market price of special waste, which showed a positive trend in the first half of 2017, and higher revenues for urban hygiene coming to roughly € 5 million due to the tariffary adjustments resolved by the ATOs, in particular those following the development of sorted waste services. Furthermore, note the lower revenues from electricity production mainly due to the loss of energy incentives for a few plants and for the lesser production of energy in some WTE plants, only partially offset by the increase in energy prices (involving incentives and the market).



Operating costs for the first half of 2017 rose by 12.9%, or € 37.1 million, going from € 288.4 million in June 2016 to € 325.5 million in 2017. Not including the change in scope of operations owing to the entry of the Aliplast Group, which contributed with € 39.3 million, and the previously mentioned effect of green certificates, coming to roughly € 24 million, the waste management area saw costs rising by roughly € 22.0 million over the previous year. This change is due to the higher costs caused by the rise in waste treated, the increase in costs tied to maintenance works on a few disposal plants and higher costs for developing new projects in the area of sorted waste.

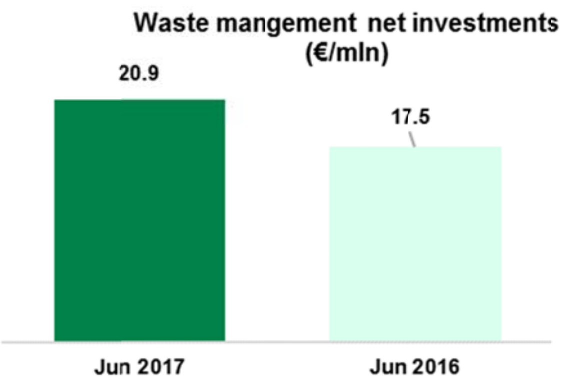
Waste management Ebitda at € 121.3 million

Ebitda went from € 116.5 million in June 2016 to € 121.3 million in the same period of 2017, thus showing a growth of € 4.8 million in absolute terms, or 4.1%. This change is due to the entry of the Aliplast Group within the scope of operations of the Hera Group, with € 7.6 million, higher volumes marketed in the disposal business and higher prices for special waste. These positive effects allowed the drop in revenues in energy management to be offset.



Net investments in waste management: € 20.9 million

Net investments in the waste management area concerned plant maintenance and upgrading and amounted to € 20.9 million, up € 3.4 million compared to 2016. The chain of composters/digesters showed an increase in investments coming to € 1.9 million, mainly due to interventions on the Sant'Agata composter for activities tied to the biomethane project.



The decrease in investments in landfills, which came to € 3.7 million, is mainly explained by the works carried out in the first half of 2016 in creating the 9th sector of the Ravenna landfill, not offset by the activities initiated on the Tre Monti (tank reclamation and new energy recovery system) and Loria landfills, in addition to reprogramming works on the Galliera and Cordenons plants.

In the chain of WTE plants, a € 1.2 million increase over the previous year was seen, mainly due to works including the modification of the steam generator in the Pozzilli plant and lesser maintenance interventions for the other WTE plants.

Investments in the Special Waste Plant chain were basically in line with the previous year. The chain of ecological islands and collection equipment saw investments that dropped by € 0.9 million, owing to the implementation in 2016 in the Triveneto region of Hergo Ambiente, the innovative information system that manages in an integrated way all of the Hera Group's Environmental Services activities, and to lower investments in collecting equipment in the area served by Marche Multiservizi.

The € 5.3 million increase seen in the chain of Selection and Recovery Plants is mainly due to the acquisition of the Aliplast Group, in addition to the activities of Waste Recycling, which is implementing the project I-Waste, a management platform able to gather and elaborate information from various types of sensors that collect analytic data involved in the performance of the various devices and of the treatment plants, putting them into relation with production activities, in order to enhance the efficiency of management, technical and energy processes, introducing IoT extensively into the company.

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

Waste Management (€/mln)	**Jun 2017**	Jun 2016	Abs. change	% Change
Composting/Digestors	3.3	1.4	+1.9	+135.7%
Landfills	4.2	7.9	-3.7	-46.8%
WTE	3.5	2.3	+1.2	+52.2%
RS Plants	0.7	0.8	-0.1	-12.5%
Ecological areas and gathering equipment	2.1	3.0	-0.9	-30.0%
Transshipment, selection and other plants	7.2	1.9	+5.3	+278.9%
Total Waste Management Gross	**20.9**	17.5	+3.4	+19.4%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Waste Management Net	**20.9**	17.5	+3.4	+19.4%

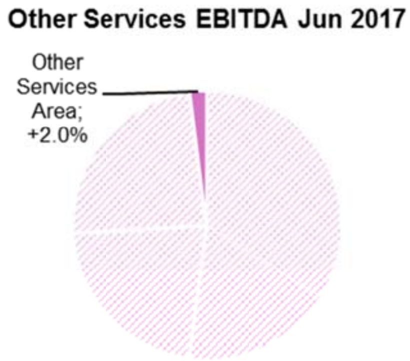
1.02.05 OTHER SERVICES

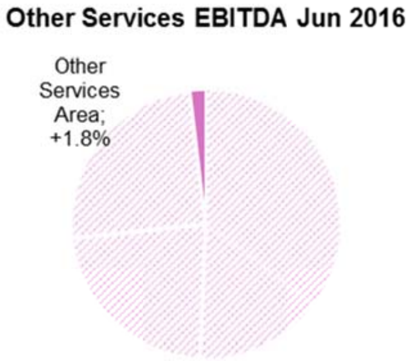
Other services: Ebitda rises

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

In the first half of 2017, the results of the other services area increased by 14.0% over the previous year: Ebitda in fact went from € 8.7 million in the first six months of 2016 to € 9.9 million in the same period of 2017.

Increased contribution to Group Ebitda





The changes occurred in Ebitda are as follows:

Other Services Area Ebitda increases

(€/mln)	Jun 2017	Jun 2016	Abs. change	% Change
Area EBITDA	**9.9**	**8.7**	**+1.2**	**+14.0%**
Group EBITDA	**505.9**	470.1	+35.8	+7.6%
Percentage weight	2.0%	1.8%	+0.2 p.p.	

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

Quantative data	**Jun 2017**	Jun 2016	Abs. change	% Change
Public lighting				
Lighting points (thousands)	**509.6**	519.7	(10.1)	(1.9%)
Municipalities served	**162.0**	148.0	+14.0	+9.5%

509.6 thousand lighting points

An analysis of the data regarding public lighting shows a fall of 10.1 thousand lighting points and an additional 14 municipalities served. The Hera Group, over the first six months of 2017, acquired roughly 34 thousand lighting points in 21 new municipalities. The most significant of these were: in Lombardy, roughly 4 thousand lighting points in the provinces of Brescia, Bergamo and Cremona; in Abruzzo roughly 13 thousand lighting points; in Lazio roughly 4 thousand lighting points; and in the Triveneto region, roughly 13 thousand lighting points mainly in the province of Pordenone. The increases seen over the year only partially offset the loss of roughly 44 thousand lighting points and 7 municipalities managed, of which the most significant decrease concerns the loss of roughly 29 thousand lighting points in the municipality of Rimini.

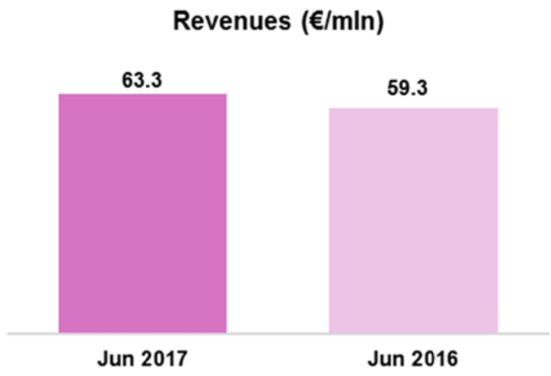
The operating results of the area are as follows:

Other Services: revenues rise

Income statement (€/mln)	Jun 2017	% Inc.	Jun 2016	% Inc.	Abs. change	% Change
Revenues	**63.3**		59.3		+4.0	+6.7%
Operating costs	**(44.4)**	-70.2%	(41.6)	-70.2%	+2.8	+6.7%
Personnel costs	**(10.2)**	-16.1%	(9.7)	-16.3%	+0.5	+5.2%
Capitalised costs	**1.2**	1.9%	0.7	1.2%	+0.5	+73.2%
EBITDA	**9.9**	15.6%	8.7	14.6%	+1.2	+14.0%

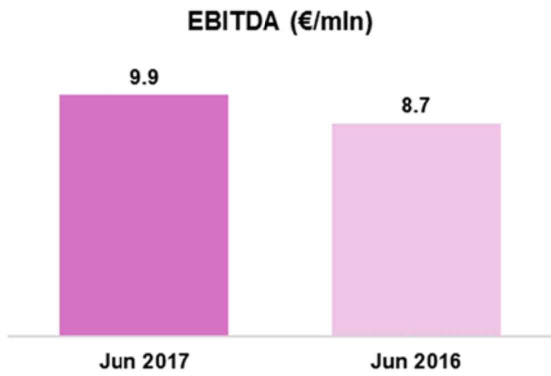
Revenues for Other Services reach € 63.3

Revenues in the area were up over June 2016 by € 4.0 million, going from € 59.3 million to € 63.3 million in June 2017. This growth in the first half-year is due to a positive contribution coming from all the businesses that make up the area: revenues from the business of public lighting grew by roughly € 1.1 million, thanks to the good performance of Hera Luce Srl, while the remainder of the increase came from telecommunications and cemetery services managed by AcegasApsAmga Spa.



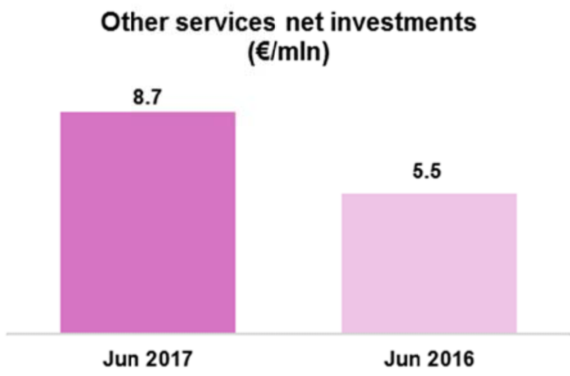
Ebitda grows by € 1.2 million

Ebitda showed a € 1.2 million growth compared to the first half of 2016, owing to higher earnings in public lighting, brought by the good performance of Hera Luce Srl, and higher earnings in telecommunications services.



Net investments: € 8.7 million

Investments in the Other Services Area came to € 8.7 million, up € 3.2 million compared to the first half of 2016.



In telecommunications, € 5.0 million of investments were made in networks and TLC and IDC (Internet Data Center) services, with a € 0.5 million increase over 2016.
In the public lighting service, investments went to maintaining, enhancing and modernising lampposts, and amounted to € 3.7 million, increasing by € 2.7 million compared to the first half of the previous year. This increase concerned the areas served by both Hera Luce Srl and AcegasApsAmga Spa.

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

Other Services (€/mln)	**Jun 2017**	Jun 2016	Abs. change	% Change
TLC	5.0	4.5	+0.5	+11.1%
Public Lighting and Street Lights	3.7	1.0	+2.7	+270.0%
Total Other Services Gross	**8.7**	5.5	+3.2	+58.2%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Other Services Net	**8.7**	5.5	+3.2	+58.2%

1.03 SIGNIFICANT EVENTS OCCURRED DURING THE HALF-YEAR

January

Herambiente Spa-Aligroup Srl

On 11 January 2017 Herambiente Spa and Aligroup Srl, a company belonging to the Aligroup Group and a leader in the sector of regenerated polymer, flexible PE film and rigid PET film production, signed a framework agreement concerning the acquisition of the entire share capital of Aliplast Spa, a company involved in managing the integrated plastic cycle.

The first tranche of the operation, subject to the approval granted by the Italian Antitrust authority (Autorità garante della concorrenza e del mercato, Agcm), was completed on 3 April 2017, when Herambiente Spa acquired 40% of Aliplast Spa's share capital.

Herambiente Spa is also expected to acquire, within March 2018 and June 2022, two further tranches of the share capital coming, respectively, to 40% and 20%, subsequent to which it will become the single shareholder of Aliplast Spa.

Waste Recycling Spa-Teseco Srl

On 30 January 2017, Waste Recycling Spa acquired from Teseco Srl the corporate branch Business Unit Impianti, operating in the sector of waste treatment via the Pisa multifunctional platform.

February

Biogas 2015 Srl

Effective as of 1 February 2017, the merger by incorporation of Biogas 2015 Srl, a company operating in the waste treatment sector, into Herambiente Spa, which already held the entire share capital, was completed.

March

Adriatica Acque Srl

On 29 March 2017, Hera Comm Srl transferred its holding in Adriatica Acque Srl, a company operating in the sector of office drinking water, including sales of coolers/dispensers, corresponding to 22.32% of the share capital.

April

Tri-Generazione Scarl

Effective as of 5 April 2017, the company Tri-Generazione Scarl, which operates in the sector of trigeneration plant management and maintenance and is 70% controlled by Sinergie Spa, in turn entirely held by AcegasApsAmga Spa, changed its legal status from Srl to Scarl.

May

Gran Sasso Srl

Effective as of 1 May 2017, the share capital of Gran Sasso Srl, a company operating in the sector of gas and electricity purchasing and sales, was increased from € 148,000 to € 162,810, by way of a conferral by Enerpeligna of its own corporate branch involving gas. As of the same date, Enerpeligna transferred its holding pertaining to the abovementioned share capital increase to Hera Comm Srl, with the latter maintaining the entire holding of the company.

Liquidation of Esil Scarl

23 May 2017 saw the liquidation of the holding in Esil Scarl, a company operating in public lighting and traffic light management services, corresponding to 100% of the share capital.

June

Alipackaging Srl – Cerplast Srl – Umbroplast Srl – Variplast Srl

On 27 June 2017, Aliplast Spa, already a shareholder in Alipackaging Srl, Cerplast Srl, Umbroplast Srl and Variplast Srl, holding 80%, 60%, 90% and 80% of the respective share capital, purchased the shares held by the remaining minority shareholders, thus becoming sole shareholder of the abovementioned companies.

Significant events following the reporting period

July

Aresgas EAD

On 3 July 2017, AcegasApsAmga Spa, which already owned 99.98% of the company Aresgas AD, involved in natural gas distribution and sales in Bulgaria, purchased the remaining 0.02% of the share capital, thus becoming the company's sole shareholder.

Verducci Servizi Srl

On 6 July 2017 the acquisition of 100% of the share capital of Verducci Servizi Srl, a company operating in the gas sales sector with roughly circa 3,500 customers served in the areas of Pescara, L'Aquila and Rieti, by Hera Comm Marche Srl, came to a conclusion.

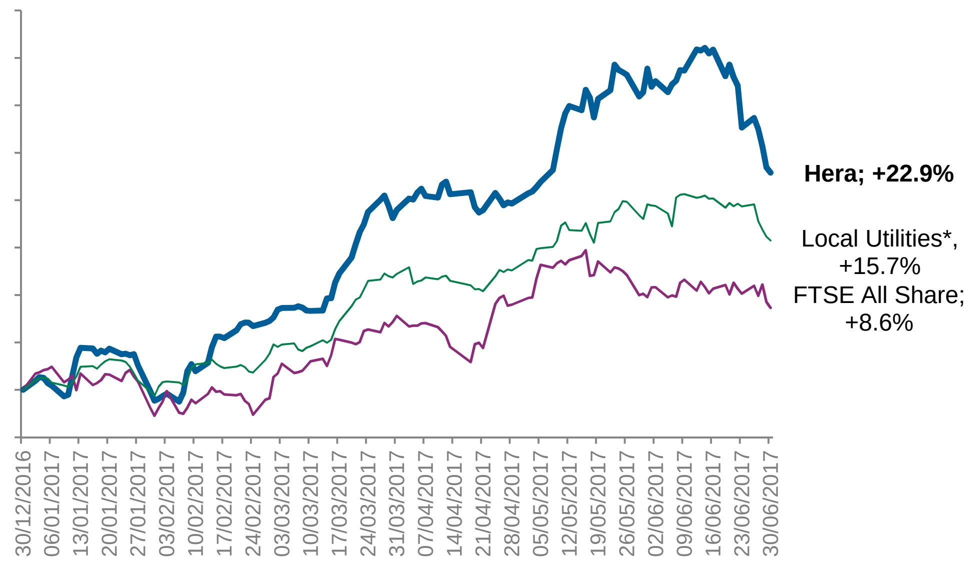
1.04 SHARE PERFORMANCE AND INVESTOR RELATIONS

Growth in financial markets over the first half of 2017

Financial markets showed generally increasing quotations in the first half of 2017, bolstered by a gradual improvement in prospects for economic growth and a fall in political risk in Europe following the defeat of populist movements in the Dutch and French elections. European markets furthermore benefited from the ECB's decision to extend its bond purchasing program (quantitative easing) until December 2017, albeit at a slower pace, corresponding to € 60 billion per month as of April. Just like other European stock exchanges, Borsa Italiana recorded a positive performance in the period in question, with an overall increase of +8.6%. Small and medium sized companies led the upturn at Piazza Affari (+20.6% for the Ftse Mid Cap and +22.7% for the Ftse Small Cap) thanks to a significant inflow of capital coming from PIRs (Individual Savings Plans), a type of investment introduced by the most recent national budget, which allows for tax relief when some resources are delivered to companies not included in the stock exchange's main index.

Price of Hera stock at the end of 1H 2017: € 2.689. Hera outperforms the market and its own sector

In this context, Hera shares amply outperformed the Italian stock exchange index and the Group's own sector, closing the half-year at an official price of € 2.689 per share, up +22.9%, and reaching a capitalisation of € 4.0 billion. This trend was sustained among other things by the new business plan to 2020, published in mid-January, and the growing annual and first-quarter financial results, published in late March and mid-May respectively.



** excluding Hera from the category of local utilities*

Dividend paid: € 0.09, the fifteenth in an uninterrupted series

On 19 June, following the indications provided in the business plan, Hera paid a dividend of 9 cents per share, the fifteenth in an uninterrupted and rising series since the Group was first listed.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
DPS (€)	0.04	0.05	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**

Total shareholders' return since the IPO: +200%

The joint effect of continuously remunerating shareholders through dividend payments and a rise in the price of the stock allowed the cumulative total shareholders' return since the initial public offering to remain consistently positive, even in the most difficult moments of the financial crisis, and to settle, at the end of the reporting period, at over +200%.

Average target price set by analysts: € 2.96

At the end of the half-year, a strong majority of financial analysts covering the company (Banca Akros, Banca IMI, Equita Sim, Fidentiis, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) gave positive assessments, with almost all recommendations defined as Buy/Outperform, while the consensus target price settled at € 2.96.

Breakdown of Group Shareholders at 30 June 2017

Share capital held by members of the public Shareholders' Agreement:

At 30 June, the corporate structure included 49.6% of total shares held by 118 public shareholders located across the areas served and united in a Stockholders' Agreement signed on 26 June 2015 and in force for three years, and 50.4% of floating stock.

The placement of 1.7% of the share capital held by public shareholders attracted a demand totalling over twice the offer

On 23 June, respecting the terms of the Agreement, 13 Municipality Shareholders sold, in a coordinated and transparent way, through an accelerated book building operation, approximately 25.7 shares, corresponding to 1.7% of the share capital, to over twenty Italian and foreign institutional investors. Thanks to a demand that reached over twice the amount put on sale, the placement occurred at a price of € 2.79 per share, with the lowest discount seen on the market since the beginning of the year for similar operations, set at 3.3% compared to closing time on the previous day. The placement led to a rise in floating stock, with clear benefits for trade liquidity.

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders' Meeting held on 27 April 2017 for 18 further months, for an overall maximum amount of € 180 million. 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, Hera held 19.2 million treasury shares.

Dialogue with the market as an intangible asset

In the period under review, Hera's senior management engaged in an intense dialogue with investors, with its business plan road show in the first quarter and its participation in sector conferences in the second.

The intense dialogue cultivated by Hera with investors has helped reinforce its market reputation, and now represents an intangible asset that favours Hera's stock and its stakeholders.

1.05 REFERENCE SCENARIO AND GROUP STRATEGY

The results of organic growth

A balanced development of the activity portfolio

The Group's growth strategy, as set out in the business plan to 2020, was pursued in the first half of 2017 as well in the areas of internal and external growth. In the first six months of the year, the widened customer base and the new concessions for safeguarded customers, granted through tenders in late 2016, contributed to the development of the energy businesses during the period in question. In managing waste treatment, the results benefitted from a positive trend in both internal (prices, volume of activity and improved cost efficiency) and external growth, the latter consisting in the acquisition of Aliplast Spa and a corporate branch of Teseco Srl, fully consolidated as of this financial report, which reflects these results as of 1 January 2017. In network management activities (water, gas, electricity and district heating) investments and efficiency enhancing projects continued to be implemented. The results were furthermore sustained by the quality bonuses recently introduced by the Authority in water systems, which show the effectiveness of the Group's strategic orientation towards improving service quality.

A risk adverse strategy

The new business plan to 2020

The Group's balance between regulated and freely competitive activities was confirmed by the results for the half-year, as were its ongoing flexible policies in commodity procurement, in line with the risk adverse strategy set out in the business plan to 2020.
The way in which the sector is currently evolving cannot neglect circular economy, industry 4.0 and customer experience. These trends, while requiring corporate models to be deeply refashioned, shorten the amount of time required for change and revolutionise the ways in which production processes, products and customer relations are conceived .

Future prospects for the sector

The business plan to 2020 defines the current strategic arrangement and aspires to pursue, in a sustainable way, growth in Ebitda, reaching over one billion € at the end of the period and setting a target of roughly 200 million € of growth over the five years. These expected increases will be sustained by the Group's habitual model of development, based on the driving force of two time-tested motors: internal and external growth. The investment plan, amounting to roughly 2.5 billion €, will be fully financed with the generation of cash flow, which will bring about further improvement in financial solidity, in spite of an 11% increase in dividends per share, put into effect progressively until 2020.

A strategic response to the new evolutionary trends

Following up on the previous business plan, the strategy will be supported by the same four development levers: growth, efficiency, innovation and excellence. These orientations, which have already proved their validity in the past, lie at the root of all projects for the next four years. In the new plan, a further element has also been introduced: agility, which responds to the need to adapt to new industrial conditions at the increasing pace defined by the external scenario's evolution.

The operational levers and the main factors that guide the Group's development have been fully confirmed by the results presented in previous financial statements, and are in line with the predefined targets. The novelty in the strategy through to 2020 consists, rather, in the ways in which the objectives will be pursued.

It calls for digitalisation to be implemented in all business areas; this amounts to a preparatory action for a future transformation of processes, plants and infrastructures into intelligent networks, an internet of things and the use of innovative technologies to increase energy and operating efficiency. Thanks among other things to the use of highly evolved telecommunication tools (satellites, internet), the Group intends to aim towards utility 4.0 as early as the period provided for by the plan.

The strategy for 2020 is furthermore in line with the philosophy underlying a circular economy, which propels sustainable management beyond the limits of reusing and recycling materials coming from sorted waste.

The Group, that in this area has reached the targets set by supranational organisations (EU and UN) well ahead of time, will take a decisive step in the next five years and succeed in directly producing that can be relocated on the market, through the use of recycled materials.

Lastly, the plan to 2020 foresees a considerable degree of attention given to customer experience and related activities, which will allow customer relationship management tools to evolve.

The target is an ever increasing proficiency and speed in big data analysis, in order to perfect strategies aimed at improving the quality of the services offered, as well as defining the commercial offers that best respond to customers' requests.

The current strategic layout, which consists in the lines of development previously pursued, has been fully confirmed in the business plan to 2020 and given greater impetus towards its own natural evolution, without breaking away from the past and heading towards new imperatives in development.

Results recorded fully foreseen by the plan

The growth in operating results and the financial management seen over the first half-year both reflect what was foreseen by the five-year business plan, even taking into consideration most of the negative impacts, expected in the plan, ensuing from the reduction in regulated tariffs and the end of certain incentives for generation from renewable and assimilated sources.

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

The macroeconomic context

The world's major economic areas witnessed a gradual improvement in their prospects for growth in the early months of 2017, following the stimuli provided by expansive policies and an acceleration in international commerce. The data coming from the United States shows a positive trend in economic activity (with growth in GDP reaching +1.9% in the first quarter), thanks to a reinforced internal demand created by the expected package of fiscal incentives promised by the new US administration.

The United Kingdom also recorded growth in its GDP since the beginning of the year (+2.0% in the first quarter) owing to the notable increase in exports, in turn caused by sterling's devaluation. The uncertainty surrounding the outcome of the complex procedure for leaving the European Union, set into motion by the British government on 29 March, continues to hover above its medium-term economic prospects.

In the euroarea growth is becoming more consolidated (with a +1.7% trend in GDP over the first quarter), sustained by household consumption and a recovery in investments. Despite inflation rising to 1.3% during the early months of the year (as an effect of energy goods), the ECB confirmed its intention of continuing to purchase bonds until the end of the year. This should guarantee control over these securities until the conclusion of the dense cycle of elections in Europe.

Domestically speaking, the most recent data points towards an improvement in Italy's economy, with GDP growing by 1.2% in the first quarter, as against a preliminary estimate that remained at 0.8%. Consumption and investments were the driving factors behind this change, with the latter currently benefiting from a package of fiscal incentives involved in Industry 4.0. The repercussions of this improved economic scenario included an increase in employment, which rose in Italy by 0.3% compared to the end of 2016. In light of the positive signs seen in the Italian economy in the first quarter, the International Monetary Fund corrected the country's estimated growth in 2017, raising it from 0.8% to 1.3%, noting however the continued risk of a downward trend, due to a stall in the process of government reform and the unforeseeable impact that may be caused by Brexit and American commercial policies.

The context in terms of competition

An overview of competition in the utility sector in the first half of 2017 shows little change compared to the previous conditions, with a tendency towards increased competition in both free market and regulated businesses, albeit at different speeds. The first tender for gas distribution in Italy, regarding Atem in Milan, was officially initiated in this period. This event marks the beginning of a competitive process that will involve the entire nation and that should favour the awaited rationalisation of the sector. The rationalisation of the waste management business would seem, on the contrary, to have been postponed, at least for the moment: the future of the regulatory responsibilities of the Aeegsi (Authority for electricity, gas and the water system - hereinafter: the Authority) has not yet been decided, due among other things to the political uncertainty created by the upcoming elections.

1.07 REGULATORY FRAMEWORK AND REGULATED REVENUES

Relevant legislation

The State Council ratifies the adequacy of the SII tariff method

Among the legislative measures introduced in the first half of 2017 with the greatest consequences for the Hera Group, particular attention must certainly be given to the State Council's decision no. 0248/2017, which confirms the full legitimacy of tariffary method Mtt with which the Authority defined the criteria for defining tariffs in the integrated water service in 2012. The administrative courts in fact rejected the appeals against the verdicts of the TAR which had previously affirmed that this regulation conformed with the outcome of the 2011 referendum, definitively refusing the argument that the Authority, through its own tariff regulation, had reintroduced the criterion of an adequate return on invested capital. The ruling states that the claimants had "confused" the concept of "full coverage of costs" provided for by EU law, which in itself is fully compatible with the result of the referendum, with the idea of "adequate return on capital" provided for by the previous "standardized method", which guaranteed a fixed rate of return, independent of trends seen in the financial markets.

Consolidated Law on companies with public shareholders

Legislative decree 100/1017 (amendments to the consolidated law on companies with public shareholders) was published in the Gazzetta Ufficiale on 26 June. The measure responds to a twofold need: on the one hand, to fully implement enabling act 124/2015, which provided for the possibility that the Government finalize legislative decree 175/1206 by means of corrective decrees to be adopted within twelve months of the effective date of the latter; on the other, to adapt to the recent Constitutional Court ruling no. 251/2016, which declared the constitutional illegitimacy of act 124/2015, regarding the part regulating the procedural rules for adopting decrees implementing the reform.

With this in mind, legislative decree 100/1017 was adopted, which, in addition to remedying the procedural defect identified by the Court, by embracing the unified conference agreement on the text of legislative decree 175/16, introduced a few corrections and additions to improve the consolidated law concerning subsidiary companies, roughly one year after its entry into force.

The new factors include:

- a redefinition of the extent to which the consolidated law can be applied to listed companies;
- the possibility for shareholders' meetings of publicly controlled companies to rule that the company be managed by a board of directors made up of from three to five members;
- the possibility of balancing the losses of subsidiaries, if and when funds derived from provisions dating to previous years exist;
- the deadline of 31 July 2017 for statutory adjustments;
- the deadline of 30 September 2017 for non-recurring revisions of shareholdings;
- the possibility, until 30 June 2018, of hiring personnel with permanent contracts exclusively via the lists compiled by Italian Regions of surplus public administration personnel.

Procurement code: the correctional legislative decree

On 13 April 2017, the Council of Ministers examined and definitively approved a correctional legislative decree of the Code of publicly procured works, services and supplies adopted pursuant to article 1, paragraph 8, of law no. 11/ 2016. This decree, published in the Gazetta Ufficiale on May 5, introduces changes and integrations into the Code, aimed at refining its regulatory system by confirming its core elements, in order to effectively pursue the development of the sector. The corrections and integrations to the procurement code entered into force on 20 May 2017.

Gas, Electricity and Integrated Water Service Regulations

Among the new features appearing in regulations approved by the Authority in the first half of 2017, those with the greatest consequences for the Group include: measures related to the end of protected systems; the beginning of the plan to substitute 2G meters with e-distribution and consulting as to hourly segments, aggregation and configuration of 2G meters; modifications in the tariffary structure of system costs in the electricity sector; lastly, the gradual completion of integrated water service regulations concerning the structure of fees, waste water rates, quality parameters and social bonuses.

The end of protected systems and full market liberalisation: Placet and non-derogating condition offers

The Authority continued to adopt measures and hold consultations aimed at accompanying the end of protected systems in retail markets and their complete liberalisation, extended by the so-called “Competition” draft law to 1 July 2019.
In particular, the Authority, by means of resolutions 69/2017/ R/eel and 108/2017/R/gas, first approved a mechanism for compensation of fixed costs, benefitting operators offering protected services for 2016, with the objective of offsetting the lack of coverage of said costs ensuing from the loss of customers who passed to the free market and, subsequently, regulated the additional period of effectiveness of the protected services by restoring, as regards the definition of economic conditions, the thermal year. It also identified the reference market for defining the Cmem component as of January 1, 2018, and defined the amount of the Ccr component.
Lastly, with Dco 204/2017/R/com the Authority proposed a new layout for retail gas and electricity markets, in which free market sellers will be required to include in their bundle of deals two new types: “placet” offers, marked by contractual terms established by the Authority, with the sole exception of economic conditions, freely defined by operators; and offers with so-called “non-derogating conditions”, marked by prices and contractual terms freely defined by sellers, with the exception of certain contractual terms that will be fixed by the Authority.

2G metering systems: approval of the e-distribution plan and arrangements for treating metering data

After verifying the existence of the conditions for admission to the so-called fast track regime, with resolution 222/2017/R/eel of April 2017, the Authority approved, albeit with some remarks, the Plan for putting into service the second-generation e-distribution smart metering system (2G), with reference to the period 2017-2031, setting the date of its launch at January 1, 2017, retroactively. Alongside this, in order to trigger a true optimization of business and system processes, in view of extending 2G smart metering systems, the authority, with resolution 248/2017, established that the subject responsible for measuring recognize and validate on a daily basis the data read each quarter of an hour and make them available to the integrated information system (SII) once daily; in turn, the SII must transmit this data to the transport users. The SII manager was also charged with defining the application procedures for making 2G measurement data available to transport users. Lastly, Dc 466/2017/ R/eel, currently under consultation, illustrates guidelines concerning the application of treatment pursuant to Tis at collection points for which a new meter will be installed within the scope of 2G metering systems, as well as the process through which commercial counterparties will configure such systems.

Completion of tariff reform for household customers and changes in general system charges

As regards electricity distribution, work on reforming network tariffs and tariff components to cover general system costs for domestic customers continued, and will be completed in 2018 with the complete abolition of progressive tariffs based on consumption. With resolution 782/2016/R/eel, the Authority implemented the second step of the reform, defining the tariff structures applicable from 1 January 2017 with the removal of the distinction between tariff categories D2 and D3, replaced by a new non-progressive “TD” tariff, differentiated between resident household customers, regardless of the power used, and non-resident household customers. For 2017, the structure of the components covering system charges is characterized by lesser degree of progressivity, divided into two levels of consumption. Another important goal of the reform is to help household customers search for the optimum level of power used. A two-year period of tariff breaks is foreseen for household customers requiring a varied power supply that, starting from 2017, is offered with a higher granularity.

With Resolution 481/2017/R/eel of June 2017, the Authority lastly redesigned the general tariff structure for non-household customers by providing for two groupings: general charges related to sustaining renewable energy and cogeneration (Asos), separating the latter between high energy consuming customers and supported customers broken down by classes of benefits, and the remaining charges (Arim). The document also provides for a trinomial form of the components covering charges, characterized by three rates: a fixed rate, a power rate and a variable rate.

Completion of integrated water service regulation is ongoing

The Authority continued towards completing regulations for the integrated water service, issuing several important consultation documents which will be followed by the final measures in December 2017. Particular note should go to the consultations concerning the Dpcm of 13 October 2016, i.e. the new even service tariff structure (Dco 251/2017/R/Idr) and the social bonus for water (Dco 470/2017/R/Idr). The first document identifies the facilitated range for resident household users, with reference to the minimum living quantity (50 l/resident/day), and proposes a uniform tariff nationwide, to respond to the principle of cost reflectivity in fees. The second document defines the social water bonus, borrowing conditions from the Isee level valid for energy sectors, in order to identify the user’s conditions of economic distress, but proposing differences in the process of verifying requests and quantifying the bonus, which will be funded through the national UI3 tariff component. Note furthermore that the consultation process for the new regulation of industrial waste water rates came to a close with Dco 422/2017/R/Idr, which proposes a trinomial tariff aimed at respecting the EU principle “those who pollute more pay more”. Finally, the Authority has initiated procedures for regulating the technical quality of the service by proposing general and specific minimum standards, with the first consultation document appearing within July 2017. Also regarding this area, resolution 89/2017/R/Idr brought the Census survey on programming interventions to an end, on which the Authority intends to intervene in order to reduce the variables considered by the Bodies in question, with a proposal for territorial investment planning, proposing a set of technical quality indicators as guidelines.

Gas distribution: tariffary framework

2017 is the fourth year of the fourth regulatory period (2014-2019) of the gas distribution and metering tariff system, governed by resolutions 367/2014/R/gas (approval of the reference text, RTDG) and 775/2016/R/gas (interim update, 2017-19).

The tariff system is consistent with the previous year and entitles each distributor to certain revenues, defined by the Authority on the basis of recognised costs and expressed by both reference tariffs and the average number of delivery points served during the year, making revenues independent from variations 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 obligatory tariffs set by the Authority for the various macro-regional areas). In particular:

- invested capital acknowledged in tariffs in year t (2017) covers investments made until year t-1 (2016), which are remunerated by applying a rate of return on invested capital for distribution and metering services; the amount of tariff amortisation is calculated on the basis of the regulatory useful lives of each type;
- recognised operating costs (differentiated according to the size of the enterprise and customer density) are updated by the FOI inflationary indicator published by Istat, whose effect in updating the 2016 rates came to -0.12%; furthermore, a production improvement factor (x-factor) is applied to distribution service costs, which differs according to the size of the enterprise and was set, for Group companies, at 1.7% for Inrete Distribuzione Energia Spa and AcegasApsAmga Spa and 2.5% for Marche Multiservizi spa. As of 1 January 2017, with resolution 775/2016/R/gas the amount covering commercialisation costs for distribution services was increased; on the contrary, a reduction was seen, albeit temporarily, in revenues covering metrological checks for class >G6 metres that conform to directives on smart metres.

The rate of return on invested capital for the three-year period 2016-2018 comes to 6.1% for distribution and 6.6% for metering, in line with the rates for the previous year and respecting the Tiwacc regulations (resolution 583/2015/R/com).

Based on these principles, with resolution 220/2017/R/gas the Authority approved for 2017 the provisional reference rates (based on an estimate of investments made in 2016), while approval of the final reference tariffs, which will take into account investments recorded in 2016, is due to be completed within February 2018.

Within the consolidated scope of the Hera Group, at 30 June 2016 the companies Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa operate in gas distribution and metering.

As of the financial statements for 2016, the revenue covering the underlying cost of amortisation related to investments made in 2016 is recognized on an accrual basis.

As a result of the factors described above, in the first half of 2017 revenues for gas distribution and metering equalled, for the Hera Group, € 125.3 million, for 1.699 million m^3 of volumes distributed, with a corresponding revenue of 7.38 € cent/m^3. This revenue already includes an anticipation of the definitive reference tariffs and therefore reflects a reasonable estimate of the effects of tariff equalisation. Compared to 2016, and corresponding to a 3.3% rise in volumes distributed, a € 1.7 million increase in revenues was seen.

This result is mainly due to the positive effect of the higher recognition of revenues covering commercialisation costs, as described above, and an increase in revenues covering amortisation rates pertaining to the period in question.

Gas distribution and metering - Regulated revenue Hera Group consolidated	30 Jun 2017	30 Jun 2016	% Change
- Revenue (€/mln)	125.3	123.6	1.4%
- Volumes (mln m3)	1,699	1,644	3.3%
- Average revenue per unit (€cent/m3)	7.38	7.52	-1.9%

Revenues here refer to a RAB at 30 June 2016 of roughly € 1,075 million, pertaining to assets owned by the Group, including centralised assets.

Electricity distribution: tariffary framework

2017 is the second year of the fifth regulatory period for electricity transmission, distribution and metering, introduced by resolution 654/2015/R/eel, with which the Authority approved the comprehensive texts for the regulatory period 2016-2023. The provision extended the duration of the period to eight years, subdividing the latter into two clearly distinguished four-year periods (NPR1 2016-2019 and NPR2 2020-2023). The criteria used for tariffs in NPR1 are largely consistent in their method with regulations in force until 2015. The tariff system calls for the tariff applied in invoicing to sales companies (so-called “Obligatory Tariff”, identical nationwide) and the “Reference Tariff”, which expresses the permitted revenues for distribution and metering actually due to operators, to be decoupled. Implementation of permitted revenues is guaranteed by specific tariff equalisation mechanisms, regulated with the Fund for energy and environmental services (CSEA). The recognition of capital costs in NPR1 includes in the RAB of year t, and in the corresponding remuneration, investments made until the previous year (t-1) and a timely recognition of investments made for low-tension measuring and commercialisation services, in addition to distribution services.

The rate of return on invested capital for the three-year period 2016-18 for electricity distribution and metering has been set at 5.6%, in line with the regulation introduced by the integrated text Tiwacc (resolution 583/2015/R/com).

Recognised operating costs for 2017 dropped slightly compared to 2016, due to updates introduced with the price-cap method, i.e. a monetarily re-evaluation with an inflation rate of -0.12% and an efficiency correction with an X-factor coming to 1.9% for distribution and 1% for metering.

In the context described hereto, over the first half of 2017, for the Hera Group companies operating in electricity distribution, INRETE Distribuzione Energia Spa and AcegasApsAmga Spa, the Authority:

- with resolutions 188/2017/R/eel and 199/2017/R/eel, definitively set reference tariffs for distribution and metering in 2016 (finalising them compared to the provisional tariffs by including investments recorded in 2015 instead of estimated investments);
- with resolutions 286/2017/R/eel and 287/2017/R/eel, approved provisional reference tariffs for distribution and metering in 2017, including estimated 2016 investments. The definitive 2016 reference tariffs will be approved by the Authority within 2018 and will include investments recorded in 2017.

Within the framework outlined above, Group revenues for electricity transmission, distribution and metering for the first half of 2017 came to € 44.7 million, down € 11.2 compared to the first six months of 2016, as against volumes distributed that rose by roughly 3%. However, not including the non-recurring entries included in the first half of 2016 referring to previous amounts due and later reconsidered in the year-end statements for 2016, revenues grew by € 2.6 million, due to both higher revenues from metering recognised by the new tariff method and the dynamics of distribution investments.

Revenues covering the underlying amortization costs for investments made as of 2016 are included in revenues for the first half of 2017.

Electricity distribution and metering - Regulated revenue Hera Group consolidated	30 Jun 2017	30 Jun 2016	% Change
- Revenue (€/mln)	44.7	55.9	-20.0%
- Volumes (mln kWh)	1,488	1,447	2.8%
- Average revenue per unit (€cent/kWh)	3.00	3.86	-22.2%

These revenues refer to an estimated € 364 million RAB for electricity distribution and measurement, for the most part linked to Group-owned assets.

Water cycle: tariffary framework

2017 is the second 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 (VRG) defined on the basis of the operating and capital costs recognised by the aforementioned tariff method, making revenues independent from any changes in volumes distributed.

This is ensured by a tariff balancing mechanism that permits operators to recover (in the VRG of the two following years) the differences between recognised revenues (VRG) and the actual turnover resulting from volumes sold.

Recognised operating costs are subdivided into: a) endogenous costs (for which an efficiency enhancement criterion has also been foreseen), b) exogenous and updatable costs, mainly concerning the cost of purchasing raw materials, electricity, and fees. The former are referred to 2011, applying the FOI inflation rate published by Istat; the latter are updated by referring to the appropriate tariffary year and act as a balancing element, to recover any deviations between the figures inserted within the VRG and that which was actually sustained and declared.

Capital costs refer to investments made until two years earlier, and cover the costs of amortisation as well as financial and fiscal charges.

As of 2016, the revenue covering the underlying cost of amortisation related to investments made in the two previous years and not yet included in the VRG is recognized on an accrual basis.

In 2014, furthermore, owing to the provisions of the Authority's tariffary resolution 643/2013/R/idr, the local agency for Emilia-Romagna (Atersir) has defined the tariff adjustment items relating to periods prior to 2012 and not already considered in the calculation of previous tariffs; those items are foreseen to be recovered as of 2015 and will end in 2018.

Revenues from tariffs rose compared to 2016 by 7.2%, as an effect of the tariff balancing provided for by the application of the resolved VRG, the advance in regulated revenues of the amount of amortisation involved in conversion to sources of income ("delta accounting QA", recorded in 2016 beginning with the last quarter), and bonuses for contract quality (operative beginning 1/7/2016) owing to commitments for improved standards compared to those set out in resolution Aeegsi 655/2015.

Urban waste: tariffary framework

The service of urban waste management is offered on the basis of conventions established with provincially defined Agencies, which are now part of the Atersir and which regulate, in addition to the forms 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.

Acting through the Tari, single Municipalities purchase resources covering costs sustained by operators in carrying out services in sweeping, collection and disposal; as of the year in which the Tares was established (2013), tasks including 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 according to conventions currently in force, the operator is held to continue offering services in areas in which the deadline for assignment has already passed, until new assignments are made; for expired concessions, Atersir has already initiated the procedures for new assignments.

At June 2017, urban waste management services were offered in 188 municipalities, 32% of which chose to entrust Tari controls and payment collecting to the Hera Group.
A comparison between the uniform and consolidated data of the Hera Group shows the following figures:

Regulated SGRUA revenues rose by 1.9%, mainly owing to the tariffary updating resolved by local agencies, in particular involving new projects for increasing sorted waste.

1.08 PROCUREMENT POLICY AND TRADING

Natural gas consumption on the rise: +8.9%

As far as gas is concerned, in the first six months of the year the total consumption increased by 8.9% as compared to the same period of 2016, with an increase in the absolute value of over 3,200 Gmc. The driving factor behind this recovery, as compared to 2016, is gas consumption for electricity production: in the first six months of 2017, thermoelectric consumption increased by 20.0% as compared to the first six months of 2016 which, as an absolute value, corresponds to an increase of approximately 2,030 Gmc. The industry also displays signs of recovering, with gas consumption rising by 6.2% as compared to the first half of 2016. In addition, as far as residential consumption is concerned, climate change has led to an increase in consumption in the first six months of 2017, an increase of approximately 727 Gmc as compared to the same period of the previous year, corresponding to 4.0%.

Portfolio optimization

The weather pattern of the first half of the year obviously had an impact on the Group's sales, with a significant increase in January and February followed by a reduction in March.
Trading activities in the first half of the year were directed at optimizing the Group's portfolio, on one hand with the aim of balancing its position on the short term, and on the other hand at negotiating and managing new procurement contracts for the 2017/2018 thermal year.

In detail, short-term adjustments, guided by an efficient forecasting of needs, were carried out through purchase or sale adjustments at the Virtual Exchange Point (Psv), the Virtual Trading Point (Austrian Vtp), the Title transfer facility (Dutch Ttf) and Net connect Germany (German Ncg). These operations generally took place on favourable terms and allowed the Group to achieve the established objectives in terms of results.

Since April 2017, Hera Trading Srl has initiated the procurement of both gas earmarked to fill the store purchased at auction, approximately 0.33 billion cubic meters, and gas earmarked for the Hera Comm Srl free market for the 2017/2018 thermal year, approximately 0.6 billion cubic meters, drawing directly on the spot market; this activity was still ongoing as of 30 June.

Negotiation of modulated gas for approximately 1.4 billion cubic meters

During March, in line with the previous year, modulated gas for the protected market on REMIs (delivery points) of the Group Sales Companies was negotiated for a total of approximately 1.4 billion cubic meters for the 2017/18 thermal year, in line with the provision terms established by Aeegsi beginning in October 2013. Thanks to negotiations, it was possible to obtain particularly favourable conditions in terms of both prices and payment conditions.

Electricity consumption on the rise:+2.4%

The electricity demand in the first half of 2017 showed an increase as compared to the same period of the previous year, rising by 2.4%.
Regarding electricity production, the first half of the year showed an increase in both thermoelectric and photovoltaic production, with increases of 14.8% (+11.0 TWh) and 12.0% (+1.0 TWh) respectively. This increase was counterbalanced by lower wind production, recording a significant decrease of -12.0% (-1.2 TWh), a lower hydroelectric power output of 3.05 TWh, equal to -14.3%, mainly due to lower imports from abroad, equaling 4.76 TWh or -23.4%.

Regarding prices in the electricity market, the first half of 2017 showed a significant increase: the NSP monthly average fluctuated between € 72 / MWh in January and € 43 / MWh in April while in the corresponding period of 2016 the NSP displayed values between 32 and 46 € / MWh. This trend is mainly due to the increased production of electricity from gas thermoelectric plants.

Reform of the electrical market

During the first half of the year, the Authority initiated the first phase of pilot projects for the participation of the consumption units and unequipped units in the Dispatching Services Market (MDSD) by resolution 300/2017 of 5 May 2017 and additionally involving various forms of aggregation according to geographic parameters. Pilot projects define the modes for remunerating ancillary services which are currently not remunerated.
In addition, with Resolution 419/2017 the Authority approved the new transitional regulation on actual imbalances, which provides for the introduction of macrozonal non-arbitration fees beginning 1 July 2017, the application of a new calculation method for calculating the aggregated zonal imbalance beginning 1 September 2017 and the re-instatement of the single pricing mechanism for dispatching points of unequipped units while maintaining the dual pricing mixed system for consumer units to counter programming strategies that do not comply with the system

Electrical trading performance

Regarding the trading of electricity and environmental certificates, in the first half of the year performance improvements were achieved in terms of both EBTDA and average value of the import capacity held as compared to the corresponding period of 2016. Particular attention has been granted to the management/optimization of Hera Comm Srl 's purchasing portfolio through operations on the Italian Stock Exchange and Over the Counter (Otc) platforms.

Price risk management

The management of commodity and exchange risk has proved to be particularly effective in a context characterized by intense volatility in both oil prices and the eurodollar exchange rate.

1.09 COMMERCIAL POLICY AND CUSTOMER CARE

In the first half of 2017, the client portfolio of the Group showed an increase of over 3% as compared to the same period of the previous year.
The number of clients increased in all services, particularly in the electricity sector: the increase of supplies in a safeguard regime, the competitivity of the offering and quality of the service are the main reasons for the increase of more than 75,000 customers (+ 8.8%).

Customers of the gas service increased by approximately 47 thousand units (+ 3.5%): this result was achieved thanks to both the ongoing commitment to commercial activities and the entry, in the Hera Group, of Gran Sasso Srl and Azzurra Energie, active in Abruzzo in the sale of electricity and gas. Water service customers initially grew by approximately 0.3%.

Contracts	30 Jun 2017	30 Jun 2016	Delta pdf n°	delta pdf %
Gas	1,398.8	1,351.7	47.1	3.5%
Electricity	930.5	855.2	75.3	8.8%
Water	1,456.1	1,451.1	5.0	0.3%
District heating	12.0	11.7	0.3	2.6%

Data expressed in thousands

The volume of contacts managed through the channels of the Group grew by 9% in the first half of 2017 as compared to the first six months of 2016, reaching an overall volume of approximately 2,780,000 contacts. The increase mainly involved the call centre channel (+ 20%), followed by the protocol (+ 6.5%), help desk (+ 4%) and IVR (+ 2.5%).
The call centre is still the contact channel most widely used by clients (48.5%), followed by IVR (15.8%), customer help desks (13.5), the online channel (9.4%), text messages (7.3%) and regular mail (5.5%).
The Hera call centre has significantly improved the quality of its service for residential customers in terms of average waiting time (31 seconds vs. 42 seconds in 2016), the number of answered calls (95.8% vs 94.4 % in 2016) and the number of calls with an average waiting time of over 2 minutes (7.4% vs. 12.4% in 2016).
The Hera Group help desks confirm a waiting time of less than 10 minutes in 2017 as well.
The ongoing commitment to increasing the quality of contact channels for the end customer has resulted in a further improvement in the quality perceived by clients in 2017. According to the customer satisfaction survey, the help desks obtained a score of 84.4 (1 point more than the first half of 2016), followed by the household call centre with a score of 82 (a value in line with the first half 2016) and the business call centre with 77.6 points (a value in line with the first half of 2016).

Below are the main indicators for Hera help desks and call centres.

Average waiting time - contact center no ivr (sec.)	1st Half 17	1st Half 16	1st Half 15
Residential customers	31	42	31
Business customers	49	39	27

Average waiting time - customer (min, sec)	1st Half 17	1st Half 16	1st Half 15
Average	10	9	9

1.10 FINANCIAL POLICIES AND RATINGS

Economic surveys confirm that the Eurozone enjoys excellent health

In the first six months of the year, the eurozone economy displayed a satisfactory macroeconomic position characterized by a high growth rate. There was renewed confidence in the reform process and in supporting cohesion, which could help unlock demand and investment.

The GDP rose by 0.5% in the first three months of the year, in line with signals from previsional indicators. The growth rate was 1.7%, a development compatible with the forecasted growth rate of 1.9% for both this year and next year. Economic surveys have confirmed that the eurozone enjoys excellent health. Quality indicators measuring the confidence of the industry have recorded the fastest growth in the economic activity of the last six years, with all major sectors displaying a historically high economic climate. The improvements in the labor market also provide impetus for growth in the eurozone. The unemployment rate continued to fall and has reached the lowest level since 2009. The acceleration in the employement rate is consistent with an increase of private spending in the EU, although in Italy the improvement in public sentiment has not yet had an impact on trends in actual consumption, which remains lower than the average. The composition of the GDP reveals the definitive revival of private investment, an indispensable condition for strengthening bases for growth. In April, inflation measures led to an impetus-generating trend, with the general index again near the BCE target (1.9%) and core index at 1.2%, the highest since 2013. Price trends have varied in recent months, revealing instances of instability in the reflation process taking place in the eurozone. In June, the general inflation rate showed a slowdown in the rise of consumer prices due to a less signficant increase in energy prices; however, the result is better than expected and core inflation, which is particularly relevant to the BCE, has increased. According to data released by Eurostat, consumer prices rose, respectively to 1.3% throughout the year from 1.4% in May, greater than the consensus (1.2%) for the general figure and up to 1.1% y/y for the 'Core' index, as compared to 0.9% in the previous month, also higher than expected for a less significant increase of 1.0%. Inflation is not a concern for bond investors for the time being; especially if oil prices remain low, conditions should remain favorable for European short-term governamental bond markets with positive impetus coming from the extension of indexes and seasonal factors.

The details published by the BCE regarding corporate bond yields confirm its significant role in credit markets, with the expectation of increasing volatility if tapering occurs.

ECB: Unchanged interest rates and gradual reduction of QE

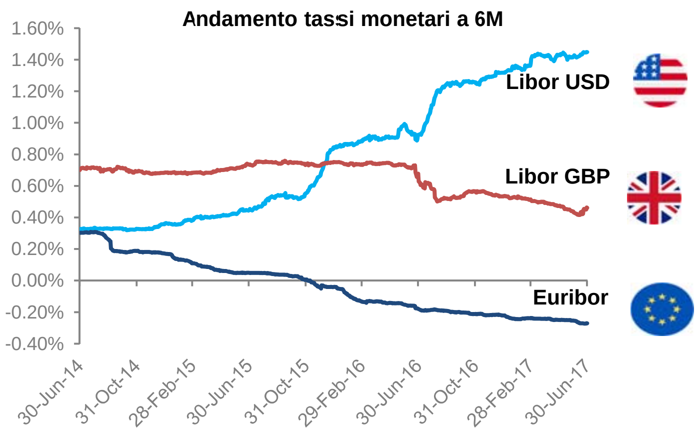
At the latest monetary policy meeting, the BCE did not modify the cost of money, as analysts expected, but launched the signal that markets were waiting for. The cost of money remained unchanged, with the main rate at zero and the rate on bank deposits at -0.4%. The Quantitative easing (QE) purchasing plan remained unchanged as well, with a value of 60 billion per month, and will last until the end of 2017.

Although recovery in Europe is greater than the trend and widely distributed, the message of the President of the BCE revolved around the three "Ps": prudence, persistence and patience. The European monetary policy must be persistent and cautious, with gradual adjustment of the European Central Bank's incentive in order to ensure that this recovery be accompanied by stimulus despite factors of uncertainties (Brexit, political elections, public debt consolidation, immigration, etc.). All signals currently indicate that recovery in the eurozone will grow stronger and more widely spread. Deflation drives have been replaced by reflation ones. However, President

Draghi stated that "a considerable degree of monetary adjustment is still needed to ensure that the dynamics of inflation become long-lasting and self-sustained".

However, the details reveal signs of a course-change for the future: there is no longer a reference to the possibility of "lowering" rates if needed, but there is still a reference to potentially revising the scope and diminution of purchases if prospects become less favourable or if it becomes advisable due to financial conditions. It was also specified that the rates will only be raised “far beyond" the end of QE purchases.

The Bank of England also maintained rates unchanged at 0.25%, but in the US the rate situation was different: in June, the Fed decided to raise rates again by + 25bps (1% - 1.25%), as the market had already foreseen. The members of the Federal Open Market Committee (FOMC) commented on the recent data showing weak inflation, defining them as "transitory"; they focused instead on the projections for the coming quarters that show an improvement in the labour market and a drive to raise consumer prices, thus maintaining the cycle of rate hikes and the continuation of a gradual approach to monetary restriction. There is widespread consensus regarding two additional rate hikes, in September and December, and a move to begin tapering reinvestments by the end of the year while stressing the importance of monitoring inflation.

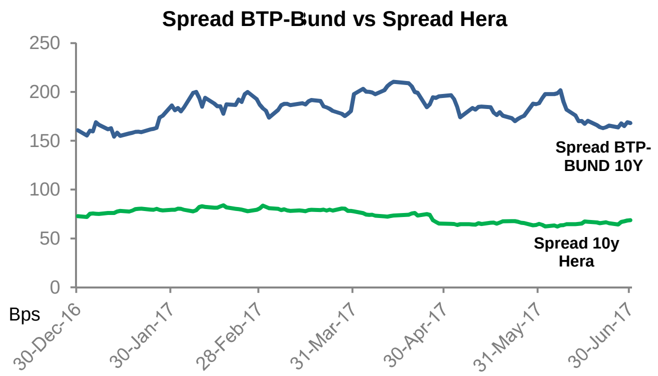


10 year BTP-Bund Spread vs Hera Spread

Despite the fact that QE heavily reduced the spread among European governmental bonds, it continues to measure the sovereign risk differential among the countries in the eurozone.

The spread between BTPs and Bunds is currently decreasing, favoured by political prospects in Italy; in fact, the reduction of political tension has fuelled the demand for Italian bonds. The spread between the yields of Italian and German ten-year bonds, after rising in the first half of the year, fell at the end of June to reach the level it had occupied at the end of 2016.

Nevertheless, the spread of Hera Spa 10-year bonds was not affected by Italy's political and economic uncertainty thanks to investors' trust and the company's stable credit rating, which is lower by approximately 100 bps as compared to the spread for the BTP-Bund of the same duration.



Liability management to optimize the average cost of debt

The Group maintains its focus on a financial management plan capable of maximising its yield profile while maintaining a cautious risk strategy. The average cost of debt is continuously rendered efficient through forms of liability and financial risk management aimed at seizing market opportunities. In particular, in March pre-hedging was carried out on the next maturity to be refinanced in 2019, making it possible to set a particularly low rate of interest, below 1%, for the next issue.

To support liquidity risk indicators and optimise the costs/convenience of funding, the Group has obtained committed credit lines amounting to 345 € million with an average age of over 2 years.

Financial risk management strategy

A list is provided hereunder of the policies and principles aimed at 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 such a level of liquidity as to make it possible to meet its contractual obligations under both normal and critical conditions by maintaining the availability of lines of credit, liquidity and a timely start to negotiations on maturing loans, optimizing the cost of funding on the basis of current and future market conditions.

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

Adequate liquidity for a worst-case scenario

Worst case scenario	30.06.2017			31.12.2016		
(€/mln)	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years	from 1 to 3 months	from 3 months to 1 year	from 1 to 2 years
Bonds	14	76	76	38	76	76
Debts and other financial liabilities	220	61	62	76	77	57
Trade payables	1,085	0	0	1,271	0	0
Total	**1,319**	**137**	**138**	**1,386**	**153**	**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), as of 30 June 2017 the Group had 324 € million in liquidity, 345 € million in unused committed lines of credit and a substantial amount that can be drawn down under uncommitted lines of credit (approximately 800 € million).
The lines of credit and corresponding financial assets are not concentrated on a specific lender, but rather distributed among major Italian and foreign banks with a usage much lower than the total available.

The Group's financial structure is both solid and balanced in terms of composition and time to maturity, bringing liquidity risk to a minimum even in the event of particularly critical scenarios.

Average term to maturity: 8 years

The amount of debt coming due by the end of the year equals 5.1% and the long-term debt comes to roughly 94.9% of total financial debt, roughly 80% of which consists of bonds with repayment at maturity. The average term to maturity is over 8 years, 68% of which maturing beyond 5 years.

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

Debt nominal flow (€/mln)	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021	Over 5 years	Total
Bonds	0	0	395	0	290	1,935	2,620
Bank debt/due to others	138	55	53	49	47	324	666
Total	**138**	**55**	**448**	**49**	**337**	**2,259**	**3,286**

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

As of 30 June 2017, 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 establish some restrictions. The main clauses guarantee equal treatment of all debt holders with respect to the company's other non-guaranteed debts (pari passu) and prevent it from granting better security and/or liens on its assets (negative pledge) to subsequent lenders with the same seniority status.

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

Change of control & Investment grade

On the remainder of the debt, early reimbursement only occurs in case of a significant change of control of the Group that entails downgrading to non-investment grade or lower, or the termination of the publication of the rating.

Interest Rate Risk

A model of active and prudential 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 facilities, and invests its available cash primarily in immediately realizable highly liquid money market instruments. Changes in market interest rates affect both the financial costs associated with different types of financing and the revenue from different types of liquidity investment, thus impacting the Group's cash flows and net financial charges.

The Group's financial policy has been designed to identify an optimal mix of fixed- and floating-rate funding in line with a prudential approach to interest rate risk management. The latter aims to stabilize cash flows so as to maintain the margins and certainty of cash flows from operating activities. Interest rate risk management entails, from time to time, and depending on market conditions, transactions involving a specific combination of fixed-rate and floating-rate financial instruments as well as derivative products.

The Group's exposure to interest rate risk, including the effect of derivatives, comes to 17% of total borrowings.

The Group's exposure to the risk of rate variation, including the effect of derivatives, comes to 15% while 85% of debt is at fixed rates.
The Group applies a financial management approach based on risk mitigation, adopting a risk hedging policy that leaves no room for the use of derivatives for speculative purposes, derivatives being a perfect hedge of the underlying debt instruments.

85% of debt at fixed rates

Total borrowings (*)	30.06.2017			31.12.2016		
(€/mln)	without derivates	with derivates	% with derivates	without derivates	with derivates	% with derivates
fixed rate	2,691	2,706	85%	2,693	2,712	84%
floating rate	486	471	15%	520	501	16%
Total	**3,177**	**3,177**	**100%**	**3,213**	**3,213**	**100%**

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

Exchange risk unrelated to commodity risk

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

Rating

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

Hera Spa has been given a long-term `Baa1 Negative Outlook' rating by Moody's and a `BBB Stable Outlook' rating by Standard & Poor's (S&P).
On 5 May 2017 Moody's issued a credit opinion confirming the "Baa1" rating with a "Negative" outlook. This positive appraisal of the Group's risk profile is due to its solid and balanced business portfolio in addition to its good operating performance and consolidated strategy. The negative outlook is due to the deterioration of Sovereign risk, as most of the Group's EBITD originates from domestic business and is therefore vulnerable to the country's macroeconomic trends. However, the Group remains a notch above the sovereign rating thanks to the diversification and solidity of its portfolio of regulated activities with low-risk profile, a high degree of liquidity and resilient indicators of credit worthiness.
As of 31 March 2017, for S & P's annual review, the company rating was confirmed as the levels achieved for the indicators of credit worthiness exceeded expectations despite the scenario of elevated domestic political risk. S&P believes that the solvency of the Group is not fully bound to the conditions of sovereign risk and that conditions do not exist under which this solvency would be jeopardised.
Given the current context of prolonged uncertainty characterising Italy's economic prospects, the Group's actions and strategies are always calibrated so as to maintain and/or upgrade its rating.

1.11 TECHNOLOGICAL INNOVATION AND PROJECT DEVELOPMENT

In the first half of the year a number of initiatives were developed in the areas of circular economy, energy efficiency and new services for the city.

Biomethane

This project will produce approximately 7.5 million cubic meters of biomethane per year at the facility of Sant'Agata Bolognese and about 20,000 tonnes of quality compost. This plant will be able to treat 100 thousand t/y of organic waste and 35 thousand tonnes of yard waste from differentiated collection.
The authorization process for the construction of the new plant was completed in March 2017 and made it possible to begin construction work. Works will continue over the course of the year with civil engineering works and the supply of the systems comprising the anaerobic digestion facility and are scheduled to end in 2018 with the introduction of biomethane into the Snam network.
The project, equipped with the best technology for the treatment of organic wastes, is already becoming a benchmark for the Italian market and will serve as a guide for the country, a virtuous example of circular economy.

Biomethane 2.0 and bioethanol

In the context of circular economy, tests were carried out to determine the compositions and yields of the biomass varies in different seasons in order to recover energy from organic wastes from parks and gardens to produce biofuels such as biomethane or bioethanol.
In addition, technologies for pre-treating wood (steam explosion) have been developed, improving the digestion processes, through pressure and temperature, for biomethane production or alcoholic fermentation as regards bioethanol.
The tests will be completed by the end of the year and, following the indications produced, it will be possible to measure the amounts of mass and energy of the processes and assess the technical-economic feasibility of potential investments.

Smart Waste

An indoor prototype of a new urban waste collection system has been built that, in addition to user recognition and waste measurement, is able to deliver other innovative services for the city: environmental monitoring, wi-fi, video surveillance, electric charging services for bikes and cars.
With the collaboration of Acantho, this initiative continues with the construction of the prototype suitable for testing in an outdoor environment. The test of the prototype is scheduled by the end of the year; the prototype consists of a totem equipped with the main technologies and two modules connected to it for waste delivery.

Energy recovery from sewage sludge

The two efficiency projects of the sludge line in the urban water treatment plants of Modena and Rimini are still ongoing and are aimed at producing renewable energy and reduce the amount of sludge to be disposed of.
The installation of a dynamic thickener of the sludge prior to the anaerobic digestion section and a co-generator is planned, with the aim to produce renewable electrical and heat energy that will be directly used in the plant.
The authorization process that will be completed by the end of the summer was initiated in Modena and in the meantime the final design of the operation was completed.
A new thickener was installed and maintenance work was carried out at the third digester in S. Giustina (RN). By the end of the year, two additional thickeners will be installed and

the final design for biogas recovery will be completed to potentially file the authorization request.

Advanced Water Security

The video analysis systems were installed in the plants of the water systems of Bologna Borgo Panigale and Bologna San Vitale.
In each of the two plants a thermal camera and an optical were installed, in the first case a fixed shot camera and in another with movement to analyse a more extensive area, which can acquire images in synchronization and activate the registration in case of detected intrusion. The detected intrusion trigger alarms that are managed by the Milestone software.
Currently the system is being tested. To complete the plant, the Group is considering installing an Access Control system to enable / disable video cameras when authorised personnel enters these sites.

Environmental monitoring

The environmental control units identified during 2016 were installed in sites with a high residential density and intense vehicular traffic in the city of Ferrara. Initially, the data transmission system (data are sent every two minutes via GSM) and the power supply system of the control units (all equipped with a photovoltaic panel) were tested. Subsequently, the correlation with official Arpae data was verified, showing good reliability of the system. Despite being low cost, in the future it will be possible to use the control units as a support and integration to the official measurement methods. Currently, data are recorded and processed to check the variations of pollutant gas parameters depending on the weather conditions and seasonal temperatures. Shortly, mathematical modelling will be carried out to better assess the dispersion of pollutants and the exposure of the population.

Worksites coordination (Underground Facility Management)

The coordination system for the worksites was developed with the technology of the Consorzio Futuro in Ricerca Ferrara, represents a true intra-group coordination platform to optimize the activities carried out in the local area, by reducing the number of excavations, and manage in an integrated way the authorization documents and worksite data.
At the beginning of the year, experimentation with the Water Department was launched, while in the second quarter of the year the Engineering Coordination of AcegasApsAmga Spa was involved as well.

Operation Centre – Municipality Dashboard

The above mentioned services are included in a single IT platform called Operation Centre, a dashboard for managing the public administration services, controlling and analysing the local areas and communicate information to citizens.
This platform makes it possible to display data in real time, process them, put them in correlation, create value-added synoptic views and integrate services already developed (such as energy maps or the smart totem).
The demo version of the dashboard was created in the Ferrara area and currently several municipalities have expressed strong interest in the instrument.

Hera Management Dashboard

An evolution of the previous project led to the development of a multi-tiered monitoring dashboard as a target for updates, including daily updates, of the Company's main KPIs.
The project, created in collaboration with the Information Services Department, will be completed in 2017 and targets the Company's top management. The dashboard will be visible through Smart blackboards available in the company.

Other initiatives

To keep pace with developments taking place in the environment surrounding the Group, other initiatives have been undertaken. Some examples are listed here below.

- The Smart Home project is testing home automation solutions (control units and various sensors / actuators to remotely control their home) to be integrated into current business offers.
- Some apps have been developed to allow Hera employees to more easily access some of the Company's functions (meeting room reservations, document approvals, authorisations, ...) via smartphone.
- The open innovation platform HEuRekA+ open to all employees continues to be used to collect, comment and evaluate innovative ideas and proposals (over a thousand employees are taking part in this initiative).
- In all major Hera locations, a wi-fi connection was set up open to employees and guests alike.

1.12 QUALITY, SAFETY AND ENVIRONMENT

In the first half of the year, the Quality, Safety and Environment Department obtained the renewal of the certifications of Hera Spa management systems ISO 9001 and ISO 14001, in the 2015 versions, as well as OHSAS 18000 and SA 8000.

In line with previous years the injury indicators are decreasing; in particular, there was a reduction in injury days.

The central coordination of the Department at the Group level continued to focus on a number of cross-cutting issues such as the decontamination of structures containing asbestos, the Presidio Privacy, the completion of the process of organizationally and managerially rearranging emergencies in civilian sites and the selection process to choose a certifying body for the 2018-2020 three-year period.

On 17 February 2017 the service order no.3 was published containing the organizational evolution of the Department which, by applying the principles of organizational simplification, flexibility and operational efficiency, achieved a flexible use of resources, reducing organizational positions by 10 and unifying and centralising multiple services in a single structure, more agile and tailored to the satisfaction of internal and external clients.

1.13 INFORMATION SYSTEMS

The Information Systems department is responsible for ensuring the development and efficiency of the Group's information systems to support its business. It also ensures that the systems are continuous adapted to comply with the sector's regulatory requirements and business needs, reducing risks in terms of technology and security in full accordance with the Group's strategic guidelines and sustainability objectives.

Corporate developments

In terms of Corporate Developments, it should be noted that the new company Hera Tech Srl has begun production as part of the Group's information systems.

Standardizing systems in other companies

The multi-year plan for standardizing the information system in AcegasApsAmga Spa is still ongoing. In the first half of the year, the systems for the management of environmental services and waste treatment and disposal facilities were started, while the roll-out of network service systems (electricity and gas distribution) is underway, which will come into effect in the second half of 2017. Production was initiated on the project supporting the finance and control processes, passive cycle and supplier portal, Tari management, environmental service and waste treatment and disposal facilities management for Marche Multiservizi Spa.

Regulatory compliance

The planning activities have been completed to bring the Group's systems in line with the contractual quality control of the integrated information system for the distribution (Authority - Resolution 655/15/R/Idr of 23/12/15) and the developments of the platform for managing the remote reading and management of gas meters.
Adjustments were also implemented in terms of the quality of the water service (Authority - Resolution 218/16/R/Idr of 05 May 2016) and the accounting unbundling of the water sector (Authority - Resolution 137/16/R/Com of 24 March 2016).
In the commercial area, the projects were completed regarding protected categories (Authority - Resolution 296/15/R/Com of 21 June 2015) and the establishment of similar protection (Authority - Resolution 369/16/R/eel Of 07 July 2016).

Support for business

This section includes the introduction and evolution of different solutions, such as the new commercial portal for on-line services, the new system for personnel management processes and the front-end credit process management platform (the back-end process management platform is under way).

Reducing technology risk

As part of the process of continuous technological innovation and improving the performance of the Group's information systems, activities were carried out to develop the IT infrastructure and to publish services on the internet.

Information system safety

The IT and enterprise data safety systems, in compliance with data protection regulations, are among the key objectives of the Information Systems Division. Our commitment to preventing and monitoring potential cyber-attacks is ongoing, conducted through a periodic risk analysis of production systems (vulnerability assessment), updates of existing systems (such as the upgrade of processes for managing system logs) and the adoption of new, specialized solutions.
During the six-month period, checks were carried out for the renewal of the Group's ISO 9001 certification.

1.14 PERSONNEL STRUCTURE, INDUSTRIAL RELATIONS, DEVELOPMENT AND STAFF TRAINING

Human Resources

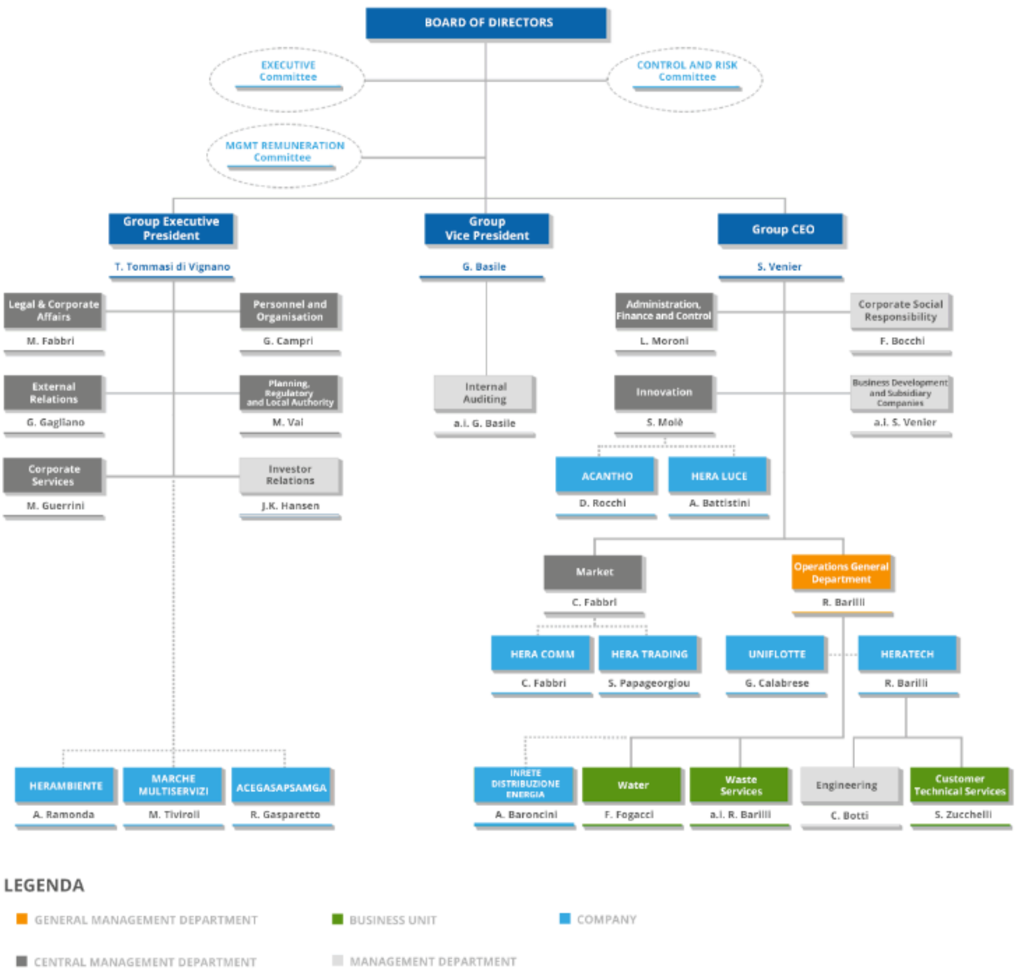
Hera Group's employees with open-ended contracts as of 30 June 2017 equal 8,689 (consolidated scope) and are distributed by role as: executive managers (150), middle managers (537), office clerks (4,591), and workers (3,411). In 2017 this structure is the result of 98 entries and 132 exits as well as changes in company structure in the amount of 349 individuals (Aliplast Spa, Sinergie Spa and Teseco Srl). Hiring mainly resulted from a quality turnover entailing the entry of a skilled workforce.

Structure

Innovation and streamlining of operating processes

In the first half of 2017 the Group consolidated its organizational and operating model, continuing with the streamlining of operational mechanisms and further developing its commitment to technological and process innovation with the aim of securing the tools needed to achieve the Group's aims.

Below is the Group's organizational macrostructure:



Beginning 1 January 2017, Heretech Srl, an Hera Group company, was established with the aim of achieving further efficiency and effectiveness in the management of plant and network design and construction processes, in the management of technical activities for

end customers, in measuring and monitoring consumption and in managing the activities of the Group's laboratories and system for monitoring and regulating fluids at a distance.
The Group has also completed a further integration of its laboratory system, including for the areas currently covered by AcegasApsAmga Spa, thus achieving operational excellence in laboratory analyses in the northeast area.

Uniforming AcegasAps Amga's organisational model

Beginning April 2017, the organizational model of the Environmental Services Department has been improved by reviewing the operating environment characterizing Collection Areas and Centres in terms of operational efficiency and by setting up the Ravenna Area.
Through its structure, processes, resources and systems, the Group aims to balance its business prospects and local rootedness while pursuing maximum effectiveness and efficiency in service delivery.

In the first half of 2017, the process of uniforming and simplifying AcegasApsAmga Spa's organizational structure continued.
As part of this process, the underlying organization has been revised by eliminating the need for a Planning, Integration and Relations with Local Governmental Bodies department, and reallocating the activities managed by this department. In detail, planning and control activities have been shifted under the jurisdiction of the Administration, Finance and Control department; Regulatory and tariff activities, engineering coordination and energy management activities have been shifted under the department of Gas calls for tenders, Regulatory and Engineering Coordination; relations with local governmental bodies has been placed directly under the directors of the General Manager; and, finally, oversight of innovation activities has been shifted to the Electricity Management department, with a focus on aspects related to Operations. As of the same date, the Customer Operations department was relocated under the direct supervision of the General Manager.

Main developments in Herambiente

As of 30 June 2017, a revision of the organizational model of Herambiente Spa was carried out involving a shift to focus commercial structures on two specific business segments: the first one, headed by the Industry Market department, aimed at selling products and services related to the industrial waste market and the second one, headed by the Utilities Development Planning and Market department, focused on the market for special wastes from urban sources.
In the Industry Market department in particular, in order to foster the utmost synergy among the divisions operating in the industrial waste market, the companies Herambiente Servizi Industriali Srl and Waste Recycling companies and the components of Herambiente Spa involved in Environmental Decontamination and Operational Global Service activities were combined.
In the Development, Planning and Utilities Market department, the sales structures having to do with the urban and special wastes market from the sphere of Utilities were combined with sales structures operating in the materials recovery market. Alongside the sales structures mentioned above, the Logistics Division was integrated into the Development, Planning and Utilities Market department.
In addition, in order to pave the way for integrating the business plans of the two departments, the Marketing division was placed directly under the responsibility of the CEO of Herambiente Spa

At the same time, the Technology and Engineering division was reallocated to within the Production department in order to foster the optimization of technical processes in the field of production with a specific focus on innovation processes.

In the Central Market department, it is worth mentioning: effective May 2017, the organizational arrangement of Medea Spa was revised; With the establishment of the Operational and Commercial Coordination unit aimed at ensuring management of the company's operating activities.

Main developments in the Central Unit area

In the Central Unit area, it is worth mentioning:

- effective February 2017, the reorganization of the Quality, Safety and Environment Department focused in particular on logics of flexible resource utilization through integrated internal mechanisms for integrated activities planning;
- effective 1 May 2017, the reallocation of Hera Luce Srl's supplier accounting, financial statement and general accounting activities under the Administrative department of the Central Management, Finance and Control Department, consistent with the Group's operating model and carried out to complete the integration process begun in the previous months.

In the Innovation Central Department, it is worth mentioning:

- effective February 2017, the reorganization of the Information Systems department aimed at strengthening the focus on managing individual IT processes by improving their performance ("Business Relationship Management", Delivery & Maintenance", "IT Operations") and aligning the working model towards to effectively manage new technological trends;
- effective June 2017, the reorganization of Hera Luce Srl, aimed at achieving the optimal organizational configuration to face the challenges generated by the company's developmental strategy;
- effective May 2017, the organizational arrangement of Acantho was revised, associated in particular with new supervisory positions established by the company's Board of Directors;

Industrial relations

On 25 May, the Group signed, together with the National, Regional, Territorial, and RSU OOSS, a renewal of the Supplementary Collective Agreement for all Hera Group employees operating in Emilia Romagna, FVG, Marche and Veneto. With this renewal and the integration of Marche Multiservizi, the process of harmonization of the Group Result Prize will be completed, valid for the years 2016-2019. The following are the most significant new items in the Agreement:

- an average increase of 650€ established for the four-year period;
- beginning in 2018, as provided for by current law, the employee will have the opportunity, on a voluntary basis, to substitute up to 50% of the PdR in cash with Welfare services; This amount is added to the "Flexible Welfare Package" that the Company already grants its employees individually;
- in order to obtain these company contribution tax benefits for a part of the PdR, the Parties agreed to set up, on an experimental basis, a Participating System.

At the level of the Group as a whole, an agreement was signed with the National OOSS regarding the 2017 Funded Training Plan.
In the Emilia Romagna Region, an agreement was signed regarding the establishment of a "multi-period" work schedule in the DSA-mountain area of Modena, bringing the weekly hours up to 40 in the summer, a period that is more critical for the service, with consequent elimination of overtime, alternating between 36 and 38 hours depending on the period. The new schedule for the personnel of Heratech Srl was defined Laboratory supervisor - Waste sector, Ravenna area. In the area of Ferrara, in the sectors of Aqueduct Networks, working hours have been redistributed over 6 days per week, during the summer, with better coverage during the ordinary time slot, thereby reducing on-call overtime. This summertime distribution was also introduced in the Imola area and revised for the Ravenna area. In Herambiente Spa, agreements have been devised for the areas of Bologna and Rimini fo establish a system of on-call availability in Selection and Recovery Facilities. In Uniflotte Srl a joint investigation was carried out regarding the establishment of a system for On-Call Availability for Emergency Management. Following the introduction of the new work schedule of 38 hours per week for CCNL Servizi Ambientali personnel, as of 1 January the new work schedule was verified and the changes were implemented. Likewise in the ER area, a draft agreement on "departure from home to travel to a worksite" was signed, concerning a new operational approach aimed at recovering efficiency margins and increasing productivity by optimizing the local presence of personnel involved in scheduled technical/operational activities and support staff in the sector of Networks and Plants. This operational approach has already been launched in the territories of Modena and Ferrara, in addition having been set up on an experimental basis in Bologna for some time now. In the Friuli Venezia Giulia and Veneto areas, agreements were signed to achieve more uniform working hours and on-call availability at the company Sinergie Spa for both Sinergie Spa and Estenergy Spa agreements were signed regarding the Result Prize, with measures to bring it into line with the Group Prize. In the Marche area, trade union agreements were signed regarding the GPS vehicle locator system, company closures and to facilitate the use of holiday time as well as an agreement regarding Funded Training.

Development

In the first half of 2017, the Hera Group's new leadership model was launched along with engagement and training initiatives involving approximately 5,000 people in different ways, with all Group executives and middle managers present in the classroom. These initiatives will continue in the next half of the year as well.
In 2017, the seventh edition of the Climate Survey will be carried out during the first half of the year. The working group has updated the questionnaire and decided on the ways it will be distributed in the second half of the year.
In the first half of 2017, approximately 5,000 people were assessed and given associated feedback. The assessment, regarding Performance and Managerial Skills, is carried out by the individual in charge and calibrated according to the larger organizational structure; the individual in charge also provides feedback to the employee being evaluated.

Training

In the first half of 2017, a total of 122,354 hours of training were delivered at the Group level: 14.1 hours per capita, equal to approximately 59% of the overall target for 2017. Likewise at the Group level, approximately 91% of employees were already involved in at least one training activity. The economic investment, net of trainee and in-house trainer

costs, amounted to € 722,892, € 68,600 of which came from training funds. 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.
As to HerAcademy programs, particularly noteworthy is the sixth edition of the university orientation initiative and the fourth edition of the initiative orienting participants to the world of work as well as the second year of a school-work scheme management model based on a work-and-school skills integration approach. This was started up following the memorandum of understanding signed in 2015 with the Emilia-Romagna Regional Education Office. For the 2016-17 school year , the total number of course programmes increased to 80 and the scope of involvement was extended to High Schools as well.

Welfare and Diversity

On 23 January 2017, 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 2017. Each employee with an open-ended contract was awarded a flexible welfare sum of 360 € and, with important new features introduced this year, this opportunity has also been extended to employees with short-term contracts who have been with the company at least six months.
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 2017 as well.
The main new items introduced in 2017 concern:

- a move to valorise the serivices being offered through four communication campaigns dedicated to wellness and lifestyle choicse, school and study holidays, personal assistance and services, health and prevention;
- the introduction of a "prize" in the form of an individual study grant which, employing criteria of equity and meritocracy, was awarded on the basis of grades achieved during the. 2015/2016 academic year, providing 40 study grants in the amount of 750€;
- the management of the fourth edition of summer centres for the children of employees. As part of this entirely positive initiative, all applicants have been offered the chance to attend summer centres under particularly advantageous conditions and the Group has also made an additional contribution to cover part of the enrolment and tuition fees involved.

Finally, during the first half of the year, a new opportunity to hear from the company population took place thanks to the "1 year of Hextra" questionnaire: a survey measuring satisfaction with the current services on offer and identifying the emerging needs of employees in order to further highlight the central role people play in the development of the plan and to foster the creation of a shared culture of participatory welfare.

CHAPTER 2

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

2.01 FINANCIAL STATEMENT FORMATS

2.01.01 Income statement

€/mln	notes	First half 2017	First half 2016 as adjusted
Revenues	*1*	2,754.0	2,502.8
Other operating revenues	*2*	202.3	162.0
Use of raw materials and consumables	*3*	(1,178.4)	(998.0)
Service costs	*4*	(981.7)	(920.4)
Personnel costs	*5*	(282.4)	(266.7)
Other operating costs	*6*	(25.8)	(20.8)
Capitalised costs	*7*	17.9	11.2
Amortisation, depreciation,provisions	*8*	(243.7)	(212.7)
Operating profit		**262.2**	**257.4**
Portion of profits (loss) pertaining to joint ventures and associated cc	*9*	8.2	6.5
Financial income	*10*	58.5	68.6
Financial expense	*10*	(112.6)	(133.1)
Financial operations		**(45.9)**	**(58.0)**
Pre-tax profit		**216.3**	**199.4**
Taxes	*11*	(68.3)	(71.2)
Net profit for the period		**148.0**	**128.2**
Attributable to:			
Shareholders of the Parent Company		141.0	121.0
Non-controlling interests		7.0	7.2
Earnings per share	*12*		
basic		**0.096**	**0.082**
diluted		**0.096**	**0.082**

Pursuant to Consob Resolution no. 15519 of 27 July 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	notes	First half 2017	First half 2016
Profit (loss) for the period		**148.0**	**128.2**
Items reclassifiable to the income statement			
fair value of derivatives, change in the year	*19*	3.1	0.3
Tax effect related to the other reclassifiable items of the comprehensive income statement		(0.8)	(0.1)
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	*26*	1.4	(7.9)
Tax effect related to the other not reclassifiable items of the comprehensive income statement		(0.4)	0.6
Total comprehensive income/ (loss) for the period		**151.3**	**121.1**
Attributable to:			
Shareholders of the Parent Company		144.2	114.4
Non-controlling interests		7.1	6.7

2.01.03 Statement of financial position

€/mln	notes	30 Jun 2017	31 Dec 2016 as adjusted
ASSETS			
Non-current assets			
Property,plant and equipment	*13*	2,016.4	2,019.2
Intangible assets	*14*	3,082.5	2,968.0
Goodw ill	*15*	375.7	375.7
Equity investments	*16*	146.2	148.5
Non-current financial assets	*17*	124.0	110.2
Deferred tax assets	*18*	80.2	80.3
Financial instruments - derivatives	*19*	105.8	109.5
Total non-current assets		**5,930.8**	**5,811.4**
Current assets			
Inventories	*20*	122.9	104.5
Trade receivables	*21*	1,640.1	1,672.0
Current financial assets	*17*	35.1	29.4
Current tax assets	*22*	46.0	33.9
Other current assets	*23*	298.7	225.9
Financial instruments - derivatives	*19*	29.1	56.5
Cash and cash equivalents	*17, 30*	324.0	351.5
Total current assets		**2,495.9**	**2,473.7**
TOTAL ASSETS		**8,426.7**	**8,285.1**

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

Cont.d

€/mln	notes	30 Jun 2017	31 Dec 2016 as adjusted
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	*24*		
Share capital		1,469.6	1,468.1
Reserves		822.9	742.5
Profit (loss) for the period		141.0	207.3
Group equity		**2,433.5**	**2,417.9**
Non-controlling interests		143.5	144.2
Total equity		**2,577.0**	**2,562.1**
Non-current liabilities			
Non-current financial liabilities	*25*	2,909.3	2,933.1
Employee leaving indemnity and other benefits	*26*	142.8	145.8
Provisions for risks and charges	*27*	409.7	397.6
Deferrred tax liabilities	*18*	48.4	27.2
Financial instruments - derivatives	*19*	43.8	44.1
Total non-current liabilities		**3,554.0**	**3,547.8**
Current liabilities			
Current financial liabilities	*25*	247.5	182.3
Trade payables	*28*	1,085.4	1,274.1
Current tax liabilities	*22*	92.8	21.0
Other current liabilities	*29*	834.3	633.0
Financial instruments - derivatives	*19*	35.7	64.8
Total current liabilities		**2,295.7**	**2,175.2**
TOTAL LIABILITIES		**5,849.7**	**5,723.0**
TOTAL EQUITY AND LIABILITIES		**8,426.7**	**8,285.1**

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

2.01.04 Cash flow statement

€/mln	notes	30 Jun 2017	30 Jun 2016
Pre-tax profit		**216.3**	**199.4**
Adjustments to reconcile net profit to the cashflow from operating activities:			
Amortisation and impairment of property, plant and equipment		82.3	76.9
Amortisation and impairment of intangible assets		100.3	90.6
Allocations to provisions		61.1	45.2
Effect of valuation using the equity method		(8.2)	(6.5)
Financial expense / (Income)		54.1	64.5
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)		(4.9)	(11.6)
Change in provisions for risks and charges		(16.0)	(13.1)
Change in provisions for employee benefits		(4.0)	(3.3)
Total cash flow before changes in net working capital		**481.0**	**442.1**
(Increase) / Decrease in inventories		(8.7)	21.7
(Increase) / Decrease in trade receivables		5.9	35.3
Increase / (Decrease) in trade payables		(208.4)	(219.2)
Increase / Decrease in other current assets / liabilities		133.0	108.0
Change in working capital		**(78.2)**	**(54.2)**
Dividends collected		5.2	7.7
Interests income and other financial income collected		22.5	14.8
Interests expense and other financial charges paid		(63.3)	(74.3)
Taxes paid		(13.5)	(10.7)
Cash flow from (for) operating activities (a)		**353.7**	**325.4**
Investments in property, plant and development		(49.5)	(50.3)
Investments in intangible fixed assets		(120.8)	(107.1)
Investments in companies and business units net of cash and cash equivalents	*30*	(94.7)	(5.2)
Sale price of property,plant and equipment and intangible assets (including lease-back transations)		1.7	3.5
Divestment of unconsolidated companies and contingent consideration		0.1	-
(Increase) / Decrease in other investment activities		(19.6)	(1.7)
Cash flow from (for) investing activities (b)		**(282.8)**	**(160.8)**
Repayments and other net changes in borrowings		34.9	(312.7)
Lease finance payments		(2.0)	(2.2)
Investments in consolidated companies	*30*	(1.4)	-
Share capital increase		0.2	-
Dividends paid out to Hera shareholders and non-controlling interests		(134.2)	(136.1)
Change in treasury shares		4.1	(6.9)
Cash flow from (for) financing activities (c)		**(98.4)**	**(457.9)**
Effect of change in exchange rates on cash and cash equivalents (d)		**-**	**-**
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)		**(27.5)**	**(293.3)**
Cash and cash equivalents at the beginning of the period		351.5	541.6
Cash and cash equivalents at the end of the period		324.0	248.3

Pursuant to Consob Resolution no. 15519 of 27 July 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	Share capital	Reserves	Derivative instruments	Provisions for employee benefits	Profit for the period	Equity	Non-controlling interests	Total
Balance at 31 December 2015	**1,474.2**	**729.8**	**(0.6)**	**(25.5)**	**180.5**	**2,358.4**	**144.7**	**2,503.1**
Profit for the period					121.0	**121.0**	7.2	**128.2**
Other components of comprehensive income at 30 June 2016 :								
Fair value of derivatives, change in the period			0.1			**0.1**	0.1	**0.2**
Actuarial income/(losses) post-employment benefits				(6.7)		**(6.7)**	(0.6)	**(7.3)**
Comprehensive Income for the period		**-**	**0.1**	**(6.7)**	**121.0**	**114.4**	**6.7**	**121.1**
Change in treasury shares	(2.8)	(4.1)				**(6.9)**		**(6.9)**
Allocation of 2015 profit :								
- dividends paid out					(132.5)	**(132.5)**	(11.4)	**(143.9)**
- allocation to ohter reserves		39.5			(39.5)	**-**		**-**
- undistributed profits to retained to retained earnings		8.5			(8.5)	**-**		**-**
Balance at 30 June 2016	**1,471.4**	**773.7**	**(0.5)**	**(32.2)**	**121.0**	**2,333.4**	**140.0**	**2,473.4**
Balance at 31 December 2016	**1,468.1**	**772.4**	**(0.4)**	**(29.5)**	**207.3**	**2,417.9**	**144.2**	**2,562.1**
Profit for the period					141.0	**141.0**	7.0	**148.0**
Other components of comprehensive income at 30 June 2017 :								
fair value of derivatives, change in the year			2.2			**2.2**	0.1	**2.3**
Actuarial income/(losses) post-employment benefits				1.0		**1.0**		**1.0**
Comprehensive Income for the period		**-**	**2.2**	**1.0**	**141.0**	**144.2**	**7.1**	**151.3**
Change in treasury shares	1.5	2.6				**4.1**		**4.1**
Payment for non-controlling shares						**-**	0.2	**0.2**
Change in equity interests		(0.3)				**(0.3)**	(1.1)	**(1.4)**
Change in the scope of consolidation						**-**	1.1	**1.1**
Allocation of 2016 profit :								
- dividends paid out		-			(132.4)	**(132.4)**	(8.0)	**(140.4)**
- allocation to ohter reserves		12.3			(12.3)	**-**		**-**
- undistributed profits to retained to retained earnings		62.6			(62.6)	**-**		**-**
Balance at 30 June 2017	**1,469.6**	**849.6**	**1.8**	**(28.5)**	**141.0**	**2,433.5**	**143.5**	**2,577.0**

2.02 EXPLANATORY NOTES

2.02.01 Accounting policies and evaluation principles

The biannual abbreviated consolidated financial statement as at 30 June 2017 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 19 July 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), previously called Standing Interpretations Committee (SIC), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

In preparing the biannual 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 31 December 2016, which should be consulted for more detailed information, except for what is described in chapter 2.2.03 "Changes in international accounting standards".

The figures in this biannual 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 biannual financial statement is the cost principle, except for the financial assets and liabilities (including the derivative instruments), which were measured at fair value.

In order to prepare the abbreviated consolidated biannual financial statement, the management was required to make estimates. The major areas characterised by particularly significant valuations and assumptions, together with those having notable effects on the situations outlined here are provided in the paragraph "Significant estimates and valuations".

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 abbreviated consolidated biannual financial statement as at 30 June 2017 was drawn up by the Board of Directors and approved by the same at the meeting held on 26 July 2017. This financial statement underwent 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 and for the year ended 31 December 2016. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results. The Statement of comprehensive income is presented in a separate document from the income statement, as permitted by IAS 1 revised, distinguishing that may be reclassified subsequently to profit and loss and those that will never be reclassified to profit and loss. The other components of comprehensive income are shown separately also in the Statement of changes in net equity. The Statement of financial position makes the distinction between current and non-current assets and liabilities. The Cash flow statement has been prepared using the indirect method, as allowed by IAS 7.

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

Moreover, with reference to Consob resolution no. 15519 of 27 July 2006 on financial statement formats, 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 Euro, unless otherwise indicated.

Changes to the accounting policies and consolidation principles

Beginning with this biannual report as of 30 June 2017, the Group recorded the system costs incurred for the period associated with the electricity and gas services in the income statement under the heading "service costs", in relation to charges from third party distributors, and under "Revenues" in relation to the corresponding instalments included in the bill to be paid by end customers, to whom such fees are applied in keeping with current regulations. Previously, these tariff components were accounted as payables and receivables among other "current assets / liabilities".

This way of accounting in the income statement was adopted with the aim of improving the accuracy of representation of these components which, as a result of the increasing scope of the free market and depending on the different business profiles of customers, could have effects on the EBITDA as a consequence of sales policies involving the solely partial or absent recharging of these components to end customers. It should also be noted that this adjustment will allow the Group to align its accounting policy with the one used by the main market operators thus rendering their respective financial statements more easily comparable.

Given this and in accordance with the relevant principles, the Group restated the income statement for the first six months of 2016, as well as the balance sheet as of 31 December 2016, with the same criteria outlined above, in order to to render the two periods comparable and the appropriately commensurable. In particular, with regard to the income statement for the first six months of 2016, its restatement led to an increase of the items "revenues" and "service costs" in the amount of 350.1 million euros, while with regard to the balance sheet, 6.5 and 3.3 million euros respectively were reclassified from "current assets" to "trade receivables" and from "other current liabilities" to "trade payables".

The following shows the statements outstanding as at 30 June 2016 and 31 December 2016.

€/mln	First half 2016 published	Adjusted as of	First half 2016 as adjusted
Revenues	2,152.7	350.1	2,502.8
Other operating revenues	162.0		162.0
Use of raw materials and consumables	(998.0)		(998.0)
Service costs	(570.3)	(350.1)	(920.4)
Personnel costs	(266.7)		(266.7)
Other operating costs	(20.8)		(20.8)
Capitalised costs	11.2		11.2
Amortisation, depreciation,provisions	(212.7)		(212.7)
Operating profit	**257.4**		**257.4**
Portion of profits (loss) pertaining to joint ventures and associated companies	6.5		6.5
Financial income	68.6		68.6
Financial expense	(133.1)		(133.1)
Financial operations	**(58.0)**		**(58.0)**
Other non-recurring non-operating income	-		-
Pre-tax profit	**199.4**		**199.4**
Taxes	(71.2)		(71.2)
Net profit for the year	**128.2**		**128.2**

€/mln	'31 Dec 16 published	Adjusted as of	'31 Dec 16 as adjusted
ASSETS			
Non-current assets			
Property,plant and equipment	2,019.2		2,019.2
Intangible assets	2,968.0		2,968.0
Goodwill	375.7		375.7
Equity investments	148.5		148.5
Non-current financial assets	110.2		110.2
Deferred tax assets	80.3		80.3
Financial instruments - derivatives	109.5		109.5
Total non-current assets	**5,811.4**		**5,811.4**
Current assets			
Inventories	104.5		104.5
Trade receivables	1,665.5	6.5	1,672.0
Current financial assets	29.4		29.4
Current tax assets	33.9		33.9
Other current assets	232.4	(6.5)	225.9
Financial instruments - derivatives	56.5		56.5
Cash and cash equivalents	351.5		351.5
Total current assets	**2,473.7**		**2,473.7**
TOTAL ASSETS	**8,285.1**		**8,285.1**

€/mln	'31 Dec 16 published	Adjusted as of	'31 Dec 16 as adjusted
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	1,468.1		1,468.1
Reserves	742.5		742.5
Profit / (loss) for the period	207.3		207.3
Group equity	**2,417.9**		**2,417.9**
Non-controlling interests	144.2		144.2
Total equity	**2,562.1**		**2,562.1**
Non-current liabilities			
Non-current financial liabilities	2,933.1		2,933.1
Employee leaving indemnity and other benefits	145.8		145.8
Provisions for risks and charges	397.6		397.6
Deferrred tax liabilities	27.2		27.2
Financial instruments - derivatives	44.1		44.1
Total non-current liabilities	**3,547.8**		**3,547.8**
Current liabilities			
Current financial liabilities	182.3		182.3
Trade payables	1,270.8	3.3	1,274.1
Current tax liabilities	21.0		21.0
Other current liabilities	636.3	(3.3)	633.0
Financial instruments - derivatives	64.8		64.8
Total current liabilities	**2,175.2**		**2,175.2**
TOTAL LIABILITIES	**5,723.0**		**5,723.0**
TOTAL EQUITY AND LIABILITIES	**8,285.1**		**8,285.1**

Significant estimates and valuations

The preparation of the abbreviated consolidated biannual financial statement and associated notes requires the use of estimates and valuations by the directors, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that are reasonably likely to occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. 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 appropriate 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. The useful life is determined by Management at the time the asset is recognized in the balance sheet; valuations of the duration of useful life are based on historical experience, market conditions and the expectation of future events that could affect the useful life itself, including technological changes. Therefore, it is possible that the actual useful life could differ from the estimated useful life.

Provisions for risks

These provisions were made by adopting the same procedures as in previous accounting periods, with reference to 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 commodity are determined using directly observable market inputs, where available. The methodology for calculating the fair value of these instruments includes the assessment of the non-performance risk, where relevant. All derivative contracts entered into by the Group are with leading institutional 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 assessment of any impairment.

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 Scope of consolidation

The abbreviated consolidated biannual financial statement as at 30 June 2017 includes the financial statements of the parent company Hera Spa and those of its subsidiaries. Control is obtained when the parent company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Small-scale subsidiaries are valuated at cost and excluded from overall consolidation.

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

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

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

	30 Jun 2017		31 Dec 2016		30 Jun 2016	
	Average	Specific	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.2689	4.2259	n.a.	n.a.	n.a.	n.a.
Serbian Dinar	123.321	120.578	123.106	123.403	122.799	123.142

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

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the 2017 financial year as compared to the consolidated financial statement at 31 December 2016.

Acquisition of control	Loss of control/deconsolidation
Aliplast Spa (1)	
Alimpet Srl (1)	
Alipackaging Srl (1)	
Aliplast France Recyclage Sarl (1)	
Aliplast Iberia SL (1)	
Aliplast Polska SP O.O. (1)	
Cerplast Srl (1)	
Umbroplast Srl (1)	
Variplast Srl (1)	
Business unit "Teseco"	
Business unit "Enerpeligna"	

(1): companies acquired in the business combination with the Aliplast Group

On 11 January 2017, Herambiente SpA signed a binding agreement with Aligroup Srl for the acquisition of the Aliplast Group, active in Italy and abroad in the sector of plastic waste recycling and regeneration through the production of polymers and films. To implement this agreement, which also provides for a deferred payment of part of the consideration, on 3 April 2017, the transaction was completed, allowing the Hera Group to gain full control over the companies beginning on that date in view of the complex framework established with the counterparty for the governance of this company, which establishes the Hera Group as exercising “power” in the sense outlined by IFRS 10. The cost of the acquisition was approximately 93.1 million euros and the merger led to a client list to be registered for 91 million euros. In fact, please note that the valuation of net assets acquired is still ongoing. It should also be noted that that, in view of the fact that no reference interim financial statement was available at the date of acquisition, the revenues and costs of the Aliplast Group have been consolidated beginning 1 January 2017. The effects of this simplification are not to be considered relevant in relation to the income statement for the first half of 2017, particularly regarding marginality indicators.

On 1 February 2017, Waste Recycling Spa purchased from the company Teseco Srl the business unit called "Plants Business Unit", comprising the set of organized assets for carrying out waste treatment operations in the provinces of Pisa and Livorno. The cash outlay for the acquisition was approximately 8.6 million euros.

With effect beginning 1 May 2017, the share capital increase of Gran Sasso Srl, a Group company held by Hera Comm Srl, was approved, fully subscribed by the third-party company Enerpeligna Srl by the transfer of a business branch concerning the sale of natural gas and other energy sources. At the same time, Enerpeligna Srl sold its interest, amounting to 9.1% of the share capital, to Hera Comm Srl. The cost of the acquisition was approximately 0.9 million euros and the merger led to a client list to be registered for 1.2 million euros.

Changes in equity investments

On 27 June 2017 AcegasApsAmga Spa acquired the remaining shares of the Bulgarian company Aresgas AD, becoming the sole shareholder.

On 27 June 2017, Aliplast Spa, which was acquired during the first half of 2017, purchased the entirety of the minority shares held by the remaining shareholders of Umbro Plast Srl (10% of the share capital), Cerplast Srl (40% of the share capital), Variplast Srl (10% of the share capital) and Alipackaging Srl (20% of the share capital). The operation involved an overall cash outlay of approximately 1.4 million euros.

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

Other corporate operations

With effect beginning 1 January 2017, Biogas 2015 Srl was merged by incorporation into the controlling company Herambiente Spa.

With effect beginning 1 January 2017 Heratech Srl, a company wholly held by the parent company Hera Spa, became operational by virtue of the transfer of company branches concerning the engineering activities and analysis laboratories.

With effect beginning 1 January 2017 Marche Multiservizi Falconara Srl, a company wholly held by Marche Multiservizi Spa, became operational by virtue of the transfer of the business branch carrying out public utility services in the Municipality of Falconara (AN).

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting principle IFRS 3 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:

€/mln	Aliplast Group	Business unit Teseco	Business unit Enerpeligna	Total business combination
Non-current assets				
Property,plant and equipment	18.5	14.9		33.4
Intangible assets	91.1		1.3	92.4
Non-current financial assets				-
Deferred tax assets	1.8			1.8
Current assets				
Inventories	9.5	0.1		9.6
Trade receivables	30.6		0.4	31.0
Current financial assets			0.1	0.1
Current tax assets	0.3			0.3
Other current assets	0.9			0.9
Cash and cash equivalents	7.9		0.1	8.0
Non-current liabilities				
Non-current financial liabilities	(4.8)	(0.1)		(4.9)
Post-employment benefits and other benefits	(0.8)	(0.2)		(1.0)
Provisions for risks and charges	(0.6)	(5.8)		(6.4)
Deferrred tax liabilities	(25.5)		(0.3)	(25.8)
Current liabilities				
Current financial liabilities	(6.8)	(0.1)		(6.9)
Trade payables	(22.3)		(0.7)	(23.0)
Current tax liabilities	(2.0)			(2.0)
Other current liabilities	(3.6)	(0.2)		(3.8)
Total net assets acquired	**94.2**	**8.6**	**0.9**	**103.7**
Fair value of fees/payment	93.1	8.6	0.9	102.6
Fair value shares held				-
Non-controlling interests acquired	1.1			1.1
Total merger value	**94.2**	**8.6**	**0.9**	**103.7**
Goodwill / Badwill	**-**	**-**	**-**	**-**

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

€/mln	Aliplast Group	Business unit Teseco	Business unit Enerpeligna	Total business combination
Carying amount of acquired assets	**28.4**	**8.6**	**-**	**37.0**
Adjustments to fair value:				
Property,plant and equipment	0.2			0.2
Intangible assets	91.0		1.2	92.2
Deferred tax assets / (liabilities)	(25.4)		(0.3)	(25.7)
Fair value net assets acquired	**94.2**	**8.6**	**0.9**	**103.7**
Cash payment	93.1	8.6	0.9	102.6
Potential fees/payments				-
Fair value of fees/payment	**93.1**	**8.6**	**0.9**	**102.6**

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

- Aliplast Group, 91 million euros deriving from the valuation of customer lists, especially in view of supply chain in which the company operates.
- "Enerpeligna" branch, 1.2 million euros derived from the evaluation of the gas and electricity client list in the areas served.

With reference to the cash outlay for the acquisition of the Aliplast Group, as at the date of this biannual report, the amount actually paid amounted to 39.9 million euros (equal to 40% of the total price), of which 3, 3 million related to dividends paid out to previous shareholders. The remaining amount, equal to 53.2 million euros, will be paid in two different tranches in compliance with contractual provisions, i.e. 40% of the total price by March 2018 and the remaining 20% by June 2022 . Please also note that evaluation is being carried out concerning potential contingent liabilities laid out by the acquisition agreement related to the future profitability of the Aliplast Group companies.

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

2.02.03 Changes in international accounting standards

Accounting standards, amendments and interpretations endorsed by the European Union which are not yet applicable and have not been adopted early by the Group.

As of 1 January 2018, the following accounting standards and amendments of accounting standards will be obligatorily applied, having also already concluded the process of community endorsement:

IFRS 9 - Financial Instruments (Regulation 2067/2016). This standard was issued by the IASB in its final version on 24 July 2014 at the end of a multi-year process aimed at replacing the current IAS 39. The new standard must be applied for financial statements on periods beginning 1 January 2018 and following periods.
The standard introduces new criteria for classifying and valuing financial assets and liabilities. In particular, for financial assets the standard employs a single approach based on ways of managing financial instruments and on the characteristics of the contractual cash flows of the financial assets themselves in order to determine the valuation criterion, replacing the various rules laid down by IAS 39. For financial liabilities, on the other hand, the main change relates to the accounting treatment of the fair value changes of a financial liability designated as a financial liability at fair value through profit or loss, if these changes are due to a change in the creditworthiness of the issuer of the liability in question. According to the new standard, these changes must be reported in the statement of comprehensive income rather than the income statement as before.
The new principle requires that loan loss estimates be made on the basis of the expected loss model (and not on the model of incurred losses employed by IAS 39) using information that can be supported and is available without unreasonable burdens or effort, including historical, current and prospective data. According to the standard, this valuation criterion applies to all financial instruments, that is, from financial assets valued at amortized cost and those valued at fair value through other components of the comprehensive income statement to receivables deriving from rental contracts and trade receivables.
Finally, the standard introduces a new hedge accounting model aimed at adjusting the requirements of the current IAAS 39, which have sometimes been considered too stringent and not effective in reflecting the company's risk management policies. The main new aspects of the document concern:

- the increase in eligible types of hedge accounting transactions, now including the risks of non-financial assets/liabilities eligible to be managed in hedge accounting;
- the change in the manner of accounting for forward contracts and options when included in a hedge accounting report, in order to reduce the volatility of the income statement;
- changes made to the effectiveness test by replacing the current practice based on the 80-125% parameter with the principle of "economic relationship" between covered item and hedging instrument; moreover, an assessment of the retrospective efficiency of the hedging relationship will no longer be required.

The greater flexibility of the new accounting rules is counterbalanced by additional requirements for disclosing the company's risk management activities.
The Group does not expect to significantly change the classification and valuation of financial assets due to the nature of its activities (however, a timely analysis is still ongoing).
A detailed analysis of the valuation criterion for financial assets, in particular trade receivables, must be carried out in the second half of 2017. The impairment model based on expected credit loss required by IFRS 9 will result in the recognition of a write-down of non-expired trade receivables.
The Group maintains that its hedging relationships, which currently meet the definition of effective hedging, will not be affected by the new IFRS 9 hedge accounting standards.
These preliminary assessments are based on the analyzes carried out thus far. These conclusions could change as a result of the impact analysis of the first implementation of IFRS 9 scheduled to take place in the second half of 2017.

IFRS 15 - Revenues from contracts with clients (Regulation 1905/2016). Standard issued by the IASB on 28 May 2014 that replaces IAS 18 - Revenues, IAS 11 - Construction contracts, interpretations SIC 31, IFRIC 13 and IFRIC 15. The standard, which lays out a new model for reporting revenues, applies to all contracts with customers except for contracts that are covered by IAS 17 – Leasing, as regards insurance contracts and financial instruments.
According to the new standard, the essential steps for accounting for revenues are:
- identifying the contract with the client
- identifying the performance obligations of the contract

- determining the price
- allocating the price of the performance obligations contained in the contract
- the criteria of reporting the revenue when the entity in question meets all the performance obligations

Application of the standard begins on 1 January 2018. In contrast, the changes to IFRS 15, Clarifications to IFRS 15 – Revenue from Contracts with Customers published by the IASB in April 2016 have not been adopted by the European Union.

The analysis of the effects that the introduction of IFRS 15 will have on the consolidated financial statement is well advanced, with the categories of transactions more susceptible to potential impact already having been identified; additional inquiries are being carried out in relation to these categories aimed additionally at quantifying the associated effects. Specifically, the main categories of transactions which have been identified are:

- electricity and gas sales, in particular segments of the market regulated by the Aegis, regarding the reporting of revenues limited to the extent to which it is probable that the amounts for the sale of energy assets will be collected;
- signing contracts that also require the Group to construct and manage plants and require it to supply energy, with reference to the ways in which revenues for the different performance obligations the Group takes on through such contracts are accounted for;
- Electricity and gas supply contracts that also involve the Group simultaneously providing ancillary services, with reference to the ways in which revenues for the different performance obligations the Group takes on through such contracts are accounted for;

The directors do not expect the application of IFRS 15 to have a significant impact on the amounts entered as revenues or on the related disclosures in the Group’s consolidated financial statements. However, it will not be possible to provide a reasonable estimate of the effects until the Group has completed the analyses currently in progress.

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) as well as the following interpretations (already approved by the IFRS IC) are currently being endorsed by the relevant bodies of the European Union:

IFRS 16 – Leases. Standard issued by the IASB on 13 January 2016, to replace the IAS 17 standard "Leasing", as well as 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".

The new standard provides a new definition of leases and introduces a criterion based on control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying the following discriminating factors: the identification of the asset, the right to replace it, the right to obtain essentially all the economic benefits deriving from the use of the asset and the right to manage the use of the asset named in the contract.

The standard establishes a single model for the recognition and evaluation of leasing contracts for the lessee according to which the leased asset, including active ones, are reported as assets, with a financial debt as counterpart. It also establishes the possibility of not reporting contracts that deal with "low-value assets" and leases with a contract duration of less than 12 months as leasing contracts. On the contrary, the standard does not include significant changes for lessors.

The standard will be applied beginning 1 January 2019, but early adoption is permitted solely for companies that have already applied IFRS 15 - Revenues from contracts with clients.

The Group has initiated an analysis of contracts and begun collecting information about leasing contracts classified as operational according to the current IAS 17. The analysis is still in progress at the end of the first half of 2017 and the Group is assessing the effects of adopting the new standard. The approach for the Group to adopt in the transition phase will be defined once the analysis has been completed.

Amendments to the IAS 12 – Accounting for deferred financial assets for losses that did not occur. Document issued by the IASB on 19 January 2016. The amendments, applicable as of financial years beginning 1 January 2017, clarify how to account for a deferred financial assets associated with a liability valuated at fair value. Early application is permitted. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

Amendments to IAS 7 - Reporting. Document issued by the IASB on 29 January 2016. The amendments, applicable as of financial years beginning 1 January 2017, require entities to provide information regarding any variation in their financial liabilities so that users to more effectively evaluate the underlying factors of variations in the entities' overall indebtedness. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

Amendments to IFRS 2 - Share-based Payments. On 20 June 2016, the IASB published the document "Classification and measurement of share-based payment transactions". The amendments provide some clarification regarding the accounting for the effects of vesting conditions in cases of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and regarding the accounting for changes to the terms and conditions of a share - based payment that modify the classification from cash-settled to equity-settled. The amendments are applicable beginning 1 January 2018, but early application is allowed. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

Amendments to IFRS 4 - Application of IFRS 9 "Financial instruments" and IFRS 4 "Insurance contracts" . The document, published by the IASB on 12 September 2016, includes a series of amendments aimed at clarifying the issues related to the temporary volatility of the results outlined in the financial statement arising from the application of the new standard IFRS 9, before the IASB replaces of the current IFRS 4 which is still being drafted. The amendments are applicable beginning 1 January 2018, but early application is allowed. The introduction of these amendments is expected to have no effects on the Group's consolidated financial statement.

On 8 December 2016, the International Accounting Standards Board (IASB) published the document **"Improvements to the International Financial Reporting Standard (2014-2016 Cycle").** These improvements include amendments to three existing international accounting standards: **IFRS 12** - Report on investments in other entities (applicable beginning 1 January 2017), **IFRS 1 -** First adoption (applicable beginning 1 January 2018) and **IAS 28** - Investments in associates and joint ventures (applicable from 1 January 2018). These amendments clarify, correct or remove redundant statements or formulations in the text of the relevant standards. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

IFRIC 22 – Foreign currency transactions and advanced consideration. This interpretation, published by the IASB on 8 December 2016 and applicable beginning 1 January 2018, establishes the exchange rate to be used in foreign exchange transactions that involve considerations payed or received in advance. The directors are currently assessing possible effects deriving from the introduction of the new interpretation into the Group's consolidated financial statement.

Amendments to IAS 40 - Real estate investments. Document issued by the IASB on 8 December 2016. The amendments, applicable beginning 1 January 2018, clarify the requirements concerning the sale or purchase transfers of real estate investments. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

IFRIC 23 – Uncertainty over income tax treatment. This interpretation, published by the IASB on 7 June 2017 and applicable beginning 1 January 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. The directors are currently assessing possible effects deriving from the introduction of the new interpretation into the Group's consolidated financial statement.

For the following standards and interpretations, the EU endorsement process has been suspended:

Amendments to IFRS 10 and IAS 28 - Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. Document published by the IASB on 11 September 2014 in order to resolve a conflict between the two standards mentioned, regarding the sale of assets or subsidiaries to an associate in a joint venture, effective for annual periods beginning on or after 1 January 2016. The amendments introduced foresee that in case of sales or contributions of assets or subsidiaries to an associate or a joint venture, the value of the profit or loss to be recognised in the balance sheets of the sold/contributed entity is to be put in relation with the classification of the assets or the subsidiary sold/contributed as a business, as defined by IFRS 3. In the event that the sale/contribution represents a business, the entity must recognise the profit or loss for the entire interest previously held; while, if this is not the case, the entity must recognise the amount of profit or loss pertaining to the interest still held by the entity to be eliminated.

2.02.04 Commentary notes to the financial statement formats

It is noted that paragraphs 1.01 and 1.02 of the management report show an analysis of the performance of 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 half 2017	First half 2016 as adjusted	Change
Revenues from sales and services	2,747.7	2,499.9	247.8
Change in inventories, work in process, semi-finished and finished products	6.3	2.9	3.4
Total	**2,754.0**	**2,502.8**	**251.2**

Revenues are achieved mainly in Italy.

2 Other operating revenues

	First half 2017	First half 2016	Change
Long-term contract	105.3	93.5	11.8
White certificates	40.3	24.2	16.1
Operating grants and grants for separated waste collection	29.9	14.3	15.6
Apportionments of operating grants	4.8	4.0	0.8
Uses of provisions	4.5	3.2	1.3
Other revenues	17.5	22.8	(5.3)
Total	**202.3**	**162.0**	**40.3**

"Long-term contracts" includes revenues generated from the construction or improvement of infrastructures held in concession as per the interpretation of IFRIC 12 This amendment is due to greater investment in the networks held under concession as compared to the first six months of 2016, and specifically concerning the water cycle.

"White Certificates" shows the revenues of the six-month period calculated on the basis of the energy efficiency targets for the year established by the GSE, accounted for in relation to the Fund for Energy and Environmental Services; the increase in this item is due in part to the significant increase in the market values of these certificates.

"Operating grants and grants for separated waste collection" include operating grants, amounting to Euro 15.4 million (Euro 0.9 million in the first half of 2016), mainly comprising incentives provided by the GSE for the production of energy from renewable sources and contributions from sorted waste collection in the amount of Euro 14.5 million (Euro 13.4 million in the first half of 2016) mainly comprising the value of packaging (cardboard, iron, plastic and glass) transferred to the Conai consortia.

"Apportionments of operating grants" is the revenue associated to the amortization amount deriving from the assets subject to contributions, mainly associated with the water cycle.

"Use of provisionss", this item is associated with the costs incurred internally and duly accounted for in relation to labour, leachate and vehicle hours.

"Other revenues" includes mainly cost recoveries in relation to environmental, electricity and gas services, safety incentives, active leases and insurance reimbursements.

3 Use of raw materials and consumables

	First half 2017	First half 2016	Change
Electricity	559.2	458.0	101.2
Methane held for sale	460.8	392.9	67.9
Certificates	38.3	31.7	6.6
Maintenance materials	31.6	31.3	0.3
Water	24.3	22.3	2.0
Plastic materials	22.7	-	22.7
Methane for industrial use	10.7	11.8	(1.1)
Fuels and lubricants	9.0	7.9	1.1
Chemical products	7.9	8.4	(0.5)
Charges and revenues from certificate	3.0	25.4	(22.4)
Charges and revenues from derivatives	(1.8)	(1.7)	(0.1)
Consumables and sundry	12.7	10.0	2.7
Total	**1,178.4**	**998.0**	**180.4**

"Certificates" includes the purchase cost of the various types of environmental certificates incurred during the first half of 2017, specifically: 36.7 million euros in white certificates (30.6 million euros in 2016) and 1.6 million euros in grey certificates (1.1 million euros in 2016). The change from the previous year was due to the different purchasing requirements in view of the Group's certificate needs as well as to the significant increase of purchasing prices as compared to the reference six-month period of the previous year.

"Plastic materials" includes the cost of purchasing plastic raw materials destined for subsequent processing, transformation and sales by the Aliplast Group companies, which were acquired during the first six months of the 2017 financial year.

"Charges and revenues from certificates" reflects the valuation of environmental certificates in stock, mainly comprising white and green certificates. The significant decrease in net taxes as compared to the first six-month period of 2016 can be attributed to the new incentive mechanism which, beginning in 2016, no longer recognizes green certificates, but rather establishes an advantageous rate for the sale of electricity. Consequently, the portfolio of this type of bonds will be cancelled with a negative effect in terms of evaluation, delivery times to GSE or sales on the market.

For the item "Charges and revenues from derivatives", please see note 19 "derivative financial instruments".

4 Service costs

	First half 2017	First half 2016 as adjusted	Change
Transport and storage	488.7	490.5	(1.8)
Charges for works and maintenance	174.3	133.3	41.0
Waste transport, disposal and collection service	144.7	134.4	10.3
Fees paid to local authorities	39.0	39.8	(0.8)
IT and data processing services	16.2	15.2	1.0
Other commercial services	12.9	11.2	1.7
Professional, legal, tax and organisational services	12.7	11.6	1.1
Rents and leases payable	12.5	12.0	0.5
Technical services	12.3	7.6	4.7
Recruitment training and other staff cost	9.0	8.1	0.9
Insurances	8.6	8.6	-
Postal and telephone cost	8.1	8.3	(0.2)
Agency costs	8.1	5.0	3.1
Bank fees and charges	5.4	5.6	(0.2)
Cleaning and security costs	4.0	4.0	-
Meters reading	3.3	3.4	(0.1)
Remuneration to statutory auditors and directors	3.0	2.8	0.2
Announcements and advertising	2.9	4.3	(1.4)
Fees payable	2.2	3.0	(0.8)
Other service costs	13.8	11.7	2.1
Total	**981.7**	**920.4**	**61.3**

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution.

"Charges for works and maintenance" includes costs relating to the construction or improvement of infrastructure held in concession as per the interpretation of IFRIC 12 and the costs of maintaining the plants. The increase as compared to the previous period is mainly due to an increase in investment on the networks under contract, as already highlighted in note 2, "Other operating revenues."

“Waste transportation, disposal and collection”, the increase is mainly due to the changes in the scope of consolidation due to the acquisition of the "Teseco" business branch and the Aliplast Group.

The item "Fees paid to local authorities" includes the charges incurred for the use of public owned networks, fees paid to companies that own these assets for the rent of gas, water and electricity cycle assets and the leasing of the drop-off points.

"Other costs for services” includes the items concerning utilities, organizational services and laboratory analyses, as well as other residual items.

5 Personnel costs

	First half 2017	First half 2016	Change
Wages and social security contributions	266.9	255.0	11.9
Employee leaving indemnity and other benefits	0.4	0.8	(0.4)
Other costs	15.1	10.9	4.2
Total	**282.4**	**266.7**	**15.7**

The increase in labour costs of 15.7 million euros as compared to the first half of 2016 is mainly due to the consolidation of the Aliplast Group in the amount of 7.5 million euros (a subsidiary since the first six months of 2017) in addition to the normal evolution of contractual dynamics.

The average number of employees in the first half of the year, analysed by category, is as follows:

	First half 2017	First half 2016	Change
Managers	151	152	(1)
Middle-management	536	529	7
Clerks	4,592	4,483	109
Blue-collar workers	3,407	3,271	136
Average number	**8,686**	**8,435**	**251**

Overall the average cost of labour per capita for the first six months of 2017 was 32.5 thousand euros (31.6 thousand euros in the first half of 2016).

At 30 June 2017, the actual headcount was 8,689 as compared to 8,439 employees as at 30 June 2016.

6 Other operating costs

	First half 2017	First half 2016	Change
Taxation other than income taxes	6.5	7.0	(0.5)
State rentals	3.0	2.6	0.4
Landfill special tax	2.5	1.8	0.7
Membership and other fees	1.8	1.7	0.1
Losses on disposals and divestitures of assets	0.6	0.3	0.3
Other minor charges	11.4	7.4	4.0
Total	**25.8**	**20.8**	**5.0**

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

"State rentals" is mainly related to fees paid to the regions and land reclamation consortia.

"Special landfill levy" corresponds to the payment of ecotax on landfills managed by the Group.

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

7 Capitalized costs

	First half 2017	First half 2016	Change
Increases in self-constructing asset	17.9	11.2	6.7

"Increases in self-constructed assets" mainly includes 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 half 2017	First half 2016	Change
Amortisation property, plant and equipment	82.3	76.9	5.4
Amortisation intangible assets	100.3	90.6	9.7
Allowance for bad debts	48.8	36.3	12.5
Provisions for risks and charges	15.6	10.3	5.3
Releases from provisions	(3.3)	(1.4)	(1.9)
Total	**243.7**	**212.7**	**31.0**

For the composition of the items, please refer to the detailed reports and comments on "Property, plant and equipment", "intangibles assets", "Trade receivables" and "Provisions for risks and charges".

The higher amortization of intangible assets is related to the increase of the amortization of assets related to contracted public services provided on commissions and carried out in previous years. In addition, the acquisition of control over Gran Sasso Srl during the second half of 2016, as well as the acquisition of the control over the Aliplast Group which took place in the first half of 2017, resulted in higher depreciation in the current period, especially as a consequence of the registration of client lists during the initial consolidation phase.

The item “Releases from provisions” includes the re-verification of the various funds in the financial statement. As of 30 June 2017, there were re-classifications for the "legal risks funds and personnel disputes" amounting to 2 million euros and "charges and risks fund" in the amount of 1.3 million euros.

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

	First half 2017	First half 2016	Change
Share of net profit pertaining to joint ventures	4.2	3.2	1.0
Share of net profit pertaining to associated companies	4.0	3.3	0.7
Total	**8.2**	**6.5**	**1.7**

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

"joint venture share of profits" relates to the companies:

- Enomondo Srl, profits for 0.9 million euros (0.3 million euros in the first half of 2016);
- Estenergy Spa, profits for 3.3 million euros (2.9 million euros in the first half of 2016);

"Share of profit in associated companies" relates mainly to the companies:

- Aimag Spa, profits for 2.0 million euros (1.7 million euros in the first half of 2016);
- Sgr Servizi Spa, profits for 2.1 million euros (1.8 million euros in the first half of 2016).

10 Financial income and expense

	First half 2017	First half 2016	Change
Interest rate and foreign exchange derivatives	33.7	62.5	(28.8)
Customers	11.5	2.6	8.9
Valuation at fair value of financial liabilities	10.3	-	10.3
Other financial income	3.0	3.5	(0.5)
Total income	**58.5**	**68.6**	**(10.1)**

	First half 2017	First half 2016	Change
Bonds	45.6	50.9	(5.3)
Interest rate and foreign exchange derivatives	42.3	41.2	1.1
Discounting of provisions and financial leases	10.6	10.1	0.5
Valuation at amortised cost	4.1	0.1	4.0
Valuation at fair value of financial instruments	4.0	22.6	(18.6)
Loans	2.5	3.4	(0.9)
Factoring charges	2.4	3.2	(0.8)
Other financial expense	1.1	1.6	(0.5)
Total Expense	**112.6**	**133.1**	**(20.5)**

Total net financial income / (expense)	**(54.1)**	**(64.5)**	**10.4**

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

For additional details on expenses and composition of the item "Loans" and "Bonds", please refer to note 25 "Current and non-current financial liabilities". For "Income and expenses related to changes in the fair value of financial liabilities" and "Interest rate derivatives" reference is made to note 19 "Derivative financial instruments"

"Customers", the increase is mainly due to the implementation of the interest on payments in arrears billing system for the gas and electricity customers.

"Factoring charges" refers to the transfer of receivables so as to optimize the Group's working capital managements

"Valuation at amortised cost" represents the breakdown (depreciation) of the costs associated with financial liabilities (e.g. fees, investigation costs, etc.) for the entire duration of the loans using the effective interest method. The 4.0 million euros increase as compared to the first half of the previous year is mainly due to the operation of portfolio restructuring and issue of new bond that took place over the last quarter of 2016.

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

	First half 2017	First half 2016	Change
Post-closure landfill	7.4	6.7	0.7
Restoration of third-party assets	2.0	2.2	(0.2)
Plants dismantling	0.1	0.1	-
Employee leaving indemnity and other benefits	0.9	0.9	-
Finance leases	0.2	0.2	-
Total	**10.6**	**10.1**	**0.5**

11 Taxes

This item is made up as follows:

	First half 2017	First half 2016	Change
Ires	53.3	56.2	(2.9)
Irap	15.0	15.0	-
Total	**68.3**	**71.2**	**(2.9)**

Income taxes are reported on the basis of the best estimate of the weighted average tax rate anticipated for the full 2017 financial year. The tax due the first half of 2017 amounted to 68.3 million euros, generating a tax rate of 31.6%, significantly improved as compared to 35.7% for the same period of the previous financial year. The reason for this decrease is mainly due to the decrease in the IRES rate, going from 27.5% in the previous financial periods to 24% in 2017, as well as lower taxes, for 4.5 million euros, mainly due to an expansion of the scope of the Group's tax consolidation.

Below is a brief summary of tax litigation as of 30 June 2017:

- Notices of assessment served to Hera Spa in 2010 for intercompany services (general management expenses and expenses related to use of the trademark) provided by Hera Spa, in its capacity as parent company of the Group. The latest developments of the ongoing proceedings concern the rulings filed on 23 May 2017, which rejected the appeals of the Financial Administration, condemning it to pay the legal costs for a total of 55,000 euros. In relation to this dispute, which currently amounts to 1.6 million euros, having consulted with the Group lawyers as well, the Group decided to not proceed with any provision to the risks fund, as the alleged violations are considered unfounded;

- 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 2009 to 2014 and altogether amount to 10.2 million euros. Regarding the first notices of assessment, the 2016 rulings by the court of Ferrara were all in favour of the Company. As a result of the appeals by the Municipality of Ferrara, the new hearing has not yet been scheduled. The Company filed an appeal for the subsequent assessment notices and currently all rulings are suspended awaiting the outcome of the correlated real estate registry decision. 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 served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. Notices of assessment issued over time 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. 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.

- Request to appear for non-payed ICI/IMU from 2010 to 2015 served to the Frullo Energia Ambiente Srl Company, concerning the real estate registry classification of the waste to energy plant located in the municipality of Granarolo dell'Emilia. Notices of assessment issued during 2016 and 2017 relate to tax periods from 2010 to 2015 and altogether amount to 29.2 million euros (including taxes, fines and interests). The Company filed appeals against these notices over the course of 2017. 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 on Herambiente Spa covering fiscal years from 2009 to 2013 and focused mainly on the amount the company owed in relation to the IRAP subsidy "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 in 2015. With respect to the 2011 tax period, an additional favourable ruling for the company was issued during 2017. In addition, in the course of 2016, notices of assessment relating to the 2012 and 2013 tax periods were served analogous to the notices served for the previous financial periods against which the Company filed the relevant appeals. The Group did not make any provision for the disputes in question, considering the allegations as baseless.

- Tax audits on 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. During 2016 a notice of assessment was served concerning IRES for 2011 claiming an alleged deduction of costs in the amount of 7.8 million euros, against which the Company filed an appeal and the implementation of this notice was consequently suspended. A hearing on this matter was scheduled for 13 November 2017. The Group, having consulted with its consultants, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.

- A tax audit on Hera Comm Srl, initiated in 2016 concerning IRES, IRAP and VAT for the tax period 2013, ended with the notification, of limited significance, that the reduced VAT rate of 10% had been incorrectly applied to the sale of gas and electricity.

12 Earnings per share

	First half 2017	First half 2016
Profit (loss) for the period attributable to holders of ordinary shares of the Parent Company (A)	141.0	121.0
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
- basic (B)	1,470,582,675	1,472,523,399
- diluted (C)	1,470,582,675	1,472,523,399
Earnings (loss) per share (euro)		
- basic (A/B)	**0.096**	**0.082**
- diluted (A/C)	**0.096**	**0.082**

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 Spa, consisted of 1,489,538,745 ordinary shares, unchanged from 30 June 2016, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	30 Jun 2017	including assets held on the basis of lease finance arrangements	31 Dec 2016	including assets held on the basis of lease finance arrangements	Change
Land and buildings	574.8	17.0	564.3	16.4	10.5
Plants and machinery	1,202.5	6.9	1,233.3	6.6	(30.8)
Other moveable assets	115.5	0.2	119.2	0.2	(3.7)
Assets under construction and advance payments	121.0	-	99.6	-	21.4
Total operating assets	**2,013.8**	**24.1**	**2,016.4**	**23.2**	**(2.6)**
Property investments	2.6	-	2.8	-	(0.2)
Total	**2,016.4**	**24.1**	**2,019.2**	**23.2**	**(2.8)**

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

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
30 Jun 2016									
Land and buildings	567.6	0.8	-	(8.3)	0.3	0.5	560.9	732.9	(172.0)
Plants and machinery	1,263.9	4.2	(2.8)	(55.0)	-	6.4	1,216.7	2,503.3	(1,286.6)
Other moveable assets	113.1	4.1	(0.3)	(13.6)	0.1	9.6	113.0	411.3	(298.3)
Asset under construction and advance payments	83.4	41.2	(0.1)	-	-	(18.0)	106.5	106.5	-
	2,028.0	**50.3**	**(3.2)**	**(76.9)**	**0.4**	**(1.5)**	**1,997.1**	**3,754.0**	**(1,756.9)**
30 Jun 2017									
Land and buildings	564.3	1.0	(0.6)	(8.8)	17.9	1.0	574.8	767.7	(192.9)
Plants and machinery	1,233.3	8.7	(0.3)	(59.9)	13.9	6.8	1,202.5	2,613.2	(1,410.7)
Other moveable assets	119.2	2.9	(0.2)	(13.6)	1.4	5.8	115.5	434.6	(319.1)
Asset under construction and advance payments	99.6	36.8	(0.1)	-	0.2	(15.5)	121.0	121.0	-
	2,016.4	**49.4**	**(1.2)**	**(82.3)**	**33.4**	**(1.9)**	**2,013.8**	**3,936.5**	**(1,922.7)**

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

"Land and buildings", totalling 574.8 million euros, consists of 117.8 million euros in land and buildings and 457 million euros in buildings. These are mainly company-owned properties on which the majority of the Group's production plants stand.

"Plants and machinery", amounting to 1,202.5 million euros, mainly comprises the distribution networks and plants relating to business not falling within the scope of the concession system, such as: district heating, electricity in the Modena area, waste disposal, waste treatment, purification and composting, material recovery and chemical-physical treatment, and anaerobic digesters as well as special waste and plastic materials treatment plants.

"Other moveable assets", equal to 115.5 million euros, include the equipment, waste disposal bins for 56.4 million euros, moveable assets, furniture and electronic machines for 14.9 million euros, and vehicles and cars for 44.2 million euros.

"Assets under construction and advance payments", amounting to 121 million euros, mainly includes investment for development of district heating, of electricity distribution network and waste disposal plants, which include the construction of a new digestor for the production of biomethane in Sant'Agata Bolognese.

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

"Other changes" mainly covers the in-progress reclassification of fixed assets to the specific categories for assets brought into operation during the financial period, as well as the net reclassification from Property, plant and equipment to Intangible assets.

14 Intangible assets

	30 Jun 2017	31 Dec 2016	Change
Industrial patents and intellectual property rights	57.8	59.8	(2.0)
Concessions, licences, trademarks	89.7	95.5	(5.8)
Public services under concession	2,492.7	2,539.6	(46.9)
Intangible assets under construction and public services under concession	192.0	111.1	80.9
Intangible assets under construction	51.7	48.5	3.2
Other	198.6	113.5	85.1
Total	**3,082.5**	**2,968.0**	**114.5**

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

	Net opening balance	Investments	Disinvestments	Depreciation and amortisation	Change in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	of which amortisation provision
30 Jun 2016									
Industrial patents and intellectual property rights	50.6	0.5	-	(10.8)	-	16.7	57.0	312.0	(255.0)
Concessions, licences, trademarks and similar rights	107.6	-	-	(6.1)	-	-	101.5	388.3	(286.8)
Public services under concession	2,444.7	11.1	(0.4)	(67.1)	-	30.7	2,419.0	3,889.8	(1,470.8)
Intangible assets under construction and advance payments for public services under concession	140.2	82.4	-	-	-	(29.5)	193.1	193.1	-
Intangible assets under construction	47.7	12.1	-	-	-	(16.5)	43.3	43.3	-
Other	104.8	1.0	-	(6.6)	9.0		108.2	204.8	(96.6)
	2,895.6	**107.1**	**(0.4)**	**(90.6)**	**9.0**	**1.4**	**2,922.1**	**5,031.3**	**(2,109.2)**
30 Jun 2017									
Industrial patents and intellectual property rights	59.8	0.9	-	(11.9)	-	9.0	57.8	339.5	(281.7)
Concessions, licences, trademarks and similar rights	95.5	0.1	-	(5.9)	-	-	89.7	386.5	(296.8)
Public services under concession	2,539.6	14.8	(0.3)	(71.3)	-	9.9	2,492.7	4,096.3	(1,603.6)
Intangible assets under construction and advance payments for public services under concession	111.1	90.5	(0.2)	-	-	(9.4)	192.0	192.0	-
Intangible assets under construction	48.5	13.2	-	-	-	(10.0)	51.7	51.7	-
Other	113.5	1.4	-	(11.2)	92.4	2.5	198.6	313.4	(114.8)
	2,968.0	**120.9**	**(0.5)**	**(100.3)**	**92.4**	**2.0**	**3,082.5**	**5,379.4**	**(2,296.9)**

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

"Industrial patents rights and intellectual property rights," in the amount of 57.8 million euros, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licences, trademarks and similar rights," amounting to 89.7 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 2,492.7 million euros, consists of the goods related to the activities of gas and electricity distribution (in the Imola area), integrated water management and public lighting (except for what is specified in the following note 17) provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC interpretation 12.

"Intangible assets under construction and advance payments for public services under concession," amounting to 192 million euros, refers to investments related to these same contracts that have yet to be concluded at year-end.

"Intangible assets in progress and advance payments", equal to 51.7 million euros, essentially comprises IT projects that are still incomplete.

The item "Other", amounting to 198.6 million euros, refers mainly to use rights for networks and infrastructures for the passage of telecommunication networks, as well as multi-year contractual rights and customer lists acquired through business combinations.

"Other changes" includes the reclassifications of the assets under construction to their respective specific categories for the income sources that became active during the financial year, as well as other net reclassifications from tangible fixed assets to intangible assets.

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

15 Goodwill

This item mainly reflects the following operations:

- integration resulting in the creation of Hera Spa in 2002, 81.3 million euros;
- acquisition of control through the merger of Agea Spa, effective beginning 1 January 2004, 41.7 million euros:
- acquisition of control over Gruppo Meta which took place at the end of the 2005 financial year, as a result of the merger of Meta Spa into Hera Spa, 117.7 million euros;
- Integration of Geat Distribuzione Gas into Hera Spa, effective beginning 1 January 2006, 11.7 million euros;
- acquisition of control over Sat Spa through the merger into Hera Spa, effective beginning 1 January 2008, 54.9 million euros:
- acquisition of control over the Marche Multiservizi Spa Group, 20.8 million euros;
- acquisition of control over the Hera Comm Marche Srl, 4.6 million euros;

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 30 June 2017 has not been prepared.

16 Equity investments

	30 Jun 2017	31 Dec 2016	Change
Equity investments valuated using the equity method	128.8	131.5	(2.7)
Other investments	17.4	17.0	0.4
Total	**146.2**	**148.5**	**(2.3)**

The changes in joint ventures and associated companies as compared to 31 December 2016 take into account the pro-quota profits/losses reported by the respective companies (including the other components of the comprehensive income statement) as well as the reduction of the value for any dividends that were distributed. The amount of the result concerning the companies valuated using the net equity method is displayed in note 9.

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

	31 Dec 2016	Investments	Valuation using Equity method	Dividends collected	Other changes	30 Jun 2017
Aimag	46.1		2.0	(1.5)		46.6
Enomondo Srl	13.2		0.9	(0.8)		13.3
EstEnergy Spa	12.1		3.3	(5.1)		10.3
Set Spa	36.2		(0.1)			36.1
Sgr Servizi Spa	21.7		2.1	(3.6)		20.2
Other minor companies	2.2	0.1				2.3
Total	**131.5**	**0.1**	**8.2**	**(11.0)**	**-**	**128.8**

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

	31 Dec 2016	Investments	Disinvestments	Impairments	Other changes	30 Jun 2017
Other investments						
Energo Doo	4.0					4.0
Calenia Energia Spa	7.0					7.0
H.E.P.T. Co.LTD	0.8					0.8
Other minor companies (not related)	5.2	0.4				5.64
Total	**17.0**	**0.4**	**(0.1)**	**-**	**-**	**17.4**

Among "Other investments", the item "other minor (non-correlated) investments" mainly includes the non-qualified equity investment in Veneta Sanitaria Finanza di Progetto Spa, held at 17.50% and with a carrying amount of 3.6 million euros.

17 Financial assets

	30 Jun 2017	31 Dec 2016	Change
Receivables for loans	86.4	72.6	13.8
Portfolio securities	2.4	2.4	-
Other financial receivables	35.2	35.2	-
Total non-current financial assets	**124.0**	**110.2**	**13.8**
Receivables for loans	12.0	15.3	(3.3)
Portfolio securities	0.2	0.1	0.1
Other financial receivables	22.9	14.0	8.9
Total current financial assets	**35.1**	**29.4**	**5.7**
Total cash and cash equivalents	**324.0**	**351.5**	**(27.5)**
Total financial assets, Cash and cash equivalents	**483.1**	**491.1**	**(8.0)**

"Receivables for loans", comprises non-interest-bearing loans or loans regulated at market rate, made to the following companies:

	30 Jun 2017			31 Dec 2016		
	non-current portion	current portion	Total	non-current portion	current portion	Total
Enomondo Srl	-	4.1	4.1	-	4.1	4.1
Aloe Spa	9.6	0.8	10.4	10.0	0.6	10.6
Set Spa	28.3	3.2	31.5	29.6	6.3	35.9
Tamarete Energia Srl	25.8	2.5	28.3	26.8	3.4	30.2
Calenia Energia SpA	17.1	0.5	17.6	0.8	-	0.8
Other	5.6	0.9	6.5	5.4	0.9	6.3
Total	**86.4**	**12.0**	**98.4**	**72.6**	**15.3**	**87.9**

Compared to 31 December 2016, the Group provided some loans to one of its subsidiaries, Calenia Energia Spa, for a total of 18.3 million euros.

"Portfolio Securities" includes, in the non-current section, bonds, funds and insurance policies in the amount of 2.4 million euros to replace and reconstitute the sum to guarantee the post-closure of the landfill managed by the subsidiary Asa Scpa.
The current section includes bonds classifiable as assets available for sale, the book value of which is essentially in line with their fair value at the end of the financial year.

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

- receivable from the City of Padua, regulated at market value and concerning the construction of photovoltaic systems which will be reimbursed at the end of 2030 in the amount of 18.0 million euros;
- receivable from the "Collinare" Consortium of Municipalities in the amount of 11.8 million euros represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;
- receivables in the amount of 2.2 million euros (1.9 million euros as of 31 December 2016) from a number of municipalities for the construction of public lighting systems calculated in compliance with the financial asset model provided for in the IFRIC 12 interpretation;
- receivable from the municipality of Padua, regulated at market rate, following the deferral of payment over ten years for supplying electricity for street lighting systems in the amount of 0.9 million euros;

For "Other financial receivables", the current section mainly includes:

- receivables in the amount of 16.2 million euros (7.3 million euros as of 31 December 2016) from a number of entities (mainly associated with the new Servola purification plant in Trieste) and receivables from the Consorzio Stabile Energie Locali (Csel) by the subsidiary company AcegasApsAmga Spa;
- 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 3.2 million euros;
- deposits to guarantee the purchase of the "Teseco" branch for a total of 1.8 million euros while waiting to carry out the last payment tranche.

"Cash and cash equivalents" includes cash, cash equivalents, and bank cheques and drafts held in the cashier office at headquarters and at other companies for a total of 0.1 million euros; the deposit accounts at banks and credit institutions, generally available for current operations, as well as post office bank accounts in the amount of 323.9 million euros.

18 Deferred tax assets and liabilities

	30 Jun 2017	31 Dec 2016	Change
Deferred tax assets	151.2	143.2	8.0
Deferred taxation adjustment	(73.1)	(65.3)	(7.8)
Substitute tax credit	2.1	2.4	(0.3)
Total net deferred tax assets	**80.2**	**80.3**	**(0.1)**
Deferred tax liabilities	121.5	92.5	29.0
Deferred taxation adjustment	(73.1)	(65.3)	(7.8)
Total net deferred tax liabilities	**48.4**	**27.2**	**21.2**

"Deferred tax assets" arises from timing differences between reported profit and taxable profit, mainly in relation to bad debt provisions, risks and expenses funds, and instances of civil depreciation that are greater than those relevant for tax purposes.

"Deferred tax liabilities" arises 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. The significant increase of this item is principally attributable to the recording of deferred taxation at fair value for the assets acquired by the Aliplast Group.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets with the corresponding current tax liabilities.

The item "Substitute tax credits" as an advance payment on current taxes, represents the amount paid for the release of goodwill reported in prior years for tax purposes.

19 Derivative financial instruments

Non current assets/liabilities					
Underlying	Fair Value Hierarchy	30 Jun 2017		31 Dec 2016	
		Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Loans	2	105.8	43.8	109.5	44.1
Total		**105.8**	**43.8**	**109.5**	**44.1**

Current assets/liabilities					
Underlying	Fair Value Hierarchy	30 Jun 2017		31 Dec 2016	
		Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Commodity	3		2.4	1.9	0.8
Commodity	2	29.1	33.3	54.6	64.0
Total		**29.1**	**35.7**	**56.5**	**64.8**

Derivative financial instruments classified under non-current liabilities amounted to 105.8 million euros (109.5 million euros as at 31 December 2016); they refer to interest rate derivatives for 90.2 million euros and to derivatives on exchange rates in connection to loans for 15.6 million euros. Derivative financial instruments classified under non-current assets amounted to 43.8 million euros (44.1 million euros as at 31 December 2016) and referred entirely to interest rate derivatives.

Financial instruments reported as current assets and liabilities represent derivative contracts whose execution is expected to take place within the next financial year. The derivative financial instruments classified as current assets amounted to 29.1 million euros (56.5 million as of 31 December 2016) and refer entirely to commodity derivatives. The derivative financial instruments classified as current assets amounted to 35.7 million euros (64.8 million as of 31 December 2016) and likewise refer entirely to commodity derivatives.

During the first six months of 2017, no transfers took place between the different levels of fair value indicated above.

Interest rate and foreign exchange derivative instruments held as at 30 June 2017, subscribed in order to hedge loans, can be classed into the following categories:

Type	30 Jun 2017			31 Dec 2016		
	Fair Value Assets	Fair Value Liabilities	Net effect	Fair Value Assets	Fair Value Liabilities	Net effect
Cash Flow Hedges	2.6	0.9	1.7	-	1.2	(1.2)
Fair Value Hedges	15.5	27.4	(11.9)	25.9	31.5	(5.6)
Non-Hedge Accounting	87.6	15.5	72.1	83.6	11.4	72.2
Total fair value	**105.8**	**43.8**	**62.0**	**109.5**	**44.1**	**65.4**
Type	**First half 2017**			**First half 2016**		
	Income	**Expense**	**Net effect**	**Income**	**Expense**	**Net effect**
Cash Flow Hedges	0.1	(0.6)	(0.5)	-	(0.5)	(0.5)
Fair Value Hedges	6.4	(14.4)	(8.0)	31.8	(10.8)	21.0
Non-Hedge Accounting	27.2	(27.3)	(0.1)	30.7	(29.9)	0.8
Total Income / expense	**33.7**	**(42.3)**	**(8.6)**	**62.5**	**(41.2)**	**21.3**

Interest rate derivatives identified as cash flow hedges show a positive fair value of 1.7 million euros (negative fair value of 1.2 million euros as at 31 December 2016). The positive change was mainly due to the subscription of four new derivatives in March 2017 for a notional value of 100 million euros each, with a positive fair value of 2.6 million euros as at the financial statement date. These derivatives have been hedged to cover a future highly probable financing operation with a total nominal value of 400 million euros and expected to be issued in 2020. Income and charges associated to said class of derivatives predominantly refer to cash flows realised, or to the recording of shares of future flows, which shall have a financial impact in the following period.
Regarding cash flow hedges, finally, it should be noted that in May 2017 a derivative was stipulated to cover a variable rate loan of 13.3 million euros provided by Cassa Depositi e Prestiti to be used for investments in public lighting systems already managed by the Group. The reference amount as at the subscription date was 11.7 million euros (a 90% coverage), while the fair value is not significant at the date of the preparation of this biannual report.

The derivatives on interest rates and exchange rates, identified as fair value hedges of liabilities reported in the balance sheet have an overall negative fair value of 11.9 million euros as compared to a negative fair value of 5.6 million euros, as at 31 December 2016. The negative change in fair value for this period is due prevalently to the exchange rate, since the Japanese yen lost considerably on the Euro during the first six months of 2017.

The derivatives on interest rates and exchange rates not identified as fair value hedges (non-hedge accounting) have an overall positive fair value of 72.2 million euros, unchanged as compared to the value as at 31 December 2016. These derivatives, which underwent restructuring of the Group's derivative portfolio in the past years, were counterbalanced by analogous and opposite derivatives so called "mirror" that actually neutralise their effect on the income statement. Derivatives included in this class, although do not represent the cases covered by hedge accounting as per IAS 39, do achieve the de facto hedging purpose.

In cases of foreign currency financing, the notional value of the derivative in euros represents conversion at the original exchange rate hedged. Specifically, financial liabilities hedged refer to a bond loan in Japanese yen with a notional residual value of 20 billion yen or 149.8 million euros. The valuation of these derivatives resulted in the recording of a net financial income of 8 million euros; simultaneously, the value of the underlying loans has been corrected by detecting net financial expenses in the amount of 6.3 million euros.
The table below provides a breakdown at 30 June 2017 of financial income and expense associated with the underlying liabilities, as adjusted for the income and losses attributable to the hedged risk:

Underlying	First half 2017			First half 2016		
	Income	Expense	Net effect	Income	Expense	Net effect
Financial liabilities valuation	10.3	(4.0)	6.3	-	(22.6)	(22.6)

Commodity derivative instruments held as at 30 June 2017 can be classed into the following categories:

Type	30-giu-17			31-dic-16		
	Fair Value Assets	Fair Value Liabilities	Net effect	Fair Value Assets	Fair Value Liabilities	Net effect
Non-Hedge Accounting	29.1	35.7	(6.6)	56.5	64.8	(8.3)
Type	**First half 2017**			**First half 2016**		
	Income	**Expense**	**Net effect**	**Income**	**Expense**	**Net effect**
Non-Hedge Accounting	44.1	(42.3)	1.8	33.2	(31.5)	1.7

At financial year-end there were no commodity derivatives accounted for as hedges.

The commodity derivatives classified as non-hedge accounting also include contracts put in place substantially for hedging purposes, but which, on the basis of the strict requirements set forth by international accounting standards, cannot be formally classified under hedge accounting. In any event, these contracts generate income and charges referring to higher/lower purchase prices of raw materials and, as such, are recognized as operating costs.
At 30 June 2017, the net fair value of commodity and currency derivatives was negative for 6.6 million euros, as compared to a negative fair value of 8.3 million euros at 31 December 2016. The reduction of the recorded overall exposure compared to 31 December 2016 is mainly due to the dynamics of the national single price (PUN) for electricity contracts, which constitute the majority of the volume managed.
Overall, these derivatives, in the first six months of 2017, generated a net income of 1.8 million euros, which essentially correspond to respective changes in the opposite direction in the costs of raw materials (gas and electricity) and in all respects form an integral part of this.

Interest rate risk and currency risk on financing transactions

The cost of financing is affected by interest rate fluctuations. In the same way, the fair value of financial liabilities is also subject to interest rate and exchange rate fluctuations.
To mitigate interest rate volatility risk and simultaneously ensure a correct balance between fixed rate debt and variable rate debt, the Group has stipulated interest rate derivatives (cash flow hedges, Fair Value Hedges and non-hedge accounting) in relation to a portion of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currencies. This Risk Mitigation policy is detailed in the management report, which can be consulted for further information on this topic.

Market risk and currency risk on commercial transactions

Concerning the wholesale business carried on by Hera Trading S.R.L., the Group manages risks related to the misalignment between indexation formulas related to the purchase of gas and electric energy and the indexation formulas related to the sales of the same commodities (including contracts entered into at fixed prices) as well as exchange rate risks in case the trading contracts for the commodities are denominated in currencies other than the euro (essentially U.S. dollar).

With reference to these risks, the Group has set up a number of commodities derivatives aimed at pre-establishing the effects on sales margins irrespective of changes in market conditions. Although they do not formally fall under the IAS 39 criteria to be accounted for under hedge accounting, these derivatives effectively serve the function of simply hedging for fluctuations in prices and exchange rates on raw materials purchased, and fall within the Risk Mitigation Policy detailed in the management report; please refer to this report for further information.

20 Inventories

	30 Jun 2017	31 Dec 2016	Change
Raw materials and stocks	69.6	63.5	6.1
Materials held for sale	16.9	10.5	6.4
Contract work in progress	36.4	30.5	5.9
Total	**122.9**	**104.5**	**18.4**

"Raw materials and stocks", stated net of an obsolescence provision, amounts to 69.6 million euros, and mainly comprise gas stocks, for 29.5 million euros (29.6 million euros as at 31 December 2016), spare parts and equipment used for maintenance and running of operating plants, equal to 35.4 million euros (33.9 million euros as at 31 December 2016) and plastic materials earmarked for regeneration in the amount of 4.7 million euros.

"Materials held for sale" mainly consists of:

- GVG system - Steam Grid Generator and complementary plant components for a total of 9.6 million euros, classified on purchase under the category fixed assets in course of acquisition in that it was earmarked for the third line of Modena waste to energy plant. When the Regional Board of Emilia Romagna issued resolution no. 103 of 3 February 2014, adopting the "Proposal for a Regional Waste Management Plan" pursuant to art. 199 of Legislative Decree 152 of 2006, the construction of Line 3 would not have involved the desired economic returns. Under this new framework, the Group decided not to proceed with the construction of this line. On February 23, 2017, the Group updated the technical report on the assets comprising the GVG system, obtaining reassurance on the recoverability of the values outlined in the financial statement, considering both the Group's ability to market the supply to potential third-party buyers and, alternatively, the possibility of employing this system for revamping other incineration plants already owned;
- plastic products made in the regeneration plants of the Aliplast Group (acquired over the curse of this fiscal period) for 6.1 million euros.

The item "Commissioned work in progress", which amounts to 36.4 million euros, includes long-term contracts for plant engineering construction work, mainly in relation to gas, water and public lighting (the latter in the amount of 17 million euros), as well as for design activities aimed at acquiring commissions in the national and international markets.

21 Trade receivables

	30 Jun 2017	31 Dec 2016	Change
Trade receivables	1,278.4	1,201.3	77.1
Allowance for bad debt	(246.4)	(211.1)	(35.3)
Intangible assets under construction	608.1	681.8	(73.7)
Total	**1,640.1**	**1,672.0**	**(31.9)**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 30 June 2017. The provisions for bad debts are considered to be fair in relation to the estimated realizable value of said receivables.

Changes in the provisions for bad debts were as follows:

	Opening balance	Allocation to provisions	Change in the scope of consolidation	Uses and other movements	Closing balance
30 Jun 2016	203.4	36.3	0.5	(16.3)	223.9
30 Jun 2017	211.1	48.8	0.5	(14.0)	246.4

The recording of the provision is made on the basis of analytical valuations in relation to specific receivables, supplemented by measurements made based on historic analyses of the receivables regarding the general body of the customers, as described in the following paragraph "credit risk".

The change in the scope of consolidation reflects the acquisition of control over the Aliplast Group and the "Enerpeligna" business branch, as outlined in these notes in the paragraph 2.02.02 "Scope of consolidation."

Credit risk

The value of trade receivables reported in the financial statements at 30 June 2017 represents the Group's maximum exposure to credit risk. The procedure in place to govern the granting of loans to customers involves carrying out specific individual evaluations. This approach reduces the concentration and exposure to credit risk posed by both business customers and private ones. With regard to the mass client base that does not undergo individual write-downs, allocations are made to the provision for doubtful receivables, on the basis of historic analysis (in relation to the age 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 positions, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down.

The carrying amount of trade receivables at year-end approximated their fair value.

22 Current tax assets and liabilities

	30 Jun 2017	31 Dec 2016	Change
Income tax credits	24.2	12.1	12.1
IRES refund credit	21.8	21.8	-
Total current tax assets	**46.0**	**33.9**	**12.1**
Income tax payable	92.8	16.0	76.8
Substitute tax payable	-	5.0	5.0
Total current tax liabilities	**92.8**	**21.0**	**71.8**

"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 2017.

The item "IRES refund receivable" mainly refers to requests for IRES refunds due for the 2007 and 2011 years, following the deductibility of IRES from IRAP related to labour costs and the like under Law Decree 201/2011.

"Income tax due" includes mainly provisions for IRES and IRAP made in relation to the results for the period.

"Substitute tax payable" is written off as compared to the previous financial period due to the payment in June 2017 of the remaining instalments for the value alignment of certain assets carried out during the previous financial periods as well as the revision of a value alignment operation planned at the end of the last financial periods.

23 Other current assets

	30 Jun 2017	31 Dec 2016 as adjusted	Change
Certificates of energy efficiency and emissions trading	106.2	73.3	32.9
Prepaid costs	35.1	19.3	15.8
Security deposits	29.5	30.7	(1.2)
VAT, excise and additional taxes	25.9	22.1	3.8
Fund for the electricity and gas sectors for standardisation and continuity income	17.2	25.7	(8.5)
Advances to suppliers/employees	7.7	9.5	(1.8)
Other receivables	77.1	45.3	31.8
Total	**298.7**	**225.9**	**72.8**

The breakdown and changes in the main items are described compared with 31 December 2016.

"Certificates of energy efficiency and emissions trading", includes:

- green certificates for 9.8 million Euros (10.4 million euros as at 31 December 2016);
- white certificates for 94.7 million euros (60.1 million euros as at 31 December 2016);
- grey certificates for 1.7 million euros (2.8 million euros as at 31 December 2016);

In line with the previous year, the amount of receivables for green certificates in the portfolio has gradually decreased due to the incentive mechanism (valid beginning in the 2016 financial year) for the production of electricity from renewable sources, according to which green certificates are no longer recognized, replaced by a reduced rate for the sale of electricity produced. Consequently, the portfolio of this type of bonds will be cancelled with a negative effect in terms of evaluation, delivery times to GSE or sales on the market. In relation to white certificates, the increase in the value of the portfolio is mainly attributable to the recording by area of the amount of certificates recognized during the period, in preparation for receiving from the Adjustment Fund the value reported the previous year.

"Prepaid costs" refers to future personnel costs (accrued 14th salary as of 30 June 2017), expenses incurred for insurances and guarantees, bank charges and costs, passive fees, external services and processing. 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", amounting to 25.9 million euros (22.1 million euros as at 31 December 2016), is comprised of tax credits payable to the treasury for value added tax in the amount of 17.7 million euros and for excise and additional taxes in the amount of 8.2 million euros. The change as compared to 31 December 2016 is attributable to an increase of 0.9 million euros in receivables for value added tax (16.8 million euros s at 31 December 2016) and a decrease of 2.9 million euros in receivables for excise and additional taxes (5.3 million euros as at 31 December 2016). These changes should be interpreted together with the same change shown in the liability item "Other current liabilities" in Note 29. In particular, with regard to excise duties and additional taxes, the procedures that govern the financial relations with the tax authorities should be taken into account: as a matter of fact, advance payments made during the year are calculated on the basis of the quantities of gas and electricity billed in the previous year. These methods can generate credit/debit positions with differences that can be significant even between one period and another.

"Fund for the energy and environmental services for standardisation and continuity income", totalling 17.2 million euros (25.7 million euros as at 31 December 2016). The decrease is mainly attributable to a lower credit for certain components of gas distribution in the first half of the year.

"Other receivables", the increase is mainly attributable to receivables from GSE arising from the adoption of the new incentive mechanism for the production of electricity from renewable sources, totalling 33.2 million euros.

24 Share capital and reserves

Compared to 31 December 2016, shareholders' equity increased by 14.9 million euros due to the combination of the following effects:

- the distribution of dividends in the amount of 140.4 million euros;
- increase due to transactions on treasury shares, in the amount of 4.1 million euros;
- overall revenues for the period in the amount of 151.3 million euros.

The statement of changes in equity is shown in section 2.01.05 of these consolidated financial statements.

Share capital

The share capital as at 30 June 2017 amounted to 1,469.6 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 30 June 2017 was 19.2 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 822.9 million euros, includes retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 861.8 million euros, cumulative loss in the other comprehensive income reserve for 26.7 million euros and reserves for operations on negative treasury shares in the amount of 12.2 million euros. These latter items reflect transactions carried out on treasury shares as at 30 June 2017. Changes over the course of the financial year generated an overall capital gain in the amount of approximately 4.0 million euros.

Non-controlling interests

This item reflects the amount of capital and reserves of subsidiaries held by parties other than the parent company's shareholders. In particular, it includes equity interests in the Herambiente Group and the Marche Multiservizi Group.

25 Current and non-current financial liabilities

	30 Jun 2017	31 Dec 2016	Change
Bonds and loans	2,890.1	2,913.2	(23.1)
Other financial liabilities	4.3	5.0	(0.7)
Financial lease payables	14.9	14.9	-
Total non-current financial assets	**2,909.3**	**2,933.1**	**(23.8)**
Bonds and loans	57.5	71.7	(14.2)
Debt from acquisition of control and potential fees	56.2	1.8	54.4
Other financial liabilities	23.9	34.4	(10.5)
Financial lease payables	2.0	2.3	(0.3)
Overdrafts and interest expense	107.9	72.1	35.8
Total non-current financial assets	**247.5**	**182.3**	**65.2**
Total financial liabilities	**3,156.8**	**3,115.4**	**41.4**

"Debt for acquisitions of controlling shares and potential fees" amounting to 56.2 million euros includes the sums that have yet to be paid to the transferring shareholders as part of the business combinations carried out in this or previous financial periods, as well as the estimate at the date of the financial statement of potential payments provided for by the agreements made during acquisition. This item mainly refers to the acquisition of the Aliplast Group carried out in the first half of 2017. For a more detailed description, please see the dedicated paragraph 2.02.02 "Scope of consolidation" in the introduction of these notes.

At 30 June 2017, the item "Other financial liabilities" includes the debt amounting to 4,3 million euros owed to the municipal pension fund of the City of Trieste by AcegasApsAmga Spa.
The current portion, amounting to 23.9 million euros, mainly includes:

- liabilities owed to the municipalities for TARI tax amounting to 16.7 million euros (16.3 million euros as at 31 December 2016);
- liabilities owed to the inland revenue for the RAI fee amounting to 4.6 million euros (3.7 million euros as at 31 December 2016);
- liabilities owed to the fund for energy and environmental services for collections from safeguarded categories of customers and payments on account on earthquake reporting, in relation to advances already received, for 1.3 million euros (12.5 million euros as at 31 December 2016).

The item "Finance lease payables" represents the recording of payables arising from accounting for leasing transactions using the financial method. The modest change as compared to 31 December 2016 is due to the payment of matured shares and, with the opposite effect, to new payables related to leasing contracts gained with the acquisition of the Aliplast Group companies and the “Teseco” branch. The value of the lease payments still due on 30 June 2017 amounted to 18.1 million euros.

The table below shows the financial liabilities as at 30 June 2017 and indicates the portion expiring within the financial year, within 5 years and after 5 years:

Type	Residual amount 30 Jun 16	Portion due within the year	Portion due within 5° year	Portion due beyond 5° year
Bond	2,394.5	-	717.0	1,677.5
Loans	553.1	57.5	212.6	283.0
Debt from acquisition of control and potential fees	56.2	56.2		
Other financial liabilities	28.2	23.9	4.3	
Financial leasing payables	16.9	2.0	8.1	6.8
Overdrafts and interest expense	107.9	107.9		
Total loans and financial liabilities	**3,156.8**	**247.5**	**942.0**	**1,967.3**

The main terms and conditions of the bonds outstanding as of 30 June 2017 are shown below:

Bonds		Duration (year)	Maturity	Nominal value (mln)	Coupon	Annual interest rate
Eurobond	Luxembourg Stock Exchange	10	03 Dec 19	394.6 €	Fixed, annual	4.500%
Bond	Luxembourg Stock Exchange	8	04 Oct 21	289.8 €	Fixed, annual	3.250%
Bond	Luxembourg Stock Exchange	10	22 May 23	68.0 €	Fixed, annual	3.375%
Green Bond	Luxembourg Stock Exchange	10	04 July24	500.0 €	Fixed, annual	2.375%
Bond	Unlisted	15	05 Aug 24	20,000.0 Jpy	Fixed, six monthly	2.925%
Bond	Luxembourg Stock Exchange	12	22 May 25	15.0 €	Fixed, annual	3.500%
Bond	Luxembourg Stock Exchange	10	14 Oct 26	400.0 €	Fixed, annual	0.875%
Bond	Unlisted	15/20	14 May 27/32	102.5 €	Fixed, annual	5.250%
Bond	Luxembourg Stock Exchange	15	29-gen-28	700.0 €	Fixed, annual	5.200%

At 30 June 2017, the total bonds outstanding, with a nominal value of 2,620 million euros, had a fair value of 3,041 million euros, as determined on the basis of market quotations, when available.

There are no covenants on the debt except that, for some loans, which requires the company not have its corporate rating lowered (even by a single agency) below "investment grade" (BBB-). As of the balance sheet date this covenant has been complied with.

At 30 June 2017, the Hera Group provided the following security interests for certain bank loans. Specifically:

- * mortgages and special liens on property, plant and equipment by the Group to the syndicate of banks that issued a loan to the subsidiary Fea S.r.l. whose nominal amount outstanding is now 17.1 million euros;
- mortgages on buildings in Pesaro and Urbino held by a bank that provided a loan to the subsidiary Marche Multiservizi Spa with a nominal outstanding value of 1.4 million euros.
- mortgages securing the loan granted to the subsidiary AcegasApsAmga Spa, with a nominal outstanding value of 1.5 million euros.

Liquidity risk

Liquidity risk concerns the inability to meet the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done through the centralised management of cash inflows and outflows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity. Current cash and lines of credit, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, at 30 June 2017 unused lines of credit amounted to approximately 800 million euros while available committed credit lines amounted to 345 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 management report in section 1.10 "Financial policy and rating".

26 Post-employment and other benefits

This item includes provisions for employee leaving indemnities and other contractual benefits, net of advances paid out and payments made to the social security institutions pursuant to current regulations. The calculation is made using actuarial techniques and discounting future liabilities to the balance sheet date. These liabilities comprise the matured receivables of the employee at the presumed date of leaving the company.

The item "Gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. "Premungas" is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed with effect from January 1997, and changes quarterly solely to settle payments made to eligible retirees. The item "tariff reduction provision" was provided to cover the charges deriving from the acknowledgement to retired staff of the electricity business unit of tariff concessions for electricity consumption.

The table below shows the changes in the above provisions during the year:

	31 Dec 2016	Service cost	Financial expense	Actuarial gains/ losses	Uses and other movements	Changes in the scope of consolidation	30 Jun 2017
Employee leaving indemnity	129.5	0.4	0.8	(1.3)	(3.4)	1.0	127.0
Provision for tariff reduction	7.3	-	0.1	-	(0.2)	-	7.2
Premungas	4.8	-	-	-	(0.3)	-	4.5
Gas discount	4.2	-	-	(0.1)	-	-	4.1
Total	**145.8**	**0.4**	**0.9**	**(1.4)**	**(4.0)**	**1.0**	**142.8**

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 expense" are calculated by applying a specific discount rate for each company, determined on the basis of the average financial life of the bond. The Euro Composite AA yield curve was used to carry out actuarial valuation.

Actuarial "gains/losses" reflect the re-measurement of the liabilities for employee benefits arising from changes in actuarial assumptions. These components are recognized directly in the comprehensive income statement (paragraph 2.01.02 of these Notes).

The item "Uses and other movements" mainly includes the amounts paid to employees over the course of the period, equal to 3.9 million euros.

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

27 Provisions for risks and charges

	31 Dec 2016	Provisions	Financial expense	Uses and other movements	Changes in the scope of consolidation	30 Jun 2017
Provisions for landfill post-closure and closure expenses	132.6	2.5	7.4	(8.2)	-	134.3
Provision for restoration of third-party assets	177.1	5.3	2.0	-	-	184.4
Provisions for labour disputes	24.3	0.9	-	(5.0)	0.4	20.6
Other provisions for risks and charges	63.6	6.8	0.1	(6.1)	6.0	70.4
Total	**397.6**	**15.5**	**9.5**	**(19.3)**	**6.4**	**409.7**

The "provision for landfill closure and post-closure expenses", equal to 134.3 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 on future outlays, following the change in estimates both on current and closed landfills. Uses represent the effective outlays during the year.
"Uses and other movements" decreased by a net amount of 8.2 million euros due to actual cash outlays for the management of landfills, of which 4.5 million euros refer to internal costs (see note 2 "Other operating revenues");

The" provision for restoration of third-party assets", totalling 184.4 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 legal cases and disputes brought by personnel", amounting to 20.6 million euros, reflects the outcomes of lawsuits and disputes brought by employees. The provision includes 5.9 million euros relating to the dispute with INPS (7.4 million euros as at 31 December 2016). It should be noted that some Group companies have participated in proceedings against INPS relating to the finding that there is no obligation to pay INPS contributions for the redundancy fund (CIG), the extraordinary redundancy fund (CIGS), unemployment benefits, involuntary unemployment benefits, sick leave and the total non-payment of family (CUAF) and maternity benefits. In the 2015 financial year, with reference to the subsidiary AcegasApsAmga, Equitalia requested, without the possibility of paying in multiple instalments, the payment of the INPS folders for the Trieste office. During 2015, 2.8 million euros were set aside in view of a possible similar request for the Padua office. As concerns Hera Spa and certain Group companies, in order to permanently close the dispute the Group filed with Equitalia a request of favourable payment of the fees outlines in the notices, pursuant to the new legislative decree 193/2016, by dividing the payments into multiple instalments and excluding sanctions and additional fees. Equitalia agreed to all of the requests and calculated and communicated the amount of the sums to be payed that cannot be written off. The payment will take place by 31 July 2017 and will wholly resolve the dispute. Consequently, the initial fund was deprovisioned for a value of 1.5 million euros. Given this, on the basis of currently available information and taking into account the likely development of litigation and legal opinions accumulated over time, the provision is considered adequate.

The item "Other provisions for risks and charges", amounting to 70.4 million euros, comprises provisions made against sundry risks. Below, there is a description of the main items:

- 11.3 million euros, due to the potential liability related to existing obligations (guarantee on financial exposure given by Acegas Spa) in case of abandonment of the operations run by the foreign subsidiaries AresGas Ad (Bulgaria) and SiGas Doo (Serbia).
- 7.9 million euros for the potentially higher expenses that may be incurred in connection with extraordinary maintenance on the Ponte San Nicolò (Padua) landfill.
- 7.4 million euros, for the future decommissioning of the WTE plants. These provisions include financial charges deriving from the discounting process;
- 6.8 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 total self-consumption and services estimated on the basis of the benchmark percentage;
- 4.1 million euros, for the risk associated with the enactment of the Decree of the Ministry of Economic Development of 20 November 2012 "New procedures to determine the component of the avoided fuel cost (CEC), under measure CIP6/92, and determination of the adjustment amount of CEC for 2011", which introduced new procedures for the determination of the component of avoided fuel cost (CEC) for 2010, 2011 and 2012;
- 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 .

The item "Uses and other movements" decreased by 6.1 million euros, as follows:

- uses for 4.8 million euros, of which 4.3 concerning the costs incurred for the disposal of waste deposited at the end of the previous year;
- deprovisioning for 1.3 million euros due to the annulment of liability for the CAFC dispute;

For a more detailed description of the information reported in the "Changes in the scope of consolidation" column, see the dedicated paragraph in the introduction of these notes.

28 Trade payables

	30 Jun 2017	31 Dec 2016 as adjusted	Change
Trade payables	427.3	598.6	(171.3)
Trade payables – invoices receivable	658.1	675.5	(17.4)
Total	**1,085.4**	**1,274.1**	**(188.7)**

The majority of "trade payables" are the result of transactions carried out in Italy.

29 Other current liabilities

	30 Jun 2017	31 Dec 2016 as adjusted	Change
Payables due to advances to the Equalisation Fund	159.4	146.6	12.8
Apportionments of operating grants	154.9	140.9	14.0
VAT, excise and additional taxes	117.7	10.6	107.1
Security deposits	112.6	100.2	12.4
Equalisation Fund for energy and environmental services	78.8	51.2	27.6
Personnel	65.0	40.0	25.0
Due to social security institutions	39.8	41.9	(2.1)
Employee withholding	11.8	15.5	(3.7)
Revenues paid in advance other expense	11.3	11.5	(0.2)
Other payables	83.0	74.6	8.4
Total	**834.3**	**633.0**	**201.3**

"Payables due to advances to the Equalisation Fund" mainly comprises 154.1 million euros (141.2 million euros as at 31 December 2016) equal to the debt recorded in relation to the non-interest-bearing advances granted by the electricity sector Equalization Fund in accordance with the integration mechanism stipulated by Authority resolutions no. 370 of 20 September 2012 and no. 519 of 6 December 2012, in relation to past due and uncollected receivables owed by customers covered by the safeguard regime, up to 31 December 2014.

"Plant investment grants" refers mainly to investments made in the water and environment sector; this item has decreased in proportion to the amount of depreciation calculated on the fixed assets in question.

The item "VAT, excise and additional taxes", includes liabilities for 39 million euros of VAT (3.6 million euros at 31 December 2016), with an increase of 35.4 million euros mainly due to the fact that the annual advance is paid at the end of December, thus reducing the debt exposure as at that date. This item includes, additionally, 78.8 million euros of excise and additional taxes (7 million euros as at 31 December 2016) with an increase of 71.8 million euros. 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.

"Security deposits" reflect the amount paid by customers for gas, water and electricity provision contracts. The increase for the period is mainly due to deposits paid by new electricity business customers.

" Equalisation Fund for energy and environmental services", reflects the liabilities for the Fund for energy and environmental services mainly due to the equalization on the gas distribution/measurement, of some system components of the gas and electricity service for the safeguarded categories of market and equalization of the electricity service.

“Personnel" includes the vacation time accrued and not used as of 30 June 2017, as well as the productivity bonuses and additional monthly wages for year 2017 accounted for by department. The value as at 30 June 2017 also includes the productivity premium for the 2016 financial year, which will be paid in July 2017, on the basis of agreements signed during the renewal of the national collective agreement.

"Payables to social security institutions" and "employee withholdings" relate to contributions and withholdings owed to social security institutions and the inland revenue for the month of June.

"Other liabilities" mainly includes payables to minority shareholders for dividends in the amount of 7.7 million, payables to customers for advances and specific tariff concessions in the amount of 4 million euros and tax payables totalling 3.3 million euros.

30 Comments to the consolidated cash flow statement

Investments in companies and business operations

During the first half of 2017, the Group gained control over the Aliplast Group, active in the sector of recycling and regenerating plastic waste, as well as two business branches, "Teseco" and "Enerpeligna", the first one for the waste disposal business and the second concerning the sale of natural gas and other energy sources.

The table below details the main cash disbursements and cash holdings acquired:

Transactions leading to acquisition of control	
Cash paid acquisition of Aliplast Group	(39.9)
Cash paid acquisition of business unit "Teseco"	(7.6)
Cash paid acquisition of business unit "Enerpeligna"	(0.6)
Investment in non-consolidated subsidiaries and joint ventures	
Other minor investment	(0.1)
Total cash outlays	**(48.2)**
Cash to be paid acquisition of Aliplast Group	(53.2)
Cash to be paid acquisition of business unit "Teseco"	(1.0)
Cash to be paid acquisition of business unit "Enerpeligna"	(0.3)
Total fees to be paid	**(54.5)**
Cash and cash equivalents from Aliplast group	7.9
Cash and cash equivalents from Business unit "Enerpeligna"	0.1
Total cash and cash equivalents obtained	**8.0**
Investments net of cash and cash equivalents	**(94.7)**

Acquisition of Interests in consolidated companies

The amount refers to the cash outlays related to the purchase of minority shares in companies of the Aliplast Group: Umbro Plast Srl (10% of the share capital), Cerplast Srl (40% of the share capital), Variplast Srl (10% of the share capital) and Alipackaging Srl (20% of the share capital).:

2.02.05 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 30 June 2017, 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 2016 and the first half of 2017 are outlined:

	Gas	Electricity	Water cycle	Waste management	Other services	Total
31 Dec 2016						
Assets (property, plant and equipment and intangibles)	1,435.0	542.5	1,738.6	1,158.8	112.4	**4,987.3**
Goodwill	109.7	42.1	43.0	176.0	4.9	**375.7**
Equity investments	59.1	45.9	19.2	24.3		**148.5**
Fixed assets not attributed						**53.0**
Net non-current assets	**1,603.8**	**630.5**	**1,800.8**	**1,359.1**	**117.3**	**5,564.5**
Net working capital attributed	9.9	128.4	(55.0)	(3.2)	15.3	**95.4**
Net working capital non attributed						**4.5**
Net working capital	**9.9**	**128.4**	**(55.0)**	**(3.2)**	**15.3**	**99.9**
Provisions for risks	(152.6)	(25.4)	(127.4)	(233.3)	(4.7)	**(543.4)**
Net invested capital	**1,461.1**	**733.5**	**1,618.4**	**1,122.6**	**127.9**	**5,121.0**
30 Jun 2017						
Assets (property, plant and equipment and intangibles)	1,430.5	543.4	1,759.0	1,251.4	114.7	**5,099.0**
Goodwill	109.6	42.1	43.0	176.0	4.9	**375.6**
Equity investments	55.5	44.8	20.2	25.3	0.4	**146.2**
Fixed assets not attributed						**31.8**
Net non-current assets	**1,595.6**	**630.3**	**1,822.2**	**1,452.7**	**120.0**	**5,652.6**
Net working capital attributed	(78.0)	268.1	(83.3)	18.1	17.0	**141.9**
Net working capital non-attributed						**(53.3)**
Net working capital	**(78.0)**	**268.1**	**(83.3)**	**18.1**	**17.0**	**88.6**
Provisions for risks	(149.5)	(23.1)	(128.7)	(246.7)	(4.5)	**(552.5)**
Net invested capital	**1,368.1**	**875.3**	**1,610.2**	**1,224.1**	**132.5**	**5,188.7**

The most significant results by operational sector for the first half of 2017 and same period of 2016 are outlined as follows:

	Gas	Electricity	Water cycle	Waste management	Other services	Headquarters	Total
First half 2017							
Direct revenues	896.4	1,092.0	386.2	520.8	47.1	13.9	**2,956.4**
Infracyclical revenues	31.6	52.4	3.9	21.8	16.1	19.9	**145.6**
Direct revenues	**928.0**	**1,144.4**	**390.0**	**542.6**	**63.2**	**33.8**	**3,102.0**
Indirect revenues	9.9	3.2	16.8	3.8	0.1	(33.8)	**-**
Total revenue	**937.9**	**1,147.6**	**406.8**	**546.4**	**63.3**	**-**	**3,102.0**
EBITDA	**171.8**	**91.6**	**111.3**	**121.3**	**9.9**	**-**	**505.9**
Direct amortisation, depreciation, provisions	62.8	32.3	52.7	68.5	7.0	20.4	**243.7**
Indirect amortisation, depreciation, provisions	1.9	0.5	8.9	9.0	0.1	(20.4)	**-**
Amortisation, depreciation, provisions	**64.8**	**32.8**	**61.6**	**77.5**	**7.1**	**-**	**243.7**
Operating result	**107.0**	**58.7**	**49.7**	**43.8**	**2.8**	**-**	**262.2**
First half 2016 as adjusted							
Direct revenues	802.7	979.1	364.2	468.9	44.7	5.1	**2,664.7**
Infracyclical revenues	26.1	25.4	3.0	19.9	14.5	12.7	**101.6**
Direct revenues	**828.8**	**1,004.4**	**367.2**	**488.8**	**59.3**	**17.9**	**2,766.3**
Indirect revenues	5.9	2.4	6.9	2.6	0.0	(17.9)	**-**
Total revenue	**834.7**	**1,006.8**	**374.1**	**491.4**	**59.3**	**-**	**2,766.3**
EBITDA	**165.2**	**73.1**	**106.6**	**116.5**	**8.7**	**-**	**470.1**
Direct amortisation, depreciation, provisions	54.0	28.0	49.0	58.6	7.1	16.1	**212.7**
Indirect amortisation, depreciation, provisions	5.3	2.4	7.3	0.7	0.2	(16.1)	**-**
Amortisation, depreciation, provisions	**59.4**	**30.4**	**56.4**	**59.3**	**7.3**	**-**	**212.7**
Operating result	**105.8**	**42.7**	**50.2**	**57.2**	**1.4**	**-**	**257.4**

Data for the first half of 2016 were restated due to the different classification of industrial cogeneration from the "Electricity" sector to the "Gas" sector, as described in more detail in paragraph 1.02 of the Management Report as well as due to the different accounting policy in relation to system charges.

2.03 NET FINANCIAL DEBT

2.03.01 Net financial debt

(€/mln)		30 Jun 17	31 Dec 16
a	**Cash and cash equivalents**	**324.0**	351.5
b	**Other current financial receivables**	**35.1**	29.4
	Current bank debt	(107.9)	(72.1)
	Parte corrente dell'indebitamento	(57.5)	(71.7)
	Other current financial liabilities	(80.1)	(36.2)
	Finance lease payments maturing within 12 months	(2.0)	(2.3)
c	**Current financial debt**	**(247.5)**	(182.3)
d=a+b+c	**Net current financial debt**	**111.6**	198.6
	Non-current bank debt and other sources of financing	(2,828.1)	(2,847.8)
	Other non-current financial liabilities	(4.3)	(5.0)
	Finance lease payments maturing after 12 months	(14.9)	(14.9)
e	**Non-current financial debt**	**(2,847.3)**	(2,867.7)
f=d+e	**Net debt - Consob communication n° 15519 of 28/07/2006**	**(2,735.7)**	(2,669.1)
g	**Non-current financial receivables**	**124.0**	110.2
h=f+g	**Net financial debt**	**(2,611.7)**	(2,558.9)

2.03.02 Net financial debt as per Consob communication DEM/6064293 of 2006

€/mln		30 Jun 2017	A	B	C	D	31 Dec 2016	A	B	C	D
a	**Cash and cash equivalents**	**324.0**					**351.5**				
	of which Related parties										
b	**Other current financial receivables**	**35.1**					**29.4**				
	of which Related parties		**0.2**	**10.1**	**2.0**	**1.8**		**0.2**	**14.1**	**1.8**	**1.2**
	Current bank debt	(107.9)		(0.8)			(72.1)				
	Current portion of bank debt	(57.5)					(71.7)		(0.8)		
	Other current financial liabilities	(80.1)			(11.2)		(36.2)			(14.7)	
	Finance lease payables due within 12 months	(2.0)					(2.3)				
c	**Current financial debt**	**(247.5)**					**(182.3)**				
	of which Related parties			**(0.8)**	**(11.2)**				**(0.8)**	**(14.7)**	
d=a+b+c	**Net current financial debt**	**111.6**					**198.6**				
	of which Related parties		**0.2**	**9.3**	**(9.2)**	**1.8**		**0.2**	**13.3**	**(12.9)**	**1.2**
	Non-current bank debt and bonds issued	(2,828.1)					(2,847.8)				
	Other current financial liabilities	(4.3)			(4.3)		(5.0)			(4.7)	
	Lease payments due after 12 months	(14.9)					(14.9)				
e	**Non-current financial debt**	**(2,847.3)**					**(2,867.7)**				
	of which Related parties				**(4.3)**					**(4.7)**	
f=d+e	**Net debt - CONSOB Communication No 15519/2006**	**(2,735.7)**					**(2,669.1)**				
	of which Related parties		**0.2**	**9.3**	**(13.5)**	**1.8**		**0.2**	**13.3**	**(17.6)**	**1.2**
g	**Non-current financial receivables**	**124.0**					**110.2**				
	of which Related parties			**55.7**	**19.1**	**30.6**			**57.9**	**19.3**	**14.6**
h=f+g	**Net non-current financial debt**	**(2,611.7)**					**(2,558.9)**				
	of which Related parties		**0.2**	**63.5**	**5.6**	**33.9**		**0.2**	**71.2**	**1.7**	**15.8**

Legend of column headings for related parties:
Group A. Related parties for non-consolidated subsidiaries
Group B. Related parties for affiliated and jointly controlled companies
Group C. Highly influential related parties (shareholding municipalities)
Group D. Other related parties

2.04FINANCIAL STATEMENT FORMATS - CONSOB RESOLUTION 15519/2006

2.04.01 Income statement as per Consob resolution 15519/ 2006

€/mln	notes	First half 2017	of which Related parties A	B	C	D	Total	%	First half 2016	of which Related parties A	B	C	D	Total	%
Revenue	*1*	2,754.0		41.6	160.7	2.9	205.2	*7.5%*	2,502.8		42.8	154.6	4.3	201.7	*8.1%*
Other operating revenue	*2*	202.3		0.3	0.7		1.0	*0.5%*	162.0		0.1	2.6		2.7	*1.7%*
Use of raw materials and consumables	*3*	(1,178.4)		(17.5)		(22.8)	(40.3)	*3.4%*	(998.0)		(14.9)		(17.0)	(31.9)	*3.2%*
Service costs	*4*	(981.7)		(4.6)	(15.6)	(14.6)	(34.8)	*3.5%*	(920.4)		(5.2)	(13.0)	(14.8)	(33.0)	*3.6%*
Personnel costs	*5*	(282.4)							(266.7)						
Other operating costs	*6*	(25.8)			(0.9)		(0.9)	*3.5%*	(20.8)			(1.4)	(0.4)	(1.8)	*8.7%*
Capitalised costs	*7*	17.9							11.2						
Amortisation, depreciation,provisions	*8*	(243.7)							(212.7)						
Operating profit		**262.2**		**19.8**	**144.9**	**(34.5)**	**130.2**		**257.4**		**22.8**	**142.8**	**(27.9)**	**137.7**	
Portion of profits (loss) pertaining to joint ventures and associated companies	*9*	8.2		8.2			8.2	*100.0%*	6.5		6.5			6.5	*100.0%*
Financial income	*10*	58.5		1.3		0.1	1.4	*2.4%*	68.6		1.4			1.4	*2.0%*
Financial expense	*10*	(112.6)			(0.1)		(0.1)	*0.1%*	(133.1)			(0.1)		(0.1)	*0.1%*
Financial operations		**(45.9)**		**9.5**	**(0.1)**	**0.1**	**9.5**		**(58.0)**		**7.9**	**(0.1)**		**7.8**	
Pre-tax profit		**216.3**		**29.3**	**144.8**	**(34.4)**	**139.7**		**199.4**		**30.7**	**142.7**	**(27.9)**	**145.5**	
Taxes for the period	*11*	(68.3)							(71.2)						
Net profit for the period		**148.0**		**29.3**	**144.8**	**(34.4)**	**139.7**		**128.2**		**30.7**	**142.7**	**(27.9)**	**145.5**	
Attributable to:															
Shareholders of the Parent Company		141.0							121.0						
Non-controlling interests		7.0							7.2						
Earnings per share	*12*														
basic		0.096							0.082						
diluted		0.096							0.082						

Legend of column headings for related parties:

Group A. Non-consolidated subsidiaries

Group B. Affiliated and jointly controlled companies

Group C. Highly influential related companies (shareholding municipalities)

Group D. Other related parties

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

			of which Related parties							of which Related parties					
€/mln	*notes*	30 Jun 17	A	B	C	D	Total	%	31 Dec 16	A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property,plant and equipment	*13*	2,016.4							2,019.2						
Intangible assets	*14*	3,082.5							2,968.0						
Goodwill	*15*	375.7							375.7						
Equity investments	*16*	146.2	0.1	134.1		7.2	141.4	*96.7%*	148.5	0.1	136.8		7.2	144.1	*97.0%*
Non-current financial assets	*17*	124.0		55.7	19.1	30.6	105.4	*85.0%*	110.2		57.9	19.3	14.6	91.8	*83.3%*
Deferred tax assets	*18*	80.2							80.3						
Financial instruments - derivatives	*19*	105.8							109.5						
Total non-current assets		**5,930.8**	**0.1**	**189.8**	**19.1**	**37.8**	**246.8**		**5,811.4**	**0.1**	**194.7**	**19.3**	**21.8**	**235.9**	
Current assets															
Inventories	*20*	122.9							104.5						
Trade receivables	*21*	1,640.1		15.3	57.5	17.9	90.7	*5.5%*	1,672.0		14.3	45.0	19.1	78.4	*4.7%*
Current financial assets	*17*	35.1	0.2	10.1	2.0	1.8	14.1	*40.2%*	29.4	0.2	14.1	1.8	1.2	17.3	*58.8%*
Current tax assets	*22*	46.0							33.9						
Other current assets	*23*	298.7		7.8	4.5	15.4	27.7	*9.3%*	225.9		0.9	4.6	14.6	20.1	*8.9%*
Financial instruments - derivatives	*19*	29.1							56.5						
Cash and cash equivalents	*17, 30*	324.0							351.5						
Total current assets		**2,495.9**	**0.2**	**33.2**	**64.0**	**35.1**	**132.5**		**2,473.7**	**0.2**	**29.3**	**51.4**	**34.9**	**115.8**	
TOTAL ASSETS		**8,426.7**	**0.3**	**223.0**	**83.1**	**72.9**	**379.3**		**8,285.1**	**0.3**	**224.0**	**70.7**	**56.7**	**351.7**	
			of which Related parties							of which Related parties					
thousands of euros	*Notes*	30 Jun 17	A	B	C	D	Total	%	31 Dec 16	A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	*24*														
Share capital		1,469.6							1,468.1						
Reserves		822.9							742.5						
Profit / (loss) for the period		141.0							207.3						
Group equity		**2,433.5**							**2,417.9**						
Non-controlling interests		143.5							144.2						
Total equity		**2,577.0**							**2,562.1**						
Non-current liabilities															
Non-current financial liabilities	*25*	2,909.3			4.3		4.3	*0.1%*	2,933.1			4.7		4.7	*0.2%*
Employee leaving indemnity and other benefits	*26*	142.8							145.8						
Provisions for risks and charges	*27*	409.7							397.6						
Deferrred tax liabilities	*18*	48.4							27.2						
Financial instruments - derivatives	*19*	43.8							44.1						
Total non-current liabilities		**3,554.0**			**4.3**		**4.3**		**3,547.8**			**4.7**		**4.7**	
Current liabilities															
Current financial liabilities	*25*	247.5		0.8	11.2		12.0	*4.8%*	182.3		0.8	14.7		15.5	*8.5%*
Trade payables	*28*	1,085.4		8.4	14.6	28.6	51.6	*4.8%*	1,274.1		10.4	19.0	31.1	60.5	*4.7%*
Current tax liabilities	*22*	92.8							21.0						
Other current liabilities	*29*	834.3		3.8	8.9	0.1	12.8	*1.5%*	633.0		6.7	11.5		18.2	*2.9%*
Financial instruments - derivatives	*19*	35.7							64.8						
Total current liabilities		**2,295.7**		**13.0**	**34.7**	**28.7**	**76.4**		**2,175.2**		**17.9**	**45.2**	**31.1**	**94.2**	
TOTAL LIABILITIES		**5,849.7**		**13.0**	**39.0**	**28.7**	**80.7**		**5,723.0**		**17.9**	**49.9**	**31.1**	**98.9**	
TOTAL EQUITY AND LIABILITIES		**8,426.7**		**13.0**	**39.0**	**28.7**	**80.7**		**8,285.1**		**17.9**	**49.9**	**31.1**	**98.9**	

Legend of column headings for related parties:
Group A. Non-consolidated subsidiaries
Group B. Affiliated and jointly controlled companies
Group C. Highly influential related companies (shareholding municipalities)
Group D. Other related parties

2.04.03 Cash flow statement as per Consob 15519/ 2006

€/mln	30 Jun 2017	of which Related parties
Pre-tax profit	**216.3**	
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	82.3	
Amortisation and impairment of intangible assets	100.3	
Allocations to provisions	61.1	
Effect of valuation using the equity method	(8.2)	
Financial expense / (Income)	54.1	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	(4.9)	
Change in provisions for risks and charges	(16.0)	
Change in provisions for employee benefits	(4.0)	
Total cash flow before changes in net working capital	**481.0**	
(Increase) / Decrease in inventories	(8.7)	
(Increase) / Decrease in trade receivables	5.9	(12.3)
Increase / (Decrease) in trade payables	(208.4)	(8.9)
Increase / Decrease in other current assets / liabilities	133.0	(7.2)
Change in working capital	**(78.2)**	
Dividends collected	5.2	5.1
Interests income and other financial income collected	22.5	1.4
Interests expense and other financial charges paid	(63.3)	(0.1)
Taxes paid	(13.5)	
Cash flow from (for) operating activities (a)	**353.7**	
Investments in property, plant and development	(49.5)	
Investments in intangible fixed assets	(120.8)	
Investments in companies and business units net of cash and cash equivalents	(94.7)	
Sale price of property,plant and equipment and intangible assets (including lease-back transations)	1.7	
Divestment of unconsolidated companies and contingent consideration	0.1	
(Increase) / Decrease in other investment activities	(19.6)	(10.4)
Cash flow from (for) investing activities (b)	**(282.8)**	
Repayments and other net changes in borrowings	34.9	(3.9)
Lease finance payments	(2.0)	
Investments in consolidated companies	(1.4)	
Share capital increase	0.2	
Dividends paid out to Hera shareholders and non-controlling interests	(134.2)	(56.1)
Change in treasury shares	4.1	
Cash flow from (for) financing activities (c)	**(98.4)**	
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**(27.5)**	
Cash and cash equivalents at the beginning of the period	351.5	
Cash and cash equivalents at the end of the period	324.0	

2.04.04 List of related parties

The figures in the table as at 30 June 2017 refer to the related parties listed below:

Group A - Non-consolidated subsidiaries
Black Sea Comp.Compr.GAS Ltd

Group B- affiliated and jointly controlled companies:
AdriaLink Srl.
Aimag Spa
Centro Idrico di Novoledo Srl
Energo doo
Enomondo Srl
Estenergy Spa
Estense Global Service Scarl
Ghirlandina Solare Srl
H.E.P.T. Co.Ltd
Natura Srl in liquidazione
Oikothen Scarl in liquidazione
Q.Thermo Srl
S2A Scarl
SET Spa
SGR Servizi Spa
So.Sel Spa
Tamarete Energia Srl

Group C - Highly influential related companies (shareholding municipalities):
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
Calenia Energia Spa
Fiorano Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
Maranello Patrimonio Srl
Megas Net Spa
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Serramazzoni Patrimonio Srl
Sis Società Intercomunale di Servizi Spa in liquidazione
Società Italiana Servizi Spa-Asset
TE.AM. Società Territorio Ambiente Spa in liquidazione
Unica reti-Asset
Teikos Lab Srl
Immobiliare City Srl
Proxima Sas di Pillon C. & C.
Mayors, directors, strategic managers, family members

2.04.05 COMMENTARY NOTES TO THE RELATIONS WITH RELATED PARTIES

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 service is managed and carried out by Hera Group in the regions of Emilia Romagna, Veneto, Friuli-Venezia Giulia and Marche. It is carried out on the basis of conventions with the relevant local area Authorities, with a variable duration, which is usually twenty years.

Hera's manages the integrated water service including 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 to be used in 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.

As of 2012, the Government tasked the AEEGSI with regulating tariffs; as part of this function, the authority established a first transitional tariff period 2012-2013, a consolidation period 2014-2015 and a regular tariff method for 2016-2019; as part of the latter resolution (AEEGSI resolution no. 664/2015/R/IDR) the National Authority also established to adapt the Conventions on the basis of a scheme model it had identified. The tariffs applied for 2017 are those approved by the Local Area Authorities and subsequently by the National Authority.

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 sector laws and Service Charters drafted by the operator based on templates approved by Local Area Authorities in compliance with provisions set out by the AEEGSI regarding the quality of the service and the resource.

Environment sector

The urban waste service managed by Hera is carried out in its areas of competence on the basis of agreements signed with the local Authorities and covers the exclusive management of collection, transportation, street sweeping and cleaning, waste transportation to recovery and disposal etc. The agreements signed with the local area authorities regulate the economic aspects of the contractual relationship but also the methods of organization and management of the service and the quantitative and qualitative levels of services provided. The payments due to the operator for the services rendered has been defined annually, in accordance with the provisions of Presidential Decree 158/1999, as supplemented, beginning in 2013, by the Tares/Tari regulation.

The Hera Group is required to obtain provincial authority to operate urban waste treatment plants. Additionally, for 2017 the Group's subsidiary Herambiente signs the service agreement with Atersir, in accordance with article 16 of Regional Law 23/2011 for the disposal of unsorted urban 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 (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 Distribuzione Energia Spa, a company of the Hera Group that replaced Hera Spa in the gas and electricity distribution, enjoys the increased residual durations established for the providers that encouraged operations of partial privatization and business combination. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. The agreements associated with the distribution licenses regarding the distribution of natural gas or other similar gases for heating, domestic, handicraft and industry uses, and for other general uses. Tariffs for the distribution of gas are set pursuant to the regulations in force and Aeegsi's periodic resolutions. The territory in which INRETE Distribuzione Energia Spa, a company of the Hera Group, carries out gas distribution services consists of "tariff areas" in which a distribution tariff is uniformly applied to the various categories of customers. The tariff regulation in force at the date of approval of the financial statements, to which this report is attached, is represented mainly by Resolutions no. 774/2016/R/gas of 22 December 2016 ("Tariff update for gas distribution and metering services for 2017") and no. 775/2016/R/gas of 22 December 2016 (inter-period update of the tariff regulation for distribution and metering of natural gas for the 2017-2019 three-year period. RTDG approval for the 2017-2019 three-year period) that approved 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 1 January 2014, in fact, the new "Regulation of tariffs for gas distribution and metering services for the regulation period 2014-2019 (RTDG 2014-2019)" came into force, approved with resolution 367/2014/R/GAS, taking into account subsequent modifications and additions. Pursuant to article 28 of the RTDG 2014-2019, the mandatory natural gas distribution and metering tariffs are broken down into six different geographical areas:

- North-West tariff, for the regions of Valle d'Aosta, Piedmont and Liguria;
- North-East tariff, for the regions of Lombardy, Trentino Alto Adige, Veneto, Friuli Venezia Giulia, Emilia Romagna;
- Central tariff, for the regions of Tuscany, Umbria and Marche;
- Central/South-East tariff, for the regions of Abruzzi, Molise, Apulia, Basilicata;
- Central/South-West tariff, for the regions of Lazio and Campania;
- Southern tariff, for the regions of Calabria and Sicily.

The amount of the components under paragraph 27.3, sub-paragraphs c), d), e), f), g), e) and h) of the RTDG 2014-2019 is set by the Authority and is subject to a quarterly update.

In keeping with the provisions of art. 40, paragraph 9, of the RTDG, the fixed components of mandatory tariff associated with the distribution and metering services have been divided into three tranches, on the basis of the class of metering group.

In the case of electricity, the concessions (30 years in duration and renewable according to current regulations) focus on energy distribution activity, including, amongst other things, management of the distribution networks and operation of connected plants, ordinary and extraordinary maintenance and programming and identification of development initiatives as well as measurement activities. A suspension or expiry of the concession may be ordered by the authority regulating the sector if the concession holder is found to be inadequate or to be in breach of regulations in force, in such a way as to prejudice, in a severe and widespread manner, provision of the electricity distribution and metering service. The concessionaire is required to apply the tariffs set by regulations in force and resolutions adopted by the sector Authority. The tariff regulation in force at the date of approval of the annual consolidated financial statements, to which this report is attached, is represented mainly by Resolutions 654/2015/R/eel ("Tariff update for electricity transmission, distribution and metering services for the regulatory period 2016 -2023") that replaced the previous Aeeg Arg/e resolution no. 199/2011 and subsequent amendments and additions ("Provisions of Aeeg for providing electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions regarding the economic conditions regulating the provision of the connection service") in force until 31 December 2015. Through Resolution 22 December 2016, 778/2016/R/eel (“Update for the year 2017 of mandatory tariff for services of electricity, distribution and metering and economic conditions for the provision of connection services for non-domestic clients), the Authority updated, for the year 2017, mandatory tariffs for electricity, distribution and metering services for non-domestic end customers, as well as the economic conditions for the service of connecting to electrical networks, updating the “integrated text of regulations for the provision of electrical transmission and distribution services” (TIT), the “integrated text of the regulations for the

provision of electrical metering services" (TIME) and the "integrated text of economic conditions for the provision of connection services" (TIC).
The resolution also extends the deadline for defining new criteria for regulating tariffs for the withdrawal and inflow of power and reactive energy at high and very high-voltage delivery points to 31 December 2017.
The mandatory tariff for the distribution service covers the cost of transporting electric energy on distribution networks. It is applied to all end-customers, except low-tension residential customers for whom the Authority updated tariffs for the provision of electricity network services (transmission, distribution and metering) for domestic clients for the year 2017 through resolution 28 December 2016 799/2016/R/eel. The tariff has a three-pronged structure, which is expressed in eurocents per delivery point per annum (fixed component), eurocents per KW per annum (power component) and eurocents per KWh used (energy component).
The Authority updates the mandatory tariff for the distribution service every year through specific measure.

2.05 EQUITY INVESTMENTS: LIST OF CONSOLIDATED COMPANIES

Subsidiaries

Name	Registered office	Share capital	% held		Total interest
			direct	indirect	
Parent Company: Hera Spa	Bologna	**1,489,538,745**			
Acantho Spa	Imola (BO)	23,573,079	77.36%		77.36%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
Aliplast Spa	Ospedaletto (Istrana -TV)	5,000,000		30.00%	30.00%
Alimpet Srl	Borgolavezzaro (NO)	50,000		30.00%	30.00%
Alipackaging Srl	Zero Branco (TV)	20,000		30.00%	30.00%
Aliplast France Recyclage Sarl	La Wantzenau (France)	25,000		27.00%	27.00%
Aliplast Iberia SL	Onda (Spain)	815,000		29.68%	29.68%
Aliplast Polska SP O.O.	Zgierz (Polonia)	200,000 Zloty		30.00%	30.00%
Amga Calore & Impianti Srl	Udine	119,000		100.00%	100.00%
Amga Energia & Servizi Srl	Udine	600,000		100.00%	100.00%
Aresgas AD	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
ASA Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Black Sea Gas Company E. o.o.d	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Cerplast Srl	Formigine (MO)	100,000		30.00%	30.00%
EnergiaBase Trieste Srl	Padua	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%
Gran Sasso Srl	Pratola Peligna (AQ)	162,810		100.00%	100.00%
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)	53,536,987	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		72.01%	72.01%
Hera Luce Srl	San Mauro Pascoli (FC)	1,000,000	100.00%		100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		57.89%	57.89%
Heratech Srl	Bologna	1,000,000	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	10,000,000	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	13,484,242	49.59%		49.59%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		49.59%	49.59%
Medea Spa	Sassari	4,500,000	100.00%		100.00%
SiGas d.o.o	Pozega (Serbia)	263,962,537 Rsd		95.78%	95.78%
Sinergie Spa	Padua	11,168,284		100.00%	100.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Scarl	Padua	100,000		70.00%	70.00%
Umbroplast Srl	Gualdo Cattaneo (PG)	98,800		30.00%	30.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Variplast Srl	Quinto di Treviso (TV)	50,000		30.00%	30.00%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

Jointly Controlled Companies

Name	Registered office	Share capital	% held		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

Name	Registered office	Share capital	% 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 company's share capital consists of 67,577,681 euros of ordinary shares and 10,450,000 euros of related shares.

2.06 DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENT PURSUANT TO ARTICLE 154 OF LEGISLATIVE DECREE NO. 58/98

1 – The undersigned Mr. Stefano Venier, acting in his capacity as CEO, and Mr. Luca Moroni, acting in his capacity as Manager in charge of preparing the corporate accounting documents of Hera Spa, hereby certify, considering the provisions of article 154 bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 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

consolidated financial statements for the first half of 2017.

2 - Said parties furthermore declare that:

2.1 - the half-year consolidated financial statements:

a. have been 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 important events occurred during the period in question and their effect on the abbreviated half-year financial statements, along with a description of the major risks and uncertainties pertaining to the remaining six months of the current financial year. The intermediate report on management additionally includes a reliable analysis of significant operations carried out by consolidated companies.

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

Bologna, 26 July 2017

2.07 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, 2017 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, 2017 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 4, 2017

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

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