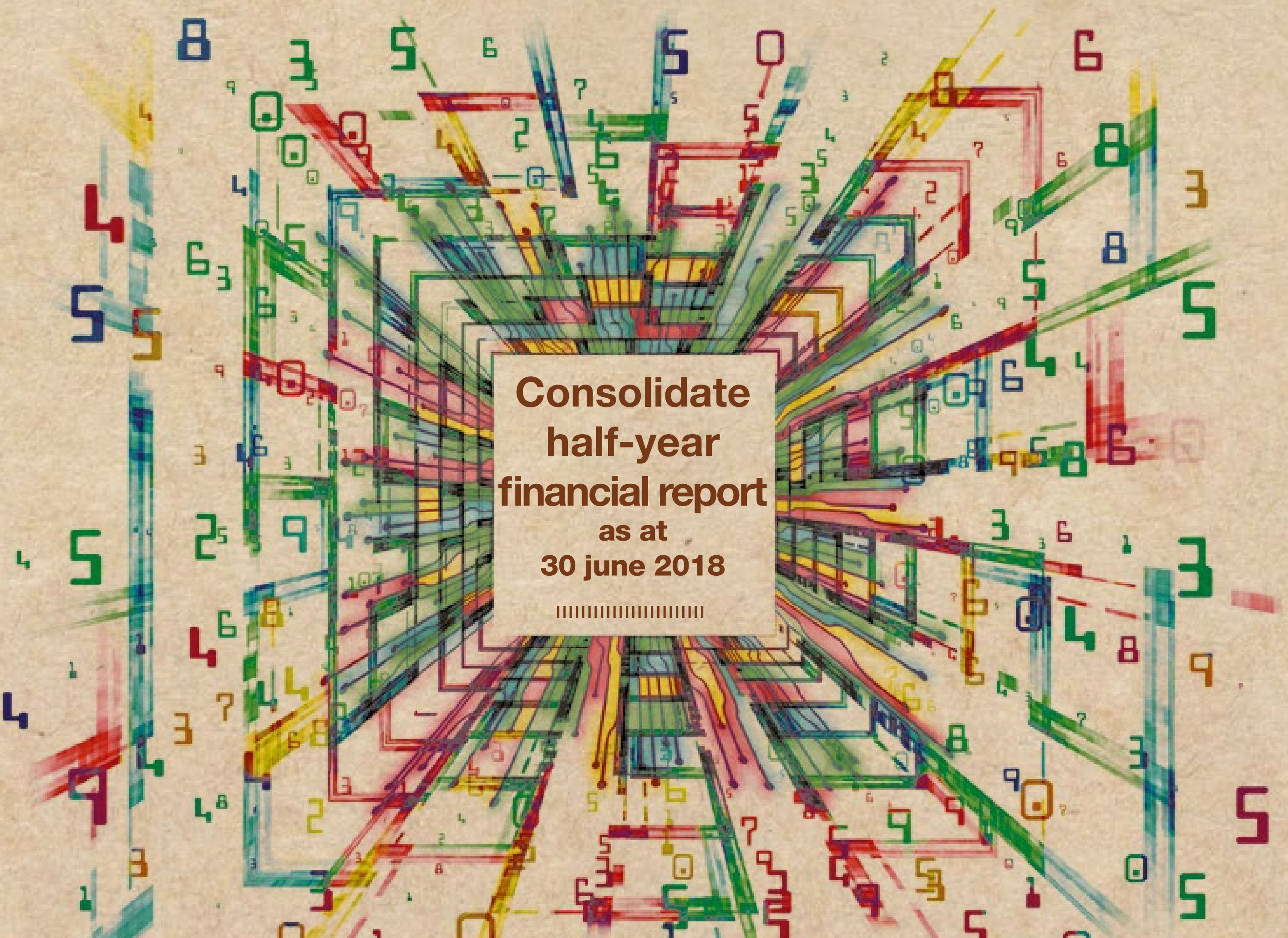
Consolidate half-year financial report

as at

30 june 2018



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Introduction

Governance and control bodies

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

Corporate structure

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

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

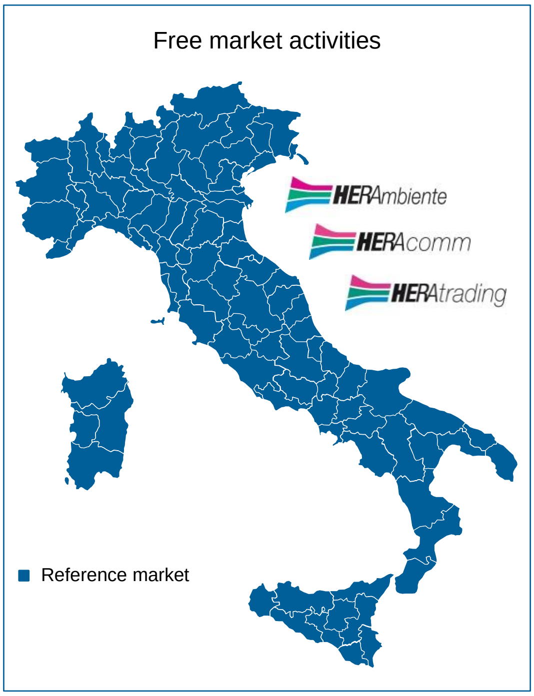
HeraComm Srl, 100% controlled by Hera Spa, with 2.4 million customers, represents the Group on national energy markets.

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.

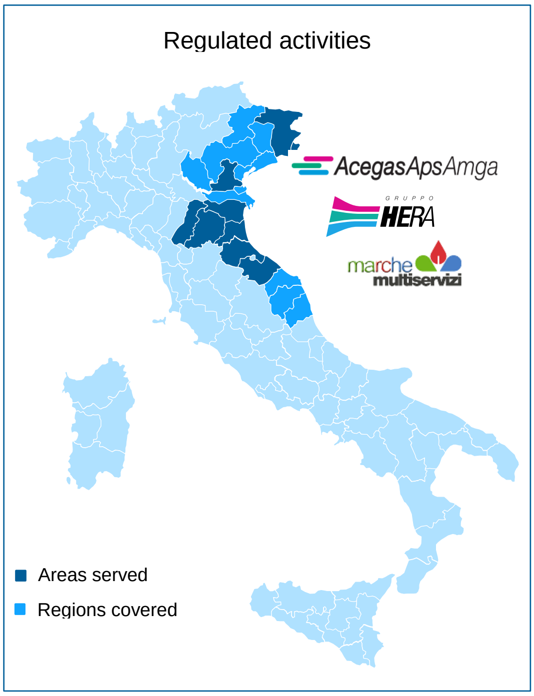
Over the years, the Group's external expansion has resulted in the integration of over a dozen other multi-utility companies. In order to produce synergies, exploit scale economies and convey know-how, these operations have been achieved by mergers through incorporation into the holding company.

Marche Multiservizi and **AcegasApsAmga** 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.

Free market activities



Regulated activities



Hera Spa

Herambiente Spa	75%
*Hestambiente Srl	70%
Fea Srl	51%
Herambiente Servizi Industriali Srl	100%
Enomondo Srl	50%
Asa Scpa	51%
Feronia Srl	70%
Waste Recycling Spa	100%
Aliplast Spa	80%

Hera Comm Srl	100%
So.Sel. Spa	26%
SGR Servizi Spa	29.61%
Hera Comm Marche Srl	84%
Hera Servizi Energia Srl	57.89%
EnergiaBase Trieste Srl	100%
Estenergy Spa	51%
Sangroservizi Srl	49%

AcegasApsAmga Spa	100%

Hera Trading Srl	100%
Adria Link Srl	33.33%

Marche Multiservizi Spa	40.80%

Other holdings

Inrete Distribuzione Energia Spa	100%	Galsi Spa	11.76%
**Sviluppo Ambiente Toscana	95%	Heratech Srl	100%
Aimag Spa	25%	Tamarete Energia Srl	40%
Uniflotte Srl	97%	Energo Doo	34%
Set Spa	39%	S2A Scarl	23.81%
Acantho Spa	77.36%	Aloe Spa	10%
Calenia Energia Spa	15%		

* Over 30% held by AcegasApsAmga Spa.
** Over 5% of Herambiente. Sviluppo Ambiente Toscana Srl in turn has a 40% holding in Q.tHermo Srl.
AcegasApsAmga Spa's holdings are: Black Sea Company for Compressed Gas Eood, Centro Idrico di Novoledo Srl, Hera Luce Srl, La Dolomiti Ambiente Spa, Ase Spa and AresGas Ead.
Aliplast Spa's holding are: Alimpet Srl, Aliplast France Recyclage Sarl, Aliplast Iberia Sl and Aliplast Polska Spoo.
On 13 July 2018 the merger of Alipackaging Srl into Aliplast Spa was completed. Mergers of Cerplast Srl, Umbroplast Srl and Variplast Srl into Aliplast Spa are expected.
Further expected changes: a divestment of AcegasApsAmga Spa's holding in Sigas Doo, the merger of Verducci Servizi Srl, Gran Sasso Srl and Blu Ranton Srl into Hera Comm Marche Srl and the merger of Amga Energia & Servizi Srl into Hera Comm Srl.

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.

1

Directors' Report

1.01

Overview of Group management performance and definition of alternative performance measures

Operating APMs and investments

Operating APMs and investments (mn€)	June 18	June 17	Abs. Change	% Change
Revenues	**2,966.7**	**2,754.0**	**+212.7**	**+7.7%**
Ebitda	**523.6**	**505.9**	**+17.7**	**+3.5%**
Ebitda/revenues ratio	17.6%	18.4%	-0.8 p.p.	
Ebit	**273.6**	**262.2**	**+11.4**	**+4.3%**
Ebit/revenues ratio	9.2%	9.5%	-0.3 p.p.	
Net profit	**167.2**	**148.0**	**+19.2**	**+13.0%**
Net profit/revenues ratio	5.6%	5.4%	+0.2 p.p.	
Net investments *	**177.8**	**151.8**	**+26.0**	**+17.1%**

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

Financial APMs

Financial APMs (mn€)	June 18	Dec 17	Abs. Change	% Change
Net non-current assets	5,828.2	5,780.6	+47.6	+0.8%
Net working capital	84.2	23.2	+61.0	+262.9%
Provisions	(571.8)	(574.8)	+3.0	+0.5%
Net invested capital	5,340.6	5,229.0	+111.6	+2.1%
Net debt	**(2,625.0)**	**(2,523.0)**	**-102.0**	**-4.0%**

Alternative performance measures (APMs)

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

Operating APMs and investments

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

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

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

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

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

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

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

Financial APMs

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

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

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

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

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

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

Operating-financial APMs

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

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

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

Roi, or return on net invested capital, is defined as the ratio between Ebit, as described above, 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 is intended to indicate the ability to produce wealth through operating management, thus remunerating equity and capital pertaining to third parties.

Roe, return on equity, is defined as the ratio between net profits and net equity, 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 indicate the profitability obtained by investors, recompensing risk.

Cash flow is defined as operating cash flow, net of dividends paid. Operating cash flow is calculated as Ebit (as previously described, net of provisions for special items, if present), to which the following are added:

- amortisation and provisions for the period, not including provisions for doubtful debts;
- changes in net working capital;
- provisions for the risk fund (net of decreases in provisions);
- use of severance pay reserves;
- the difference between changes in taxes paid in advance and in deferred taxes;
- operating and financial investments;
- financial charges and financial income (*);
- changes in treasury shares held;
- current taxes.

(*) net of the effects of updating deriving from the application of accounting principles Ias 37 and Ias 19, the profits coming from associated companies and joint ventures, plus the dividends received from the latter.

This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the company's ability to generate cash flow and therefore its ability to finance itself.

Special item / balance sheet reconciliation

Financial special items	June 18
Financial operations from financial statement	**(34.4)**
Financial special items	(4.8)
Financial operations	**(39.2)**
Result from special items	**4.8**

1.01.01

Operating and financial results

The Hera Group closed the first half of 2018 with operating results up over the same period in the previous year. Ebitda reached € 523.6 million, up 3.5%, Ebit amounted to € 273.6 million, up 4.3% and net profits came to € 162.7 million, up 13.0%.

Constant growth in all indicators

These results were achieved through the Group's consolidated multi-business strategy, balanced between regulated and freely competitive activities. Hera pursues this model by combining internal growth and external development through the opportunities offered by the market.

The main corporate and business operations to be taken into account in evaluating the changes with respect to the first six months of 2017 are:

- On 6 July 2017, Hera Comm Marche Srl acquired full holding of the company Verducci Servizi Srl, which operates in the natural gas and electricity supply market.
- On 20 December 2017, effective as of 1 January 2018, through EnergiaBaseTrieste Srl, 13,000 protected electricity customers were acquired in the Municipality of Gorizia, previously served by Eni gas e luce Spa.
- Acting on the binding agreement signed on 21 December 2017, on 6 April 2018 Hera Spa proceeded to transfer to Italgas Spa its entire holding in Medea Spa.
- On 8 February 2018, a 100% holding of Blu Ranton Srl, a company operating in gas and electricity sales to end customers, was acquired by Hera Comm Marche Srl. The company serves roughly 17,000 gas and electricity customers in Teramo, Pescara and Macerata.
- On 20 March 2018, Hera Comm Srl acquired 49% of SangroServizi Srl, a gas, electricity and other energy product sales company with roughly 7,000 gas customers served in the Province of Chieti.
- On 7 March 2018, the respective shareholders meetings approved a project for merger by incorporation of Megas. Net Spa (a company related to the Group which owns distribution networks) in Marche Multiservizi Spa; the effective date of the transaction is 1 June 2018, with accounting and tax effects retroactively set at 1 January 2018.
- On 28 March 2018 Hera Comm Srl transferred 2.88% of the share capital of Hera Comm Marche Srl to minority shareholder Walter Sadori Srl.

The following table shows operating results at 30 June 2018 and 2017:

Constant and increasing growth

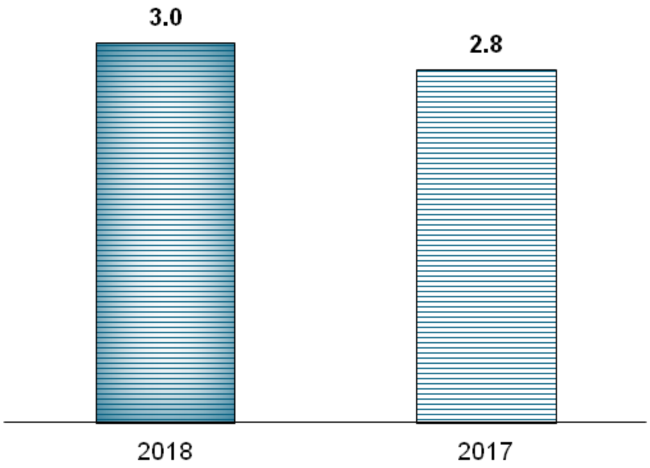
Income statement (mn€)	June 18	% Inc.	June 17	% Inc.	Abs. Change	% Change
Revenues	2,966.7		2,754.0		+212.7	+7.7%
Other operating revenues	209.8	7.1%	202.3	7.3%	+7.5	+3.7%
Raw materials	(1,327.6)	-44.7%	(1,178.4)	-42.8%	+149.2	+12.7%
Service costs	(1,031.6)	-34.8%	(981.7)	-35.6%	+49.9	+5.1%
Other operating costs	(30.3)	-1.0%	(25.8)	-0.9%	+4.5	+17.5%
Personnel costs	(281.7)	-9.5%	(282.4)	-10.3%	-0.7	-0.2%
Capitalised costs	18.3	0.6%	17.9	0.6%	+0.4	+2.2%
Ebitda	**523.6**	**17.6%**	**505.9**	**18.4%**	**+17.7**	**+3.5%**
Amortisation, depreciation and provisions	(250.0)	-8.4%	(243.7)	-8.9%	+6.3	+2.6%
Ebit	**273.6**	**9.2%**	**262.2**	**9.5%**	**+11.4**	**+4.3%**
Financial operations	(39.2)	-1.3%	(45.9)	-1.7%	-6.7	-14.6%
Pre-tax result	**234.4**	**7.9%**	**216.3**	**7.9%**	**+18.1**	**+8.4%**
Taxes	(72.0)	-2.4%	(68.3)	-2.5%	+3.7	+5.4%
Net result	**162.4**	**5.5%**	**148.0**	**5.4%**	**+14.4**	**+9.7%**
Result from special items	**4.8**	0.2%	-	0.0%	+4.8	+100.0%
Net profit for the period	**167.2**	**5.6%**	**148.0**	**5.4%**	**+19.2**	**+13.0%**
Attributable to:						
Shareholders of the Parent Company	**158.1**	**5.3%**	**141.0**	**5.1%**	**+17.1**	**+12.1%**
Non-controlling interests	9.1	0.3%	7.0	0.3%	+2.2	+30.9%

Revenues rise thanks to higher volumes of energy sold

Revenues for the first half of 2018 amounted to € 2,966.7 million, up € 212.7 million or 7.7% over the € 2,754.0 million recorded for the same period in 2017. This trend is due to change roughly € 57 million in higher trading activities, roughly € 120 million in higher revenues from gas and electricity sold owing to larger volumes sold and roughly € 52 million in higher system charges and volumes transmitted. Also note the higher revenues in the waste management area amounting to roughly € 15 million, in spite of the termination of waste services management for 13 municipalities in the Forlì area as of 1 January 2018, and higher revenues in the water service; the remaining changes in the Group's scope of operations, i.e. the entry of Blu Ranton Srl and Verducci Servizi Srl and the transfer of Medea Spa, contributed with roughly € 3 million overall. The fall in revenues that offset the growth described above was mainly due to lower revenues for electricity production, amounting to € 33 million.

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

Revenues (bn€)



3.0

billion in revenues

Other operating revenues grew over the same period in the previous year by € 7.5 million or 3.7%. This growth is due to higher revenues from energy efficiency certificates amounting to € 7.9 million, on account of the higher price per unit, despite the lower revenues for changes in the scope of operations coming to roughly € 0.6 million.

Costs for raw and other materials rose by € 149.2 million over 30 June 2017, with a 12.7% increase; this growth, excluding the change in scope of operations amounting to roughly € 1.5 million, is due to a higher amount of trading, a rise in the price of commodities, larger volumes of gas and electricity sold and a higher cost per unit of energy efficiency certificates.

Increase in costs for raw materials linked to higher revenues

Other operating costs rose by € 54.4 million overall (€ 49.9 million in higher costs for services and € 4.5 million in higher operating expenses). Excluding the changes in scope of operations, which reduced costs by roughly € 2.5 million, mention must go to the higher costs for system charges and volumes transmitted amounting to roughly € 52 million, higher costs in ICT coming to roughly € 3.2 million and higher costs in commissions for energy agents amounting to roughly € 1.5 million.

Personnel costs fell by € 0.7 million or 0.2%. This decrease is linked to changes in the scope of operations, mainly involving the transfer of resources for collection in the Forlì area as mentioned above, whose impact came to € 2.0 million, and a lower average presence. These factors were partially offset by the increase in retribution foreseen by the National labour contract.

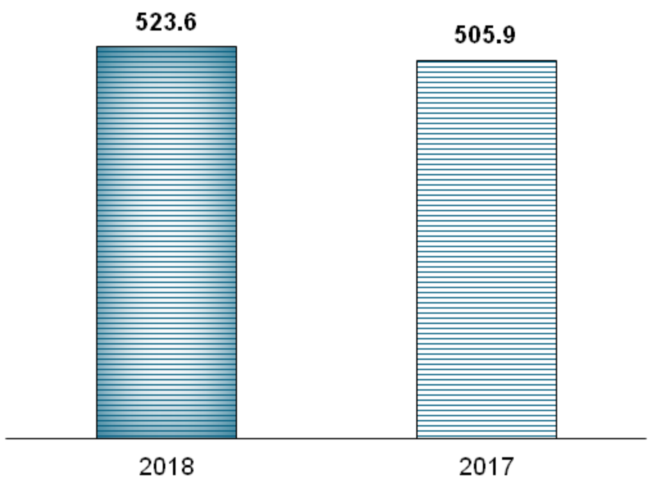
0.2% decrease in personnel costs, due to changes in the scope of operations

Capitalised costs at 30 June 2018 rose over the previous period by € 0.4 million or 2.2%, owing to a lesser amount of interventions on plants and work on assets belonging to the Group.

Ebitda settled at € 523.6 million, rising by € 17.7 million or 3.5% over June 2017. The good performance seen in almost all business areas was responsible for this growth in Ebitda. The gas area contributed more than any other to this increase, thanks to a result that grew by € 16.6 million, due to higher volumes sold and higher income for sales and trading operations. Positive results also came from waste management, the integrated water cycle and the other services area. The electricity area fell by € 7.6 million, owing to lower income in electricity production.

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

Ebitda (mn€)



523.6

million Ebitda

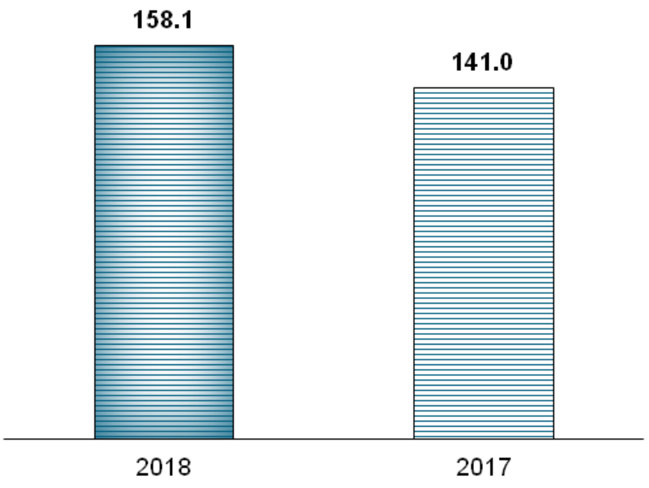
(+3.5%)

Amortisation and provisions rose by € 6.3 million or 2.6%, going from € 243.7 during the previous year to € 250.0 million. Amortisations rose on account of new investments in operations, while provisions for doubtful debts dropped, in particular in the sales company Hera Comm Srl.

Higher operating amortisation

Ebit came to € 273.6 million at 30 June 2018, up € 11.4 million or 4.3% over the € 262.2 million seen at the same date in 2017.

Ebit (mn€)



273.6

million in Ebit
(+4.3%)

The results of financial management for the first half of 2018 came to € 39.2 million, improving by € 6.7 million or 14.6% over the same period in 2017. The good performances were due to efficiency in rates and higher income for default indemnities from safeguarded customers. In the first six months of 2018, compared to the same period in 2017, the Group furthermore benefitted from dividends paid by the investee company Veneta Sanitaria Finanza di Progetto amounting to roughly € 2.9 million.

Good performances in financial management

Pre-tax profits grew by € 18.1 million, going from € 216.3 million at 30 June 2017 to € 234.4 million in the first half of 2018.

Income taxes for the first half of 2018, which came to € 72 million, defined a tax rate of 30.1%, with a clear improvement over the 31.6% seen one year earlier. The reason for this improvement lies mainly in the Group's constant commitment towards grasping all benefits foreseen by law, in particular the incentives for large and extremely large amortisations, extended for 2018 by law 205/17, regarding investments in instrumental goods serving a technological and digital transformation along the lines of "Industry 4.0", in addition to tax credits for research and development and the final balance on previously acquired benefits (patent box).

Net results rose by 9.7%, corresponding to € 14.4 million, going from € 148.0 million at 30 June 2017 to € 162.4 million at the same date in 2018.

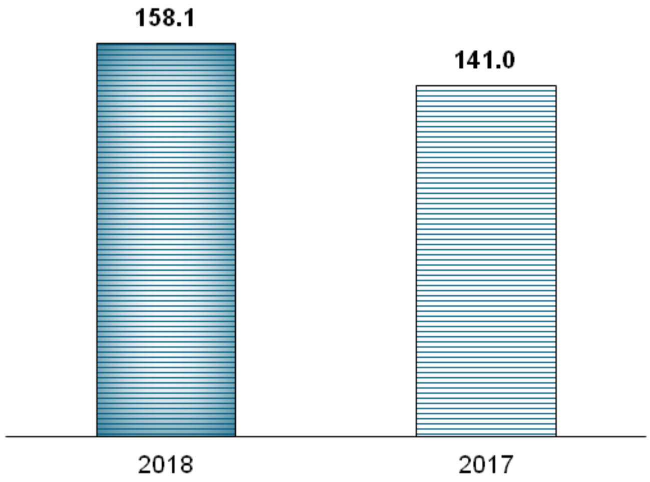
The first half of 2018 was impacted by special financial items coming to € 4.8 million involved in the capital gain for the transfer of the company Medea Spa.

Net profits thus rose by 13.0% or € 19.2 million, going from € 148.0 million in the first half of 2017 to € 167.2 million in the same period of 2018.

+13.0%
Net profits

Net profits pertaining to the Group came to € 158.1 million, up € 17.1 million over the figure seen at 30 June 2017.

Net profits post minorities (mn€)



158.1

million

net profits post minorities (+12.1%)

1.01.02

Analysis of the Group's financial structure and investments

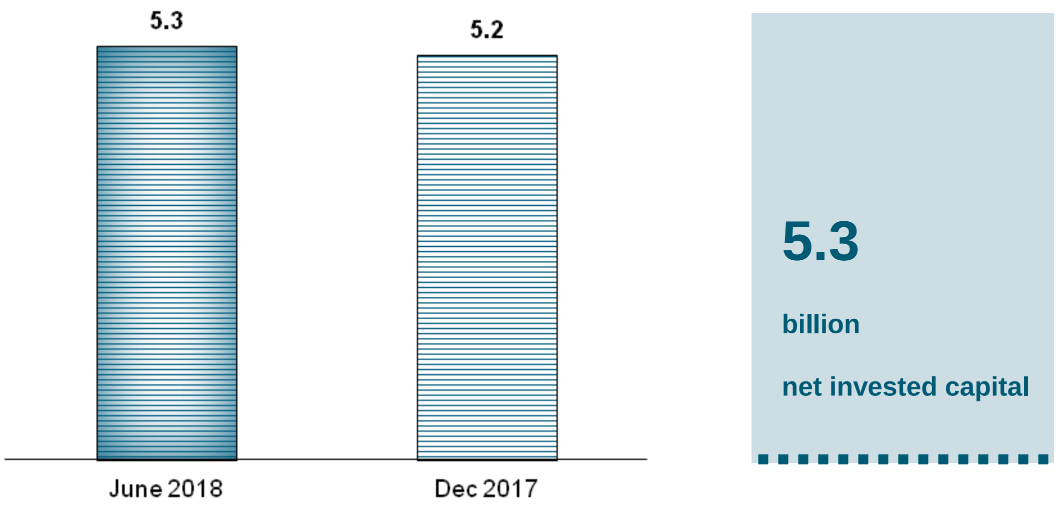
What follows in an analysis of trends in the Group's net invested capital and sources of financing for the period ended 30 June 2018.

The Group's solidity increases

Invested capital and sources of financing (mn€)	June 18	Inc. %	Dec 17	Inc. %	Abs. Change	% Change
Net non-current assets	5,828.2	109.1%	5,780.6	110.5%	+47.6	+0.8%
Net working capital	84.2	1.6%	23.2	0.4%	+61.0	+262.9%
(Provisions)	(571.8)	-10.7%	(574.8)	-11.0%	+3.0	+0.5%
Net invested capital	**5,340.6**	**100.0%**	**5,229.0**	**100.0%**	**+111.6**	**+2.1%**
Equity	(2,715.6)	50.8%	(2,706.0)	51.7%	-9.6	-0.4%
Long-term borrowings	(2,847.4)	53.3%	(2,735.4)	52.3%	-112.0	-4.1%
Net current financial debt	222.4	-4.2%	212.4	-4.1%	+10.0	+4.7%
Net debt	(2,625.0)	49.2%	(2,523.0)	48.3%	-102.0	-4.0%
Total sources of financing	**(5,340.6)**	**-100.0%**	**(5,229.0)**	**100.0%**	**-111.6**	**-2.1%**

At 30 June 2018, net invested capital (Nic) amounted to € 5,340.6 million, with a 2.1% increase over the € 5,229.0 million recorded in December 2017. This higher amount is mainly linked to the increase in net working capital ensuing from seasonal factors typical of the first six months of each year and the higher volumes of electricity and gas sold. The change in invested capital was also effected, albeit to a lesser degree, by the increase in net non-current assets due to the acquisition of holdings in Blu Ranton Srl and Sangroservizi Srl and the merger of Megas. Net into the company Marche Multiservizi Spa.

Net invested capital (bn€)

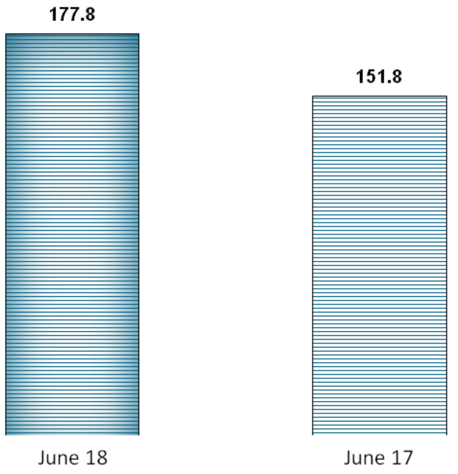


Net investments rise by roughly € 26.0 million

In the first half of 2018, Group investments amounted to € 177.8 million, further benefitting from € 7.8 million in capital grants of which € 4.1 for FoNI investments as provided for by the national tariff method for the integrated water service, falling by € 11.0 million compared to the first half of the previous year. Including capital grants, overall investments came to € 185.6 million.

Net investments increased by € 26.0 million, going from € 151.8 million in June 2017 to € 177.8 million in the first half of 2018.

Total net investments (mn€)



177.8
million net investments (+26.0 million)

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

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

Total investments (mn€)	June 18	June 17	Abs. Change	% Change
Gas area	38.2	39.2	-1.0	-2.6%
Electricity area	10.0	10.5	-0.5	-4.8%
Integrated water cycle area	66.9	68.2	-1.3	-1.9%
Waste management area	31.1	20.9	+10.2	+48.8%
Other services area	7.6	8.7	-1.1	-12.6%
Headquarters	30.0	22.6	+7.4	+32.7%
Total operating investments	**183.8**	**170.1**	**+13.7**	**+8.1%**
Total financial investments	1.7	0.5	+1.2	+240.0%
Total gross investments	**185.6**	**170.6**	**+15.0**	**+8.8%**
Capital grants	7.8	18.8	-11.0	-58.5%
of which FoNI (New Investments Fund)	4.1	2.7	*+1.4*	+51.9%
Total net investments	**177.8**	**151.8**	**+26.0**	**+17.1%**

The Group's operating investments, including capital grants, came to € 183.8 million, up 8.1% over the previous year, and mainly involved interventions on plants, networks and infrastructures, accompanied by regulatory upgrading involving above all gas distribution, with a large-scale substitution of metres, and the purification and sewerage areas.

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

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures.

Overall, investments in structures increased by € 7.4 million compared to the same period in the previous year.

€ 571.8 million in provisions

In the first six months of 2018, provisions amounted to € 571.8 million, with a slight drop compared to the end of the previous year. This change is due to a restatement, towards amortisation provisions, of roughly € 9.5 million, corresponding to the amount reserved for the third-party goods restoration fund linked to the networks owned by Megas. Net, now acquired by Group company Marche Multiservizi Spa.

Equity rose from € 2,706.0 million in 2017 to € 2,715.6 million at 30 June 2018, benefitting the Group's financial structure. This change is a consequence of the positive result for the period, coming to € 167.2, which financed a € 150.4 million dividend payment.

€ 2.7 billion in equity

Reconciliation between separate and consolidated financial statements

	NET PROFIT	EQUITY
Balances as per Parent Company's separate financial statements	172.2	2,315.4
Excess of equity over the carrying amounts of Investments in consolidated companies	(3.3)	108.5
<u>Consolidation adjustments:</u>		
Measurement with the equity method of investments reported at cost in the seperate financial statements	(3.6)	(5.6)
Difference between purchase price and book value of portion of equity	(3.2)	127.7
Elimination of intercompany transactions	(4.0)	(11.5)
TOTAL	158.1	2,534.5
Restoration of third-party assets	9.1	181.1
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	167.2	2,715.6

1.01.03

Analysis of net cash (net borrowings)

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

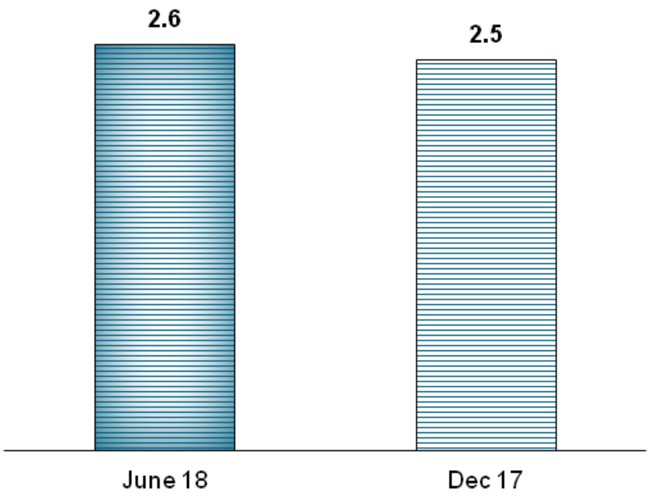
A solid financial position

mn€		June 18	Dec 17
a	**Cash and cash equivalents**	**515.2**	**450.5**
b	**Other current financial receivables**	**44.7**	**41.5**
	Current bank debt	(239.7)	(187.0)
	Current part of bank borrowings	(61.3)	(55.3)
	Other current financial liabilities	(34.7)	(35.3)
	Finance lease payments maturing within 12 months	(1.8)	(2.0)
c	**Current financial debt**	**(337.5)**	**(279.6)**
d=a+b+c	**Net current financial debt**	**222.4**	**212.4**
	Non-current bank debt and bonds issued	(2,932.6)	(2,825.3)
	Other non-current financial liabilities	(21.0)	(21.4)
	Finance lease payments maturing after 12 months	(13.0)	(13.9)
e	**Non-current financial debt**	**(2,966.6)**	**(2,860.6)**
f=d+e	**Net financial position - Consob communication no. 15519/2006**	**(2,744.2)**	**(2,648.3)**
g	**Non-current financial receivables**	**119.2**	**125.2**
h=f+g	**Net debt**	**(2,625.0)**	**(2,523.0)**

The overall amount of net financial debt came to € 2,625.0 million. The Group's financial structure at 30 June 2018 shows current debt coming to € 337.5 million, of which € 61.3 million in bank loans reaching maturity within the year and € 239.7 million in current bank debt. The latter mainly consists of usage of current credit lines, coming to roughly € 190 million, and accruals for passive interest on financing, coming to € 49.7 million. The amount of non-current bank debt rose over the previous year, following the use made in June of the EIB financing line stipulated at the beginning of the year. Medium- and long-term debt is largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (78.6% of the total), with repayment at maturity in a lump sum.
The total debt shows an average time to maturity of over seven years, with 63% maturing after more than five years.

Net financial debt went from € 2,523.0 million in 2017 to € 2,625.0 million in June 2018. Note that in June 2018 dividends were paid amounting to € 150.4 million.

Net financial debt (bn€)



2.63

billion

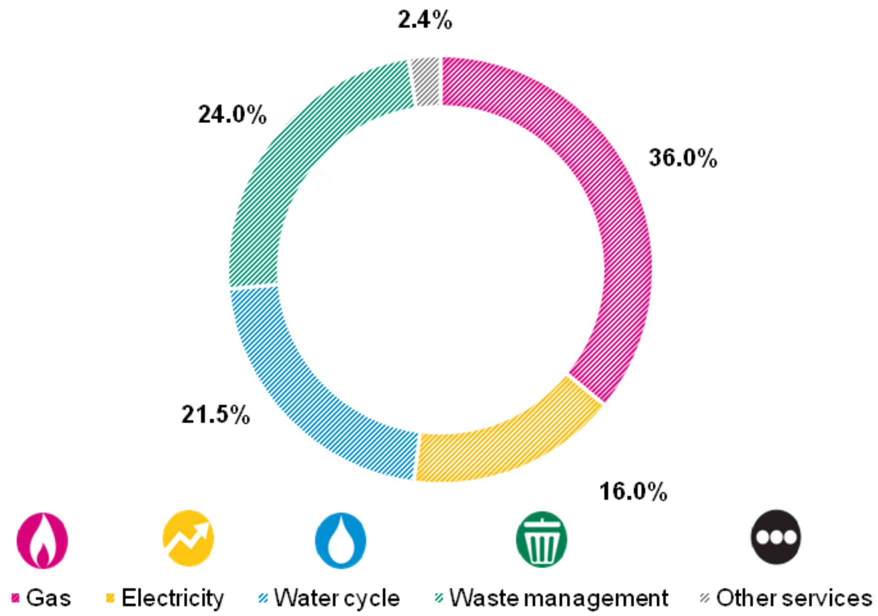
net financial debt

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.

A multi-business strategy

Ebitda June 2018



The Group's various areas contribute to its overall Ebitda in a balanced mix, reflecting its multi-business strategy

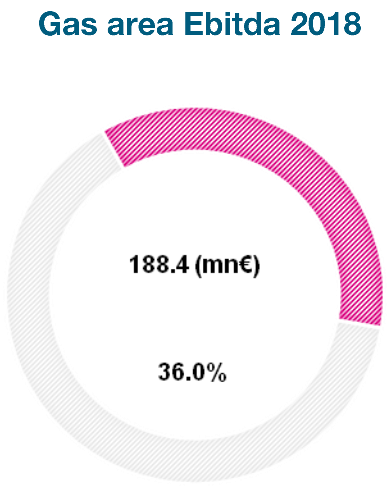
The Group's income statements include corporate headquarter costs and account for intercompany transactions for at arm's length.

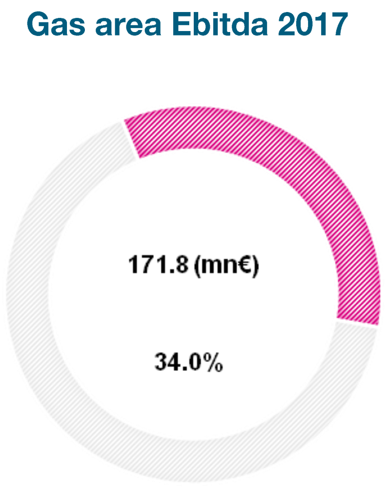
The following analyses of the single business areas take into account all increased revenues and costs, having no impact on Ebitda, related to the application of IFRIC 12. The business areas affected by this accounting principle are: natural gas distribution services, electricity distribution services,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

1.02.01
Gas

The first half of 2018 showed significant growth compared to the same period of the previous year, in terms of both Ebitda and volumes sold. This result was achieved thanks to the colder temperatures seen during the winter months, commercial development and higher income for distribution services.

Ebitda grows





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

(mn€)	June 18	June 17	Abs. Change	% Change
Area Ebitda	**188.4**	**171.8**	**+16.6**	**+9.6%**
Group Ebitda	523.6	505.9	+17.7	+3.5%
Percentage weight	36.0%	34.0%	+2.0 p.p.	

9.6% growth in Ebitda

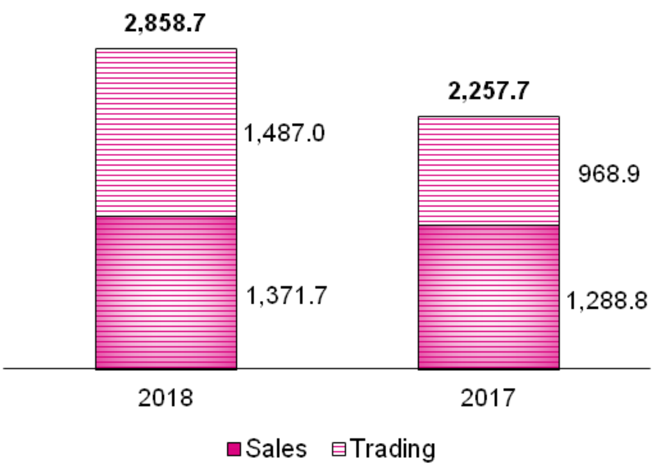
The number of gas customers rose by 26.8 thousand, or 1.9%, over the first half of 2017. The entry of the companies Blu Ranton Srl and Verducci Servizi Srl within the Group's consolidate scope contributed with 19.8 thousand customers, while the remaining growth was created by marketing initiatives, and by maintaining and developing the customer base.

Customers (k)

1.4
million gas customers

Overall volumes of gas sold increased by 601.1 million m^3 or 26.6%, going from 2,257.7 million m^3 at June 2017 to 2,858.7 million m^3 in the first half of 2018, a period in which degree days (*) rose by 7% compared to the previous period. Trading volumes showed growth coming to 518.1 million m^3 (22.9% of total volumes) owing to greater activity abroad, in particular on the TTF. Volumes sold to end customers increased by 2.7% or 82.9 million m^3 over the first half of 2017, thanks to the colder winter temperatures in 2018 and the increased customer base, amounting to roughly 69.0 million m^3 and the contribution coming from the companies Blu Ranton Srl and Verducci Servizi Srl, amounting to roughly 13.9 million m^3.

Volumes sold (mn m³)



+26.6%

growth in volumes sold

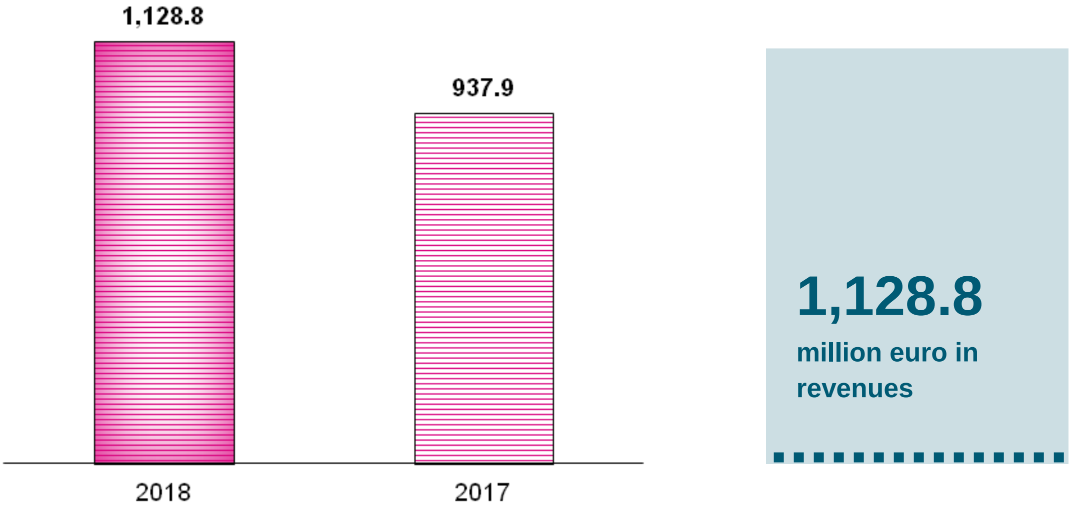
The following table summarises operating results for the gas area:

Income statement (mn€)	June 18	Inc. %	June 17	Inc.%	Abs. Change	% Change
Revenues	1,128.8		937.9		+190.9	+20.4%
Operating costs	(886.5)	-78.5%	(714.4)	-76.2%	+172.1	+24.1%
Personnel costs	(58.8)	-5.2%	(57.3)	-6.1%	+1.5	+2.6%
Capitalised costs	4.7	0.4%	5.6	0.6%	-0.9	-16.0%
Ebitda	**188.4**	**16.7%**	**171.8**	**18.3%**	**+16.6**	**+9.6%**

Revenues went from € 937.9 million in June 2017 to € 1,128.8 million in 30 June 2018, with a growth of € 190.9 million or 20.4%. The main reasons for this growth include higher revenues from trading amounting to roughly € 128 million, owing to the higher price of the raw material gas, accounting for roughly € 23 million, the higher volumes of gas sold, coming to € 28 million, and the acquisitions of Blu Ranton Srl and Verducci Servizi Srl, accounting for roughly € 7.6 million. Revenues for energy efficiency certificates also rose, due to the increase in market prices, coming to roughly € 12.4 million, and the revenues from the foreign companies operating in Bulgaria, thanks to increasing commercial development, amounting to € 2.3 million. This growth was limited by lower revenues for the transfer of the company Medea Spa amounting to € 4.9 million, and lower revenues for system charges coming to € 5.7 million.

(*) This unit of measurement expresses the thermal demand of a given geographical area. High figures in degree days indicate average daily temperatures lower than the conventional reference temperature, set at 20° C.

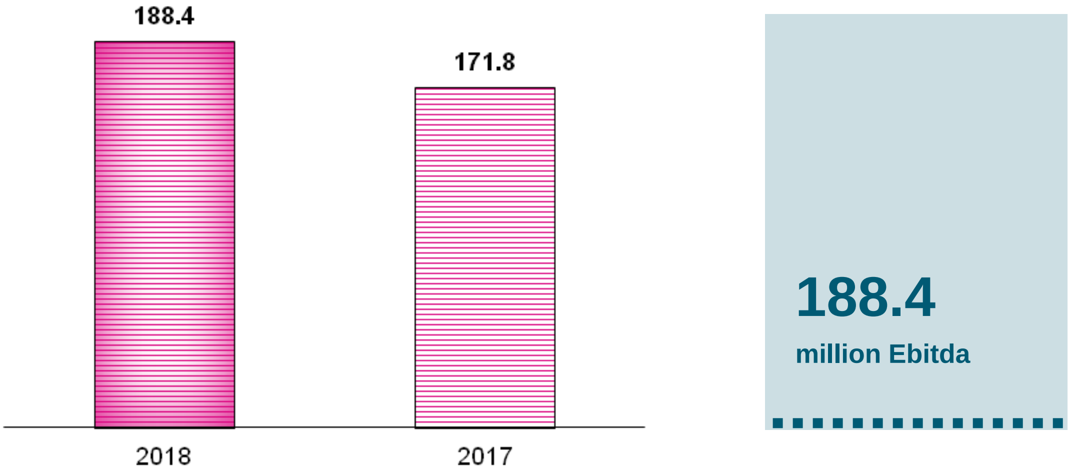
Revenues (mn€)



The growth in revenues was reflected by an even higher increase in operating costs, which went from € 714.4 million in June 2017 to € 886.5 million in the same period in 2018, thus showing an overall growth of € 172.1 million. This trend is mainly due to the higher amount of trading, higher volumes sold, the higher cost of raw materials and the higher cost per unit of energy efficiency certificates.

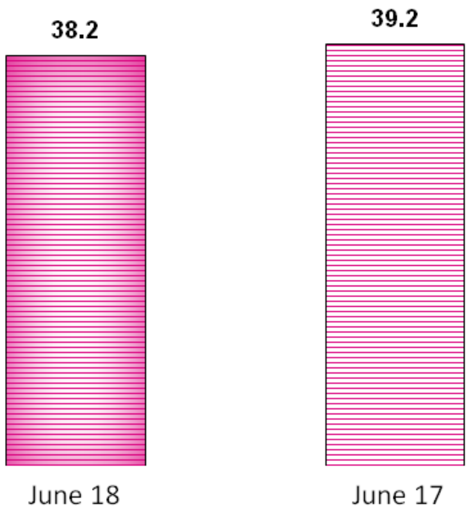
Ebitda rose by € 16.6 million or 9.6%, going from € 171.8 million in the first half of 2017 to € 188.4 million at 30 June 2018, thanks to higher volumes and income in sales and trading activities, higher income in Bulgaria and higher incentives for safety in gas distribution networks.

Ebitda (mn€)



In the first half of 2018, net investments in the gas area amounted to € 38.2 million, falling by € 1.0 million compared to the same period in the previous year. A € 1.5 million increase was seen gas distribution, mainly due to higher non-recurring maintenance on networks and plants, while requests for new connections dropped slightly compared to the first half of the previous year.
Investments fell by € 2.4 million in district heating and heat management, mainly as an effect of the significant work done on the Barca district heating plant in Bologna the previous year. New connections for district heating were equivalent to those seen in the same period of the previous year.

Net investments gas (mn€)



38.2
million: net investments gas

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

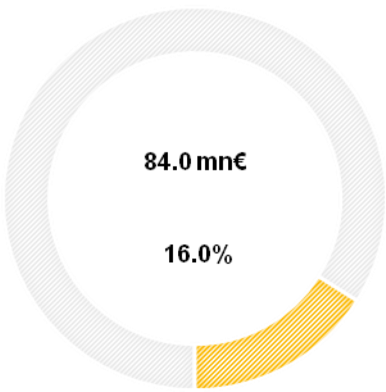
Gas (mn€)	June 18	June 17	Abs. Change	% Change
Networks and plants	33.0	31.5	+1.5	+4.8%
DH/Heat management	5.2	7.6	-2.4	-31.6%
Total gas gross	**38.2**	**39.2**	**-1.0**	**-2.6%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total gas net	**38.2**	**39.2**	**-1.0**	**-2.6%**

1.02.02
Electricity

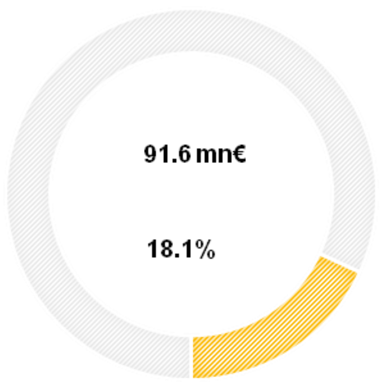
Ebitda for the electricity area decreased compared to the previous year, for reasons including the maintenance phase of a power plant held by the Group.

Ebitda grows

Electricity area Ebitda 2018



Electricity area Ebitda 2017



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

(mn€)	June 18	June 17	Abs. Change	% Change
Area Ebitda	**84.0**	**91.6**	**-7.6**	**-8.3%**
Group Ebitda	523.6	505.9	+17.7	+3.5%
Percentage weight	16.0%	18.1%	-2.1 p.p.	

-8.3%
Ebitda falls

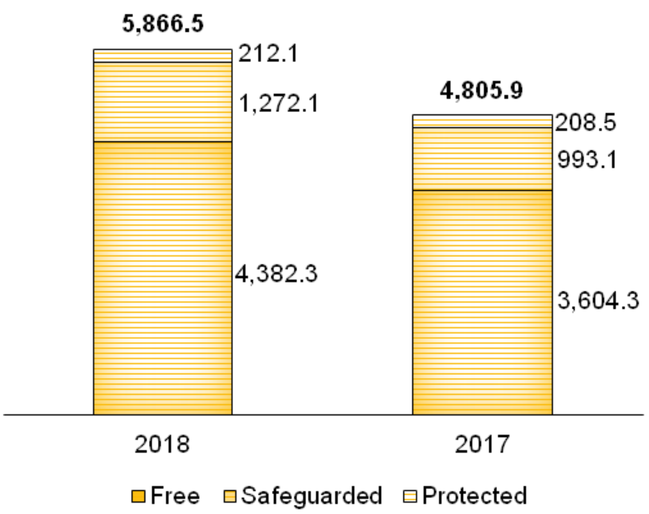
The number of electricity customers shows 1.0 million supply points, rising by 8.9% (82.8 thousand) compared to the first half of 2017. This significant increase was due to both free market activities, amounting to 10.5% of the total as a result of the reinforced marketing operations introduced, in particular in regions of central Italy, and an enlargement of the customer base achieved thanks to the new protected customers in the Municipality of Gorizia, coming to roughly 13 thousand customers.

Customers (k)

1.0
million electricity customers

Volumes of electricity sold went from 4,805.9 GWh at 30 June 2017 to 5,866.5 GWh at 30 June 2018, with an overall increase amounting to 22.1% or 1,060.6 GWh. The volumes sold on the free market accounted for 16.2% of this growth, with the remaining 5.8% consisting in safeguarded volumes.

Volumes sold (GWh)



5.9
TWh sold

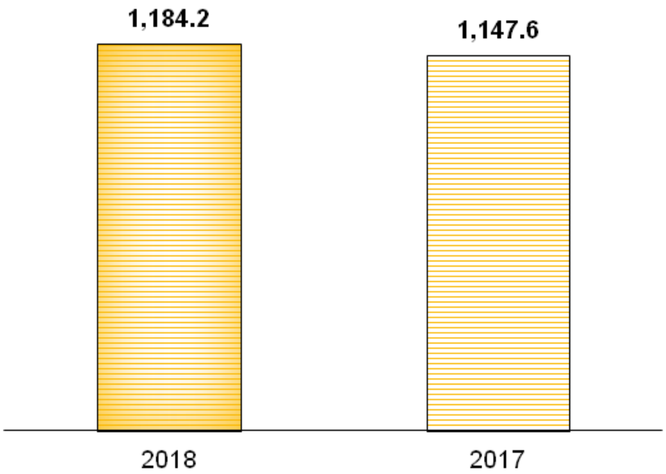
The following table summarises operating results for the area:

Ebitda falls by € 7.6 million

Income statement (mn€)	June 18	Inc. %	June 17	Inc.%	Abs. Change	% Change
Revenues	**1,184.2**		1,147.6		+36.6	+3.2%
Operating costs	**(1,083.4)**	-91.5%	(1,039.0)	-90.5%	+44.4	+4.3%
Personnel costs	**(22.4)**	-1.9%	(22.5)	-2.0%	-0.1	-0.4%
Capitalised costs	**5.5**	0.5%	5.5	0.5%	+0.0	+0.0%
Ebitda	**84.0**	**7.1%**	**91.6**	**8.0%**	**-7.6**	**-8.3%**

Revenues rose by 3.2%, going from € 1,147.6 million in June 2017 to € 1,184.2 million in the same period in 2018. The main reasons underlying this growth are the increase in volumes sold, which created higher revenues amounting to roughly € 93 million, and higher revenues for transmission outside the grid and system charges, coming to € 61 million with no change in costs, and higher revenues for the regulated distribution service. Partially offsetting this trend, mention must go to lower revenues in trading amounting to roughly € 70 million, a lower price of raw materials coming to roughly € 11 million and lower revenues for electricity production amounting to roughly € 32 million, mainly owing to maintenance on the previously discussed Teverola plant.

Revenues (mn€)



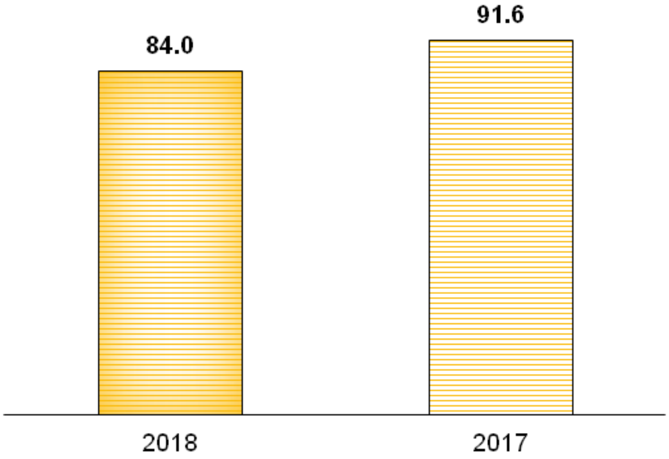
1,184.2

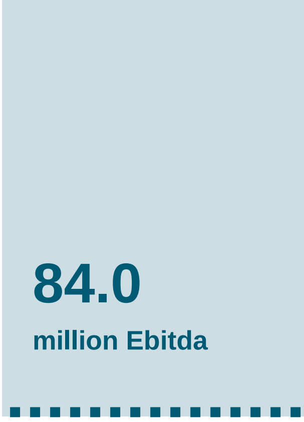
million in revenues

The increase in revenues was proportionally reflected by a rise in operating costs, which went from € 1,039.2 million in the first half of 2017 to € 1,083.4 million in the same period in 2018, thus showing an overall increase of € 44.4 million. This trend is mainly due to the higher volumes sold and the higher system charges, in spite of the lower price of raw materials and the lower amount of electricity production.

At 30 June 2018, Ebitda dropped by € 7.6 million or 8.3%, going from € 91.6 million in 2017 to € 84.0 million in 2018, owing to lower income from electricity production as explained above, despite the higher income from volumes sold in the safeguarded market and higher revenues from distribution services.

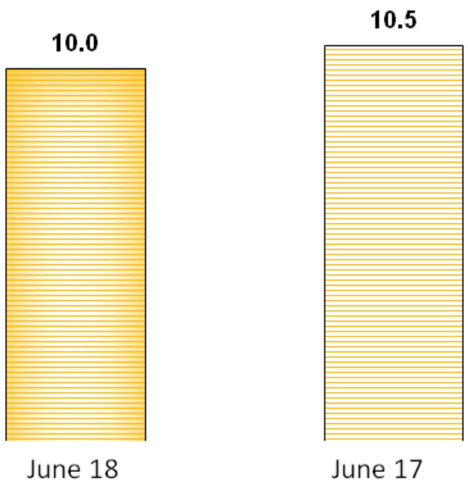
Ebitda (mn€)

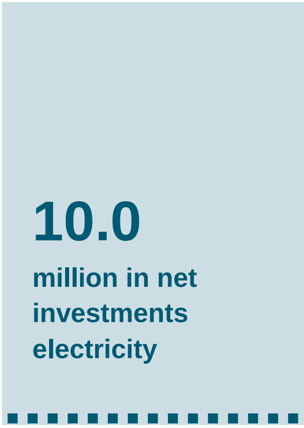




Investments made in the electricity area during the first half of 2018 amounted to € 10.0 million, with a slight drop compared to the € 10.5 million seen during the first half of the previous year.
The interventions mainly concerned non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the first half of the previous year, a lower amount of network extension interventions and lesser non-recurring maintenance on plants and networks were seen.
Requests for new connections fell compared to June 2017.

Net investments electricity (mn€)





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

Electricity (mn€)	June 18	June 17	Abs. Change	% Change
Networks and plants	10.0	10.5	-0.5	-4.8%
Total electricity gross	**10.0**	**10.5**	**-0.5**	**-4.8%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total electricity net	**10.0**	**10.5**	**-0.5**	**-4.8%**

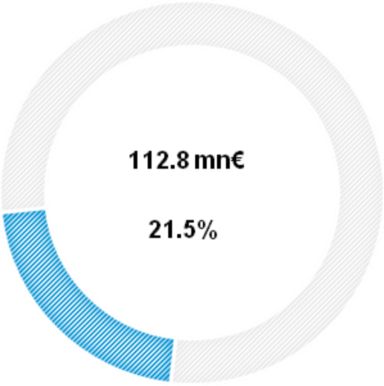
1.02.03

Integrated water cycle

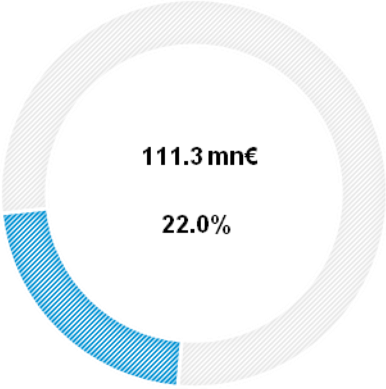
In the first half of 2018, the integrated water cycle area recorded a € 1.5 million increase in Ebitda, corresponding to 1.3%. As regards regulations, note that 2018 is the third year in which the tariffary method defined by the Authority for the period 2016-2019 (resolution 664/2015) is applied, and that for both 2018 and 2017 the revenue covering the underlying cost of amortisation related to investments made is recognized on an accrual basis.

Ebitda grows

Water cycle area Ebitda 2018



Water cycle area Ebitda 2017



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

(mn€)	June 18	June 17	Abs. Change	% Change
Area Ebitda	**112.8**	**111.3**	**+1.5**	**+1.3%**
Group Ebitda	523.6	505.9	+17.7	+3.5%
Percentage weight	21.5%	22.0%	-0.5 p.p.	

+1.3%: MoI rises

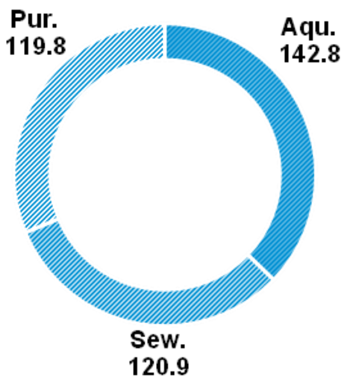
The number of water customers settled at 1.5 million, rising by 5.0 thousand or 0.3% over the first half of 2017, confirming the moderate trend towards organic growth in the areas served by the Group, mainly in the Emilia-Romagna region managed by Hera Spa.

Customers (k)

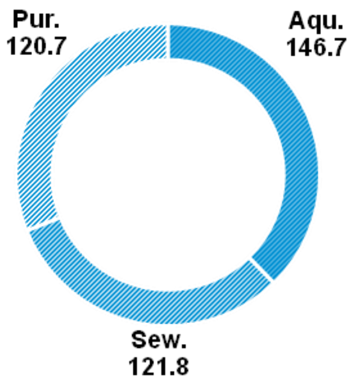
1.5
million customers in the integrated water cycle

The main quantitative indicators of the area are as follows:

Quantity managed
2018 (mn/m^3)



Quantity managed
2017 (mn/m^3)



142.8 million m^3 managed in the aqueduct

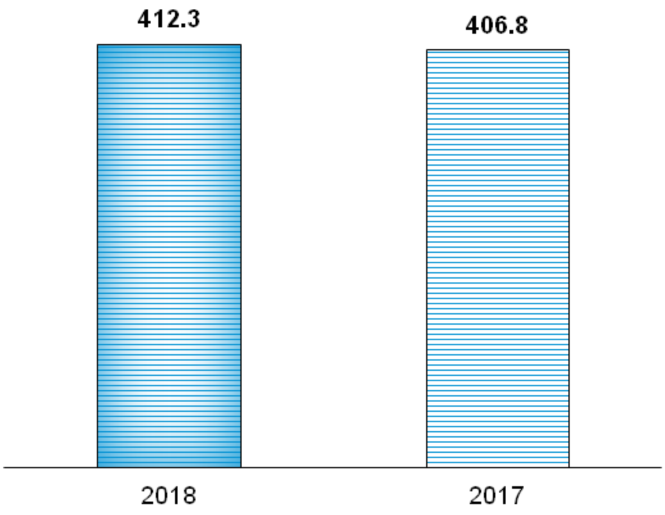
The volumes dispensed through the aqueduct showed a 3.9 million m^3 or 2.6% drop, mainly linked to seasonal variations seen in the first six months of 2018, consisting in a larger amount of rainfall and snowfall than occurred in the same period of the previous year. Furthermore, decreases were seen in the amount managed in sewerage (roughly 0.8%) and purification (roughly 0.7%) compared to the quantities recorded in June 2017. Volumes dispensed, following the Authority's resolution 664/2015, are an indicator of activity in the areas in which the Group operates and are subject to equalisation owing to legislation that calls for regulated revenues to be recognised independently from volumes distributed.

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

Income statement (mn€)	June 18	Inc. %	June 17	Inc.%	Abs. Change	% Change
Revenues	412.3		406.8		+5.5	+1.4%
Operating costs	(212.8)	-51.6%	(208.2)	-51.2%	+4.6	+2.2%
Personnel costs	(89.5)	-21.7%	(90.0)	-22.1%	(0.5)	(0.6%)
Capitalised costs	2.9	0.7%	2.6	0.6%	+0.3	+11.4%
Ebitda	**112.8**	**27.4%**	**111.3**	**27.4%**	**+1.5**	**+1.3%**

Revenues in the water cycle area showed a € 5.5 million or 1.4% increase. This result is due to higher revenues for dispensing amounting to roughly € 2.0 million, as an overall effect of the tariffs established by the Authority for 2016-2019 and the recognition of bonuses for contract quality, ensuing from a commitment towards improving standards compared to those set by the Authority. Furthermore, higher revenues were seen involving subcontracted works and Ifric12 carried out during the first half of 2018, amounting to roughly € 5.0 million. This growth was only partially offset by a drop in other revenues, including roughly € 0.5 million due to a lower amount of new connections.

Revenues (mn€)

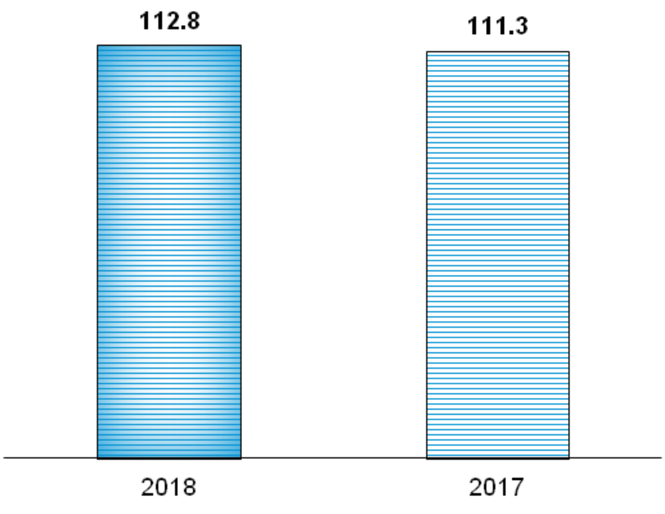


412.3
million: integrated water cycle revenues

Operating costs increased by € 4.6 million or 2.2% overall. Note the higher costs for subcontracted works and IFRIC12 amounting to € 5.0 million overall and higher costs due to a rise in the price of both electricity and the raw material water, coming to roughly € 1.0 million. These factors were partially offset by roughly € 1.3 million in lower operating costs for network and plant management.

Ebitda grew by € 1.5 million or 1.3%, going from € 111.3 million in June 2017 to € 112.8 million in 2018, mainly due to higher revenues from dispensing.

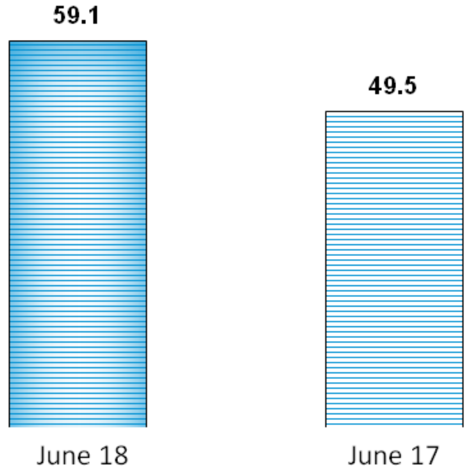
Ebitda (mn€)



112.8
million Ebitda integrated water cycle

Net investments in the integrated water cycle area amounted to € 59.1 million in the first half of 2018, up € 9.6 million over the same period in the previous year. Including the amount of capital grants received, which fell by € 11.0 million, investments made decreased by € 1.3 million and came to € 66.9 million compared to the € 68.2 million seen in the first half of the previous year.
Investments mainly involved extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.
Investments were made for a total of € 33.2 million in the aqueduct, € 22.6 million in sewerage and € 11.2 million in purification.

Net investments water cycle (mn€)



59.1

million: net investments in the water cycle (+9.6 million euro)

The more significant works include: in the aqueduct, upgrading interconnections in the Modena area water system, interventions aimed at upgrading hanging reservoir areas and higher programmed maintenance in the Padua and Trieste areas; in sewerage, continued progress was made in the important works for the Rimini Seawater Protection Plan, in addition to redevelopment of the sewerage network in other areas; in purification, the lower investments made compared to the previous year were due to the significant work done in upgrading the Servola purifier in the area served by the AcegasApsAmga Group, carried out during the previous year.
Requests for new water and sewerage connections remained stable.
Capital grants amounting to € 7.8 million included € 4.1 million deriving from the tariff component called for by the New Investments Fund (FoNI) tariffary method and fell by € 11.0 million compared to the previous year, mainly due to the portion concerning work done on the Servola purifier.

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

Significant operating investments made in the aqueduct, sewerage and purification

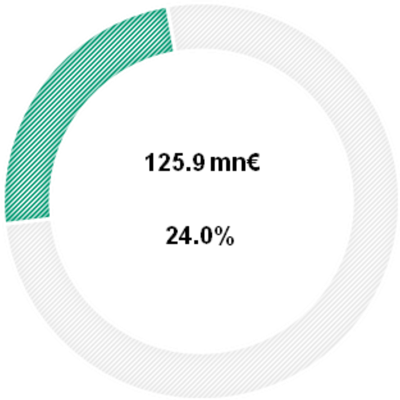
Integrated water cycle (mn€)	June 18	June 17	Abs. Change	% Change
Aqueduct	33.2	27.8	+5.4	+19.4%
Purification	11.2	23.2	-12.0	-51.7%
Sewerage	22.6	17.3	+5.3	+30.6%
Total integrated water cycle gross	**66.9**	**68.2**	**-1.3**	**-1.9%**
Capital grants	7.8	18.8	-11.0	-58.5%
of which FoNI (New Investments Fund)	*4.1*	*2.7*	+1.4	+51.9%
Total integrated water cycle net	**59.1**	**49.5**	**+9.6**	**+19.4%**

1.02.04
Waste management

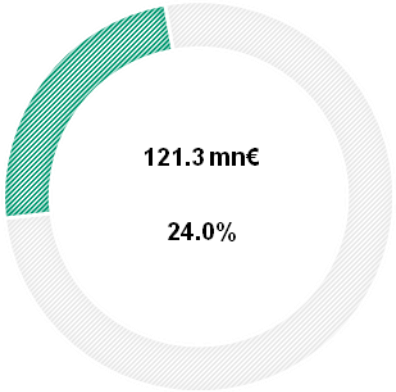
In June 2018 the waste management area accounted for 24.0% of Group Ebitda, with an area Ebitda increasing over the first half of 2017. As regards waste treatment, the initiatives pursued were aimed at recovering material and increasing energy efficiency, in particular launching the Sant'Agata Bolognese biomethane production plant and proceeding with the full activity and growth of Aliplast, which represents the key element able to bring circular economy to completion. Attention towards a sustainable and efficient development of the entire path followed by waste in the areas served by the Group was confirmed by figures including a higher level of sorted waste, which settled at 59.8%, as will be discussed below. Lastly, the first half of 2018 saw a confirmation of the Group's commitment to reinforcing its position as market leader through both developing precise and focused marketing initiatives intended to broaden its customer portfolio and by maintaining a continuous presence in calls for tenders.

Ebitda increases

Waste management Ebitda 2018



Waste management Ebitda 2017



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

(mn€)	June 18	June 17	Abs. Change	% Change
Area Ebitda	**125.9**	**121.3**	**+4.6**	**+3.8%**
Group Ebitda	523.6	505.9	+17.7	+3.5%
Percentage weight	24.0%	24.0%	+0.0 p.p.	

+3.8% growth in Ebitda

Volumes marketed and treated by the Group in the first half of 2018 are as follows:

Quantitative data (mgl/t)	June 18	June 17	Abs. Change	% Change
Municipal waste	1,120.2	1,131.2	-11.0	-1.0%
Commercial waste	1,177.5	1,136.6	+40.9	+3.6%
Waste marketed	**2,297.6**	**2,267.9**	**+29.7**	**+1.3%**
Plant by-products	1,560.9	1,303.0	+257.9	+19.8%
Waste treated by type	**3,858.6**	**3,570.8**	**+287.8**	**+8.1%**

Commercial waste +3.6%

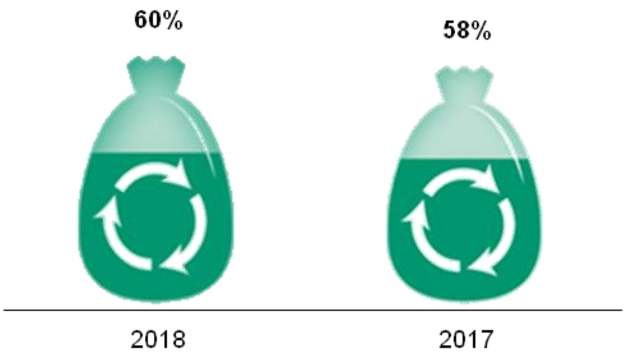
As of 2018, municipal waste also includes some types of waste previously classified as commercial waste. The data for municipal and commercial waste in the first half of 2017 has been restated so as to reflect the classification used for the current year.

An analysis of the volumes treated shows a 1.3% growth in waste marketed, mainly due to a rise in commercial waste coming to 3.6%, offsetting the slight drop in municipal waste. The increase in volumes of commercial waste is a result of a rise in intermediation operations.

Municipal waste fell slightly, while plant by-products rose thanks to an increased production of leachate in landfills due to the higher amount of rainfall seen in the first half of 2018 compared to the same period in 2017.

Sorted urban waste showed further progress, going from 58% in the first half of 2017 to 60% in the same period of the current year. In June 2018, sorted waste increased by 1.7% in areas served by Hera Spa and by 11.4% in areas served by Marche Multiservizi Spa, while in the Triveneto region growth settled at 1.0%.

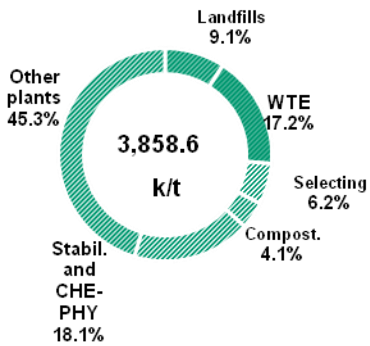
Sorted waste (%)



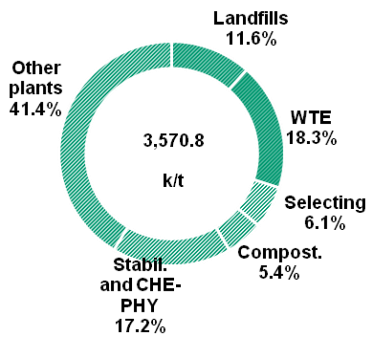
+2.0 p.p.
sorted waste

Decrease in the use of landfills

Waste disposed of by type of plant in June 2018



Waste disposed of by type of plant in June 2017



Quantitative data (k/t)	June 18	June 17	Abs. Change	% Change
Landfills	353.0	414.3	-61.3	-14.8%
Waste-to-energy plants	662.4	653.5	+8.9	+1.4%
Selecting plants and other	240.3	218.9	+21.4	+9.8%
Composting and stabilisation plants	158.9	192.8	-33.9	-17.6%
Inertia and chemical-physical plants	696.8	613.6	+83.2	+13.6%
Other plants	1,747.3	1,477.6	+269.7	+18.3%
Waste treated by plant	**3,858.6**	**3,570.8**	**+287.8**	**+8.1%**

The Hera Group operates in the entire waste cycle, with 89 plants used for municipal 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.

Waste treatment showed growth coming to 8.1% over the first half of 2017. Note in particular the lower quantity disposed of in landfills, while in the chain of waste to energy plants the quantity treated was essentially in line with the previous year, showing a slight 1.4% increase. The increased quantity in selecting plants is due to the higher quantity treated, mainly in the Castiglione delle Stiviere plant. The lower quantity in composting and stabilisation plants is mainly due to planned maintenance in some plants for regulatory upgrading. The higher quantity in stabilisation and chemical-physical plants can be traced to the increase in leachate in landfills due to a rise in the amount of rainfall. Lastly, subcontracted and other plants benefitted from the higher quantities treated by Waste Recycling and from an increase in by-products treated in subcontracted plants.

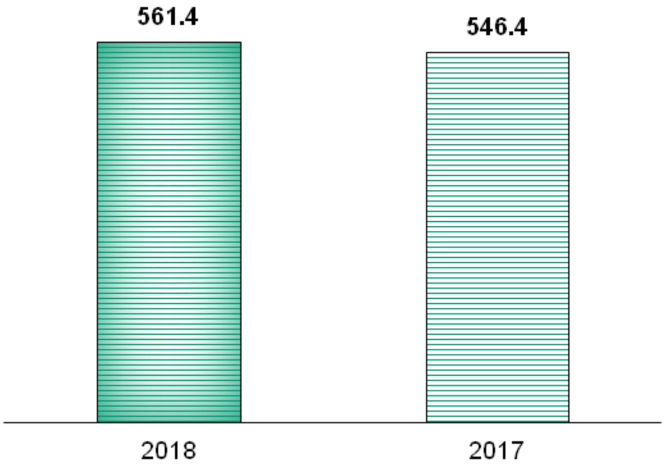
The table below summarises the area's operating results:

Ebitda rises

Income statement (mn€)	June 18	Inc. %	June 17	Inc.%	Abs. Change	% Change
Revenues	561.4		546.4		+15.0	+2.7%
Operating costs	(338.6)	-60.3%	(325.5)	-59.6%	+13.1	+4.0%
Personnel costs	(100.9)	-18.0%	(102.5)	-18.8%	-1.6	-1.6%
Capitalised costs	3.9	0.7%	2.9	0.5%	+1.0	+34.2%
Ebitda	**125.9**	**22.4%**	**121.3**	**22.2%**	**+4.6**	**+3.8%**

Revenues in June 2018 rose by 2.7% or € 15.0 million, going from € 546.4 million at 30 June 2017 to € 561.4 million at the same date in 2018. This change is due to the positive trend seen in the price of special waste and an expansion of the industrial customer portfolio, which offset the fall in volumes treated, the lower revenues from electricity production and the termination of municipal waste services in 13 Forlì-area Municipalities as of 1 January 2018.

Revenues (mn€)



561.4

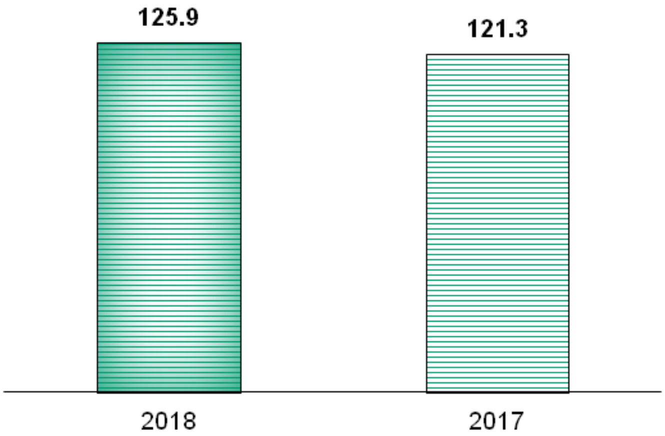
million in waste revenues

Operating costs rose by 4.0% or € 13.1 million in 2018, going from € 325.5 million at 30 June 2017 to € 338.6 million at the same date in 2018. This change is due to higher costs in the waste treatment business due to a development of upgrading activities and subcontracting by-products, and in municipal waste to developing new projects for sorted waste. The change was offset by lower costs for services and maintenance of Wte plants and lower costs tied to the aforementioned Forlì area.

The cost of personnel, not including the transfer of resources for collection in the Forlì area, as mentioned above, dropped slightly by 0.6%.

Ebitda went from € 121.3 million in the first half of 2017 to € 125.9 million in the same period in 2018, showing growth amounting to € 4.6 million or 3.8%. This change was sustained by higher prices for special waste treatment, which proved able to more than offset the slight fall seen in prices/incentives for electricity and the exclusion of Forlì from the scope of collection and sweeping activities.

Ebitda (mn€)



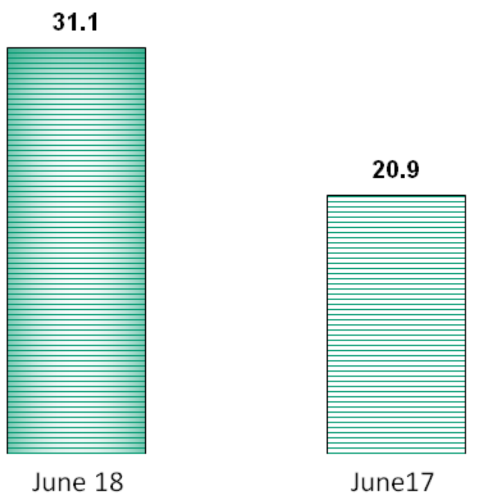
125.9

million waste management Ebitda

Net investments in the waste management area concerned plant maintenance and upgrading and amounted to € 31.1 million, up € 10.2 million over the first half of the previous year.
The composter/digester sector showed a sharp increase in investments amounting to € 9.7 million, mainly due to interventions on the Sant'Agata Bolognese composter involved in creating the biomethane plant.
The decrease in investments in landfills, coming to € 0.7 million, is mainly due to the work done in 2017 towards creating the 9th sector of the Ravenna landfill, compared to new interventions on the Cordenons plant and others with a lower overall value.

The Wte plants sector saw a € 0.9 million increase, mainly due to work done on the Padua plant, which was not entirely offset by the less significant interventions on the Pozzilli, Rimini and Modena plants.
Increased investments in the Special waste plants sector were due to maintenance interventions on the Ravenna plants.
The ecological islands and collection equipment sector showed higher investments coming to € 1.0 million, mainly in the areas served by Hera Spa, while the € 1.1 million decrease in the selection and recovery sector is largely explained by lower investments in the Aliplast Group, due to the significant interventions carried out the previous year on the company Alimpet Srl's Pet line, not entirely offset by higher investments made in the same sector of the company Waste Recycling Spa.

Net investments waste management (mn€)



31.1
million net investments in waste management (+10.2 million)

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

Waste management (mn€)	June 18	June 17	Abs. Change	% Change
Composting/digestors	13.0	3.3	+9.7	+293.9%
Landfills	3.5	4.2	-0.7	-16.7%
WTE	4.4	3.5	+0.9	+25.7%
RS Plants	1.0	0.7	+0.3	+42.9%
Ecological areas and gathering equipment	3.1	2.1	+1.0	+47.6%
Transshipment, selection and other plants	6.1	7.2	-1.1	-15.3%
Total Waste management gross	**31.1**	**20.9**	**+10.2**	**+48.8%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total Waste management net	**31.1**	**20.9**	**+10.2**	**+48.8%**

Operating investments increase

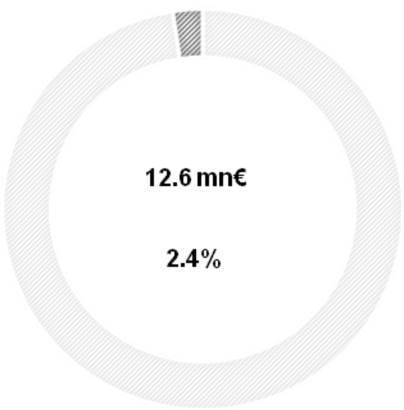
1.02.05

Other services

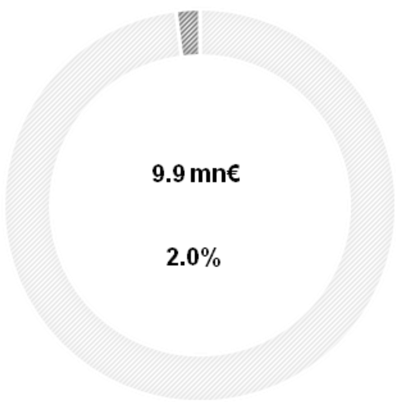
The other services area brings together all minor businesses managed by the Group, including public lighting, telecommunications and cemetery services. In the first six months of 2018, this area's results increased by 27.3% over the previous year, with Ebitda indeed going from € 9.9 million in the first half of 2017 to € 12.6 million in the same period of 2018.

Ebitda rises

Other services Ebitda 2018



Other services Ebitda 2017



The changes occurred in terms of Ebitda are as follows:

(mn€)	June 18	June 17	Abs. Change	% Change
Area Ebitda	**12.6**	**9.9**	**+2.7**	**+27.3%**
Group Ebitda	523.6	505.9	+17.7	+3.5%
Percentage weight	2.4%	2.0%	+0.4 p.p.	

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

Quantitative data	June 18	June 17	Abs. Change	% Change
Public lighting				
Lighting points (k)	526.8	509.6	+17.2	+3.4%
of which led	13.5%	7.2%	+6.3 p.p.	
Municipalities served	166.0	162.0	+4.0	+2.5%

526.8 thousand lighting points

An analysis of the data regarding public lighting shows a growth of 17.2 thousand lighting points and an increase of 4 municipalities served. During the first six months of 2018, The Hera Group acquired roughly 26 thousand lighting points in 9 new municipalities. The most significant of these were: roughly 6 thousand lighting points in Abruzzo, roughly 3 thousand lighting points in Lazio, roughly 9 thousand lighting points in the Triveneto region, mainly in the provinces of Udine and Venice, and more lighting points managed in the municipalities already served. The increases seen during the year more than offset the loss of roughly 9 thousand lighting points and 5 municipalities managed, mainly in the provinces of Forlì and Padua. The percentage of lighting points that use led light bulbs also increased, settling at the end of the first six months of 2018 at 13.5%, up 6.3%. This change reflects the constant attention shown by the Group towards an increasingly efficient and sustainable management of public lighting.

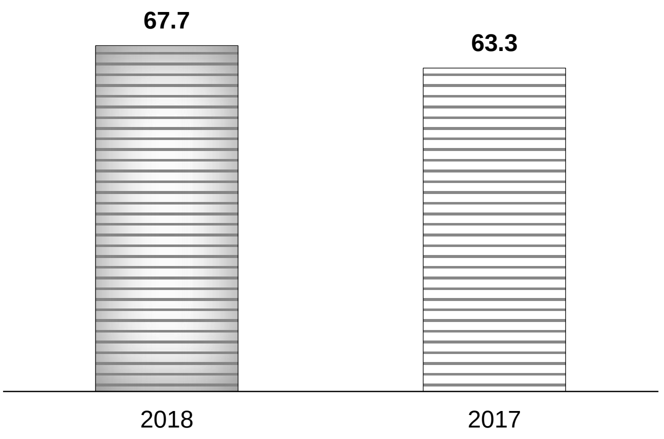
The area's operating results are provided in the table below:

Area grows

Income statement (mn€)	June 18	Inc. %	June 17	Inc.%	Abs. Change	% Change
Revenues	67.7		63.3		+4.4	+7.0%
Operating costs	(46.2)	-68.2%	(44.4)	-70.2%	+1.8	+4.1%
Personnel costs	(10.2)	-15.0%	(10.2)	-16.1%	+0.0	+0.0%
Capitalised costs	1.2	1.8%	1.2	1.9%	+0.0	+0.0%
Ebitda	**12.6**	**18.6%**	**9.9**	**15.6%**	**+2.7**	**+27.3%**

Area revenues increased over June 2017 by € 4.4 million, going from € 63.3 million to € 67.7 million in June 2018. This growth is due to the positive contribution coming from both public lighting, whose revenues increased by roughly € 2.0 million due to the good result of participation in public tenders, and telecommunications, whose revenues rose thanks to a higher amount of external commercial collaborations and the contribution coming from the digitalisation and innovation processes implemented by the Hera Group.

Revenues (mn€)

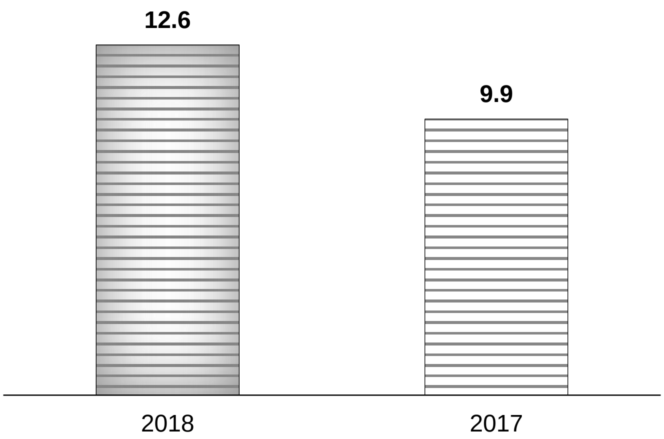


67.7

million other services revenues

Ebitda showed a € 2.7 million increase over the first half of 2017. This change was due to higher income from public lighting and telecommunications services.

Ebitda (mn€)

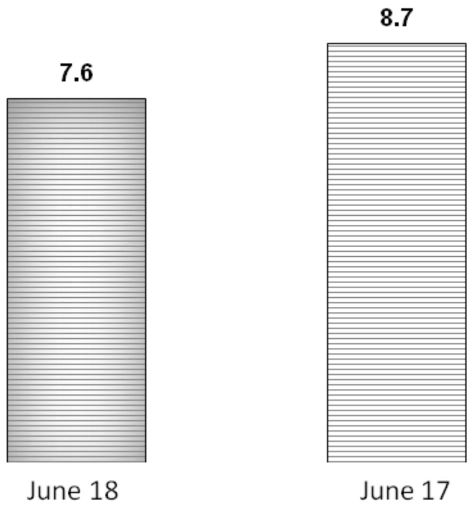


12.6

million other services Ebitda

Investments in the other services area came to € 7.6 million, falling by € 1.1 million compared to the same period in the previous year.
Investments coming to € 4.3 million were made in telecommunications, involving networks and Tlc and Idc (Internet data centre) services, down € 0.7 million compared to the first half of 2017, while the € 3.3 million of investments in the public lighting service concerned maintenance, upgrading and modernising lampposts in the areas served, showing a € 0.4 million decrease.

Net investments other services (mn€)



7.6

million net investments other services

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

Other Services (mn€)	June 18	June 17	Abs. Change	% Change
Tlc	4.3	5.0	-0.7	-14.0%
Public lighting and traffic lights	3.3	3.7	-0.4	-10.8%
Total Other services gross	**7.6**	**8.7**	**-1.1**	**-12.6%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total Other services net	**7.6**	**8.7**	**-1.1**	**-12.6%**

1.03
Significant events occurred during the reporting period

Blu Ranton Srl

February

On 7 February 2018, Hera Comm Marche Srl completed its purchase of 100% of the share capital of Blu Ranton Srl, a company operating in the sector of electricity and gas sales, with roughly 15,000 gas customers and 700 electricity customers served in the areas surrounding Teramo, Macerata and Pescara.

Marche Multiservizi Spa

March

On 7 March 2018, the Shareholders Meetings of Marche Multiservizi Spa and Megas. Net Spa approved a project for merging the latter into Marche Multiservizi Spa. At a later date, and effective as of 1 June 2018, the aforementioned merger was completed, with Marche Multiservizi Spa's share capital increasing from € 13,484,242 to € 16,388,535. This operation is part of a larger framework of rationalising corporate holdings in the Province of Pesaro-Urbino and the municipalities of this area.

SangroServizi Srl

On 20 March 2018, Hera Comm Srl, after winning the public auction announced by the Municipalities of Atessa, Paglieta and San Vito Chietino, acquired from the latter 49% of the share capital of SangroServizi Srl, a company operating in sales of natural gas, electricity and other energy products, with roughly 7,000 gas customers served in the Province of Chieti.

Medea Spa

April

In fulfilment of the binding agreement signed on 21 December 2017, Hera Spa transferred to Italgas Reti Spa its entire holding in Medea Spa on 6 April 2018.

Amga Energia & Servizi Srl – Hera Comm Srl

June

On 9 May 2018 and on 20 June 2018, the Boards of Directors of Hera Comm Srl and Amga Energia & Servizi Srl respectively approved the project for merging the latter into Hera Comm Srl, which already holds its entire share capital, effective as of 1 October 2018.
This process of corporate aggregation is part of a larger project aimed at integrating the Group's sales companies within Hera Comm Srl.

Verducci Servizi Srl – Hera Comm Marche Srl

On 18 June 2018 the Boards of Directors of Hera Comm Marche Srl (84% Hera Comm Srl) and Verducci Servizi Srl approved the project for merging the latter into Hera Comm Marche Srl, which already holds its entire share capital, effective as of 1 October 2018.
This transaction is aimed at integrating two companies that operate in the same economic sector, natural gas sales to final customers, and is part of the larger framework consisting in corporate aggregation operations moving towards Hera Comm Srl and its subsidiaries.

Gran Sasso Srl – Hera Comm Marche Srl

On 18 June 2018 and on 22 June 2018, the Boards of Directors of Hera Comm Marche Srl and Gran Sasso Srl respectively approved the project for merging the latter into Hera Comm Marche Srl, via a transfer from Hera Comm Srl to Hera Comm Marche Srl of its entire shareholding in Gran Sasso Srl.
This latter operation, which will be effective as of 1 October 2018, is also intended to rationalise Group companies operating in the same economic sector, natural gas sales to final customers.

Significant events occurred following the reporting period

Alipackaging Srl – Aliplast Spa

On 13 July 2018, the merger by incorporation of Alipakaging Srl into Aliplast Spa, which already held its entire share capital, was completed.
This transaction was intended to concentrate purchasing and sales of plastic materials for packaging within the acquiring company.

Cerplast Srl/Variplast Srl/Umbroplast Srl – Aliplast Spa

On 25 July 2018 the Boards of Directors of Aliplast Spa and Cerplast Srl, Variplast Srl and Umbroplast Srl approved the project for merger by incorporation of the latter into Aliplast Spa, which will be effective as of 1 January 2019.
This transaction was intended to concentrate the collection, management and selection of plastic materials for packaging within the acquiring company.

Ghirlandina Solare Srl

On 24 July 2018, the transfer of the shares held by Hera Spa in Ghirlandina Solare Srl, a company operating in the renewable energies sector, amounting to 33.33% of the share capital, was completed.

1.04
Share performance and investor relations

Financial markets showed opposing trends in the first half of 2018, with positive phases supported by optimism as to the prospects for global growth alternating with moments dominated by investors showing concern due to the emergence of geopolitical risk factors. In the wake of the positive close to 2017, 2018 initially got underway with a general rise in all global stock market indexes. As of the month of February, expectations for an increased inflation rate, sustained among other things by the substantial fiscal measures introduced by the American government, led to a abrupt change in the approach of financial operators, whose evaluations began to take into account a more rapid retreat from the central banks' expansive monetary policies. The good results reported by listed companies, which in most cases exceeded expectations, then guided the rebound in stock prices seen in March and April, followed by an intensification in the trade war between the United States and China, which led to a new drop in market quotations.

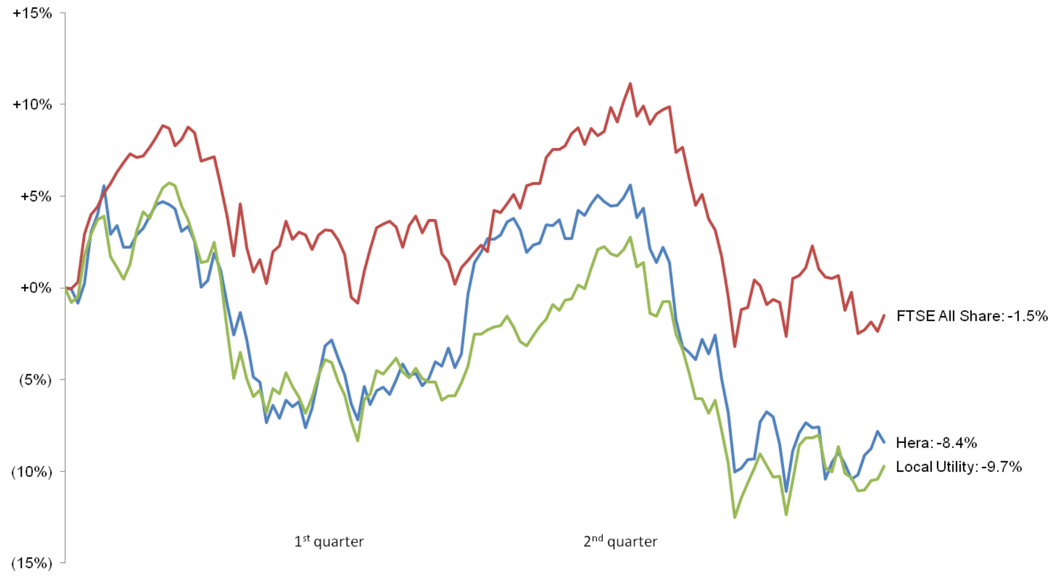
Opposing trends seen on global markets due to geopolitical uncertainties

Towards the end of the first half-year, the Italian market experienced a phase of higher volatility than other global stock markets, as a consequence of the Italian political scenario and uncertainty as to the new government's economic policy. In this situation, investors chose to disinvest in Italian government bonds, with clear repercussions affecting those companies most closely tied to the national economy (such as utilities and banks).

In this context, Hera stock closed the period with an official price of € 2.683, showing a trend similar to its reference sector but with a superior performance, that benefitted from both the clear growth strategy included in the business plan to 2021, presented to the financial community in the months of January and February in an international road show, and from the validity of its fundamental structure as confirmed by the publication of its annual financial report in March and its first-quarter results in May.

Increase in country risk underlies utility performances

1-H 2018 Hera stock, local utility sector and Italian market performance comparison



On 18 June, in line with the indications contained in the business plan, Hera paid a dividend coming to 9.5 cents per share, the sixteenth in a series of uninterrupted increase since being listed.

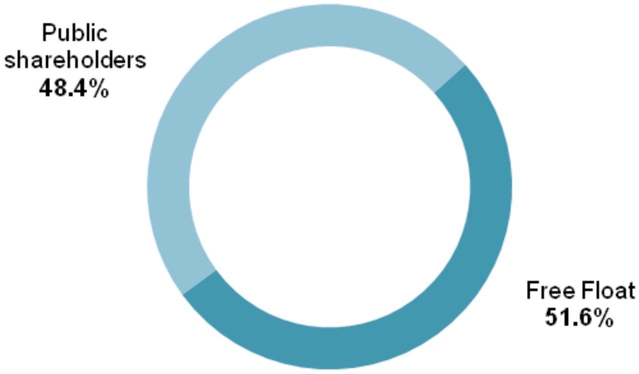
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Dps	0.04	0.05	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095

The joint effect of the continuous payments made to shareholders through dividends and an increase in the price of the stock allowed the total shareholders' return accumulated since the company was initially listed to remain positive once again and to settle, at the end of the period in question, at over +213%.

+213%: total shareholders' return since the Ipo

The financial analysts covering the company (Banca Akros, Banca IMI, Equita Sim, Fidentiis Equities, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) expressed a clear prevalence of positive judgements, with almost all recommendations defined as buy/outperform. At the end of the period in question, the consensus target price came to € 3.36 euro, higher than the € 3.15 recommended at the end of 2017.

Breakdown of Group Shareholders at 30 June 2018



At 30 June, 48.4% of the corporate structure consisted of shares belonging to 107 public shareholders located across the geographical areas served and regulated by a stockholders' agreement, signed on 26 June 2018 and in force for three years, while 51.6% of the shares were floating.

48.4% of share capital pertains to the public shareholders agreement

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders Meeting of 26 April 2018 for 18 further months, for an overall maximum amount of € 200 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 of 2018, Hera held 22.9 million treasury shares.

After the publication of the new 2017-2021 business plan, Hera's top management engaged in a road show covering the main European and North American financial markets to illustrate the Group's growth targets to investors. This commitment to accurate communication, which was followed by participation in sector conferences, proved to have a positive effect on the stock's performance in the period in question.

Communication with the market as an intangible asset

The intense dedication shown by the Group towards dialoguing with investors contributed to reinforcing its market reputation and represents an intangible asset benefiting Hera stock and stakeholders.

1.05
Reference scenario and Group strategy

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

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

In gas distribution, for example, tenders for renewing grants are foreseen within the next five years across the entire country. These competitive procedures have been designed to promote greater consolidation among operators, while at the same time favouring the more efficient ones and those able to sustain wide-reaching investment plans. The areas concerned by the tenders have in fact been geographically widened, now covering provinces instead of municipalities, as was previously the case. It follows that, according to estimates made by sector professionals, a reduction should be seen in the number of companies, from over two hundred to twenty or thirty.

In late 2017, the government also established that regulations for the waste management sector were to pass over to the Authority for electricity, gas and the water service, which was thus renamed as the Regulatory authority for energy, networks and the environment (Arera, Autorità di regolazione per energia reti e ambiente). With this reform, the executive branch expects a higher degree of uniformity to be reached in tariffs and service quality nationwide, for example by defining the mechanisms used in tenders for granting concessions for street cleaning and urban waste collection. Thanks to this change, similar to the one introduced for water services, the government aims at achieving, over the medium term, a rationalisation of this sector, which is currently the only one lacking modern and rational regulations.

In liberalised businesses, the government's objective is to promote a higher level of market competition, to the advantage of end consumers. To this intent, a prediction for the complete liberalisation of the electricity market as of 1 July 2019 was included in the 2017 Competition Bill. At present, roughly 20 million users have not yet chosen a free market energy supplier. Launching this process thus represents an opportunity to stimulate competition and give space to companies with the best service levels and the largest scale economies.

Hera's model of aggregation

In this context, marked in all sectors by various factors encouraging the consolidation of smaller businesses, Hera operates with a development model that is geared towards making the most of scale economies and synergies (internal growth) and expanding the geographical extent of its own operations (external growth), by integrating sector enterprises. Since its establishment, 25 companies in bordering regions have been merged, allowing Hera to achieve nationally significant market positions and quintuple its Ebitda. This process has been favoured among other things by an amply diversified corporate structure that entrusts the Group's management to a governance inspired by an industrial and managerial type of rationale.

Hera grows in more than one direction

The results for the first half of 2018 also bear the mark of this strategic approach. In the energy sales business, Hera Comm Srl, the Group's trading company, completed its acquisition of a Blu Ranton Srl, a gas and electricity sales company operating in the Marche and Abruzzo regions with roughly 17,000 customers. Thanks to this transaction, which follows up on others completed over the last three years (Verducci Servizi Srl, Alento Gas Srl, Julia Servizi Più Srl, Fucino Gas Srl and Gran Sasso Srl), the Group is now the one of the foremost operators in these regions, with approximately 225,000 customers. In the same period, a customer portfolio was purchased from Eni in the province of Gorizia, where the group already provides gas and electricity distribution services.

Internal growth was pursued as usual, by extracting efficiencies and synergies from the businesses managed, in line with the track record seen over the last five years, during which roughly 90 million euro in accumulated savings were recorded. This result was partially obtained thanks to the development of a few innovative projects, such as satellite searches for leakage in the water network or the digitalisation of the process of urban waste collection (HergoAmbiente project). Continued growth was furthermore seen in free markets, where a wider customer base was obtained through commercial actions and an enlargement of the regions involved in last resort services. 2018 is in fact the second year of the two-year grants in safeguarded electricity and default gas services, which the Group had been awarded in late 2016, gaining national co-leadership.

The Group's growth strategy, effectively and continuously pursued in the first half of 2018 as well, maintained a perfect balance between regulated and liberalised activities in its core businesses. This balanced portfolio mix heralds the sustained presence of a high risk diversification.

The new business plan to 2021

In early January 2018 the new business plan to 2021 was presented, the fifteenth since the Group's establishment, geared towards further growth. Thanks to a macroeconomic scenario expected to improve and the development opportunities offered by the rationalisation of the sector, Ebitda is expected to grow by 218 million euro, reaching in 2021 the target of 1.135 billion euro, higher than the one set down in the previous plan. Relying on the Group's current market position and the availability of accumulated financial resources, growth will also be fuelled by an ambitious investment program coming to roughly 2.9 billion euro, with a sharp acceleration (+62%) compared to the investments made in the last five years. The Group's strategy, indeed, calls for an efficient allocation of capital, fully financed by cash generation and largely dedicated to networks, which will allow the Group to conserve its current low risk profile.

The objective of maintaining financial solidity was also confirmed, with a target of a 2.9 net debt to Ebitda ratio. The 17% increase in dividends per share, to be implemented progressively until 2021, in any case leaves ample room with which to finance any possible opportunities for future growth.

Confirming the content of the previous business plan, this strategy will be supported by the usual five development levers: growth, efficiency, innovation, excellence and agility. This orientation, which has already proven its validity in recent years, is at the root of all projects envisaged for the next four years, which match the main directions in which the sector is evolving: circular economy, utility 4.0 and customer experience.

Circular economy

The strategy through to 2021 also proves to be in line with the idea of a circular economy, pushing sustainable management beyond simply reusing and recycling materials coming from sorted waste. The Group, that in this area has already reached the targets set by supranational organisations (EU and UN) well ahead of time, will take a decisive step in the upcoming five-year period and become able to directly produce goods that can be relocated on the market, through the use of recycled materials.

Utility 4.0

The Group furthermore intends to move towards utility 4.0, through the use of digital technologies in all its business areas. Smart networks, big data analysis and the internet of things indeed represent opportunities to have the processes and infrastructures managed more efficient and concretely contribute to a smart development of the cities served.

Customer experience

A great deal of attention is also expected to be given to customer experience and all related activities, which lead customer relations management tools to evolve. The target is an ever-increasing capacity and speed in big data analysis in order to provide a structure for strategies aimed at improving the quality of the services offered, as well as to define the marketing offers that best meet customer requests.

Creation of shared value

The plan presents targets and projects that the Group wishes to pursue in a sustainable way, creating value for all stakeholders. The first to do so in Italy, in 2017 Hera reported its creation of shared value (Csv). This indicator calculates the Group's EBITDA deriving from activities in line with the global objectives set out in the UN Agenda and, more specifically, those that meet the call to action of 10 of the 17 points presented, i.e.: efficient use of resources, intelligent use of resources, innovation and territorial development. In the previous financial year (2016), Csv accounted for roughly 30% of Group Ebitda, and this amount is expected to rise to 40% in 2021, considering that two thirds of the growth foreseen in the plan is related to projects aligned with the UN's Global Agenda.

1.06

Macroeconomic context and focus on the oil, gas and electricity sector

The macroeconomic context

Following a period of modest growth, the world economy is now developing once again at a yearly rate of roughly 4%, thanks to a recovery in investments and global trade. Furthermore, the growth that has been consolidating in recent years should be less dependent on monetary incentives and more closely tied to structural and fiscal interventions. In its most recent outlook, the Organisation for Economic Cooperation and Development (OECD) expected growth rates in the United States to settle at approximately 3% as early as 2018, with an improvement over 2017 coming to more than 0.5%. In Asia, instead, the gradual drop in the rate of Chinese growth towards 6% per year is being counteracted by an improvement in the Indian economy.

In the euro area, 2018 should close with reduced growth in Gross Domestic Product (GDP), that will fall towards 2%, with a 0.5% drop compared to 2017. An expansion in economic activity will in any case be guided by gross fixed investments, supported by credit market conditions that remain favourable and by a constant but minor increase in private consumer spending. The European Central Bank (ECB) recently recognised the recovery in inflation, even while seeing growth in the euro area as still weak and fragile. Within the end of the year government bond purchasing will therefore be suspended, but interest rates will be kept low in order to continue pursuing an accommodating monetary policy. Political tensions within the European Union (Brexit and other factors), along with the global spread of protectionist measures, could prove to be a source of further weakness in the eurozone.

In line with its estimates for the eurozone, the OECD’s outlook for Italy expects growth to lose speed in 2018. The Bank of Italy’s most recent economic bulletin also foresees growth in GDP to come to +1.3% in 2018 and to be further reduced in 2019. Indeed, in the first half of 2018 the Italian economy’s expansion continued while showing, however, signs of a slowdown in industrial production. Furthermore, exports felt the effects of the decrease in global trade, with sales abroad dropping in the first quarter after the significant rise seen in 2017.
Employment reached figures close to those seen in 2008, with a general rise in both fixed-term and permanent contracts and a gradual fall in the youth unemployment rate.
Inflation showed signs of recovery in Italy as well, driven by a rise in the price of energy commodities. Nevertheless, excluding the portion due to energy, consumer prices showed a slight rise over the first six months of the year, in line with trends seen in the eurozone and the expectations of the ECB (objective set at 2%).
However, a certain degree of uncertainty as to the outlook of our country persists, as is reflected by the rate of return on government bonds: following the recent national elections, the Italian government bond market was repeatedly volatile and the return on 10-year treasury bills increased by over 50 bps compared to the period prior to the election.

The context in terms of competition

The utility sector’s competitive scenario in the first half of 2018 confirmed the evolution seen in late 2017, with the dynamics of competition becoming more intense in both regulated and liberalised sectors.
Regarding regulated sectors, in the first half of 2018 the initial procedure for awarding gas distribution services in Italy came to a conclusion. This having been achieved, a path could now be opened towards a more general evolution of the sector, with public bids being called and various “gas tenders” coming to a close in the next few years.
Once again referring to competition in the regulated services market, bids have been called and offers have been made for the first tenders for assigning urban hygiene services in a few areas of the Emilia-Romagna region.

1.07
Regulatory framework and regulated revenues

Relevant legislation

Among the legislative measures introduced in the first half of 2018 with the greatest consequences for the Hera Group, particular attention must be given to the Inter-ministerial decree promoting the use of biomethane and advanced biofuel in the transportation sector, and the Ministerial decree correcting the system of energy efficiency certificates (TEEs). Mention must also go to the law postponing the deadline for appointing the board of the Regulatory authority for energy, networks and the environment (Arera).

Inter-ministerial biomethane decree

The inter-ministerial decree entitled "Promotion of the use of biomethane and other advanced biofuels in the transportation sector" of 2 March 2018 introduced incentivising mechanisms that will give a number of biofuel emission for consumption certificates (CICs) to producers of biomethane introduced into the natural gas network and used for transportation in Italy. If the biomethane is produced from specific raw materials, including the organic portion of solid urban waste (Forsu) and agricultural residues, it may be qualified as advanced biomethane; in this case, the following incentives are applied: an increase that allows twice the amount of CICs to be received from the Energy services manager (Gse), that pays producers the average price seen on the gas market the previous day, reduced by 5%, and a sum amounting to € 375 for each CIC to which the plant would be entitled. These incentives will be applied to biomethane production coming from plants that become operative within 31 December 2022, and will last for a maximum period of 10 years from the effective date of the incentive.

Ministerial decree correcting the energy efficiency certificate (Tee) system

Ministerial decree 10 May 2018 came into force on 11 July 2018, introducing changes into the guidelines for energy efficiency certificates published the previous year (Decree 11 January 2017). The content of this regulatory intervention, which was required to impose controls on the prices for certificates in 2017, is applied to both supply and demand. As regards supply, the "additionality" principle for substitution interventions was eliminated and a few further types of admissible interventions were introduced, in particular for the industrial sector. Furthermore, the first standard forms linked to the 2017 Guidelines were issued. Concerning demand, created by legal obligations, the period in which remaining obligations may be recovered was once again set at two years, and subjects having obligations were given the possibility to request that the Gse issue certificates not corresponding to actual energy savings, to avoid suffering sanctions if they are unable to obtain a sufficient amount of certificates on the market. These certificates will be issued at a price per unit equivalent to the difference between € 260 and the amount of the tariffary contribution set for the year of the obligation. As a parallel measure, beginning on 1 June a limit per unit coming to € 250 was introduced for the tariffary contribution covering the costs incurred for introducing interventions or acquiring white certificates.

Arera Board extension

On 8 June 2018, law 31 May 2018 no. 64 "Conversion into law, with amendments, of decree law 10 April 2018 no. 30, containing urgent measures to ensure the continuity of the Regulatory authority for energy, networks and the environment" was published in the national Official Gazette. The current Board, whose mandate expired on 11 February 2018, has been operating since that date under an extension. The law foresees that the members of the Authority shall continue to carry out their duties, limited to ordinary administration and actions that cannot be postponed and are urgent, until the new members are appointed, which shall come about no later than the ninetieth day after the new government was sworn in, and therefore no later than 29 August 2018.

Gas, electricity, integrated water service and district heating regulations

Owing to the aforementioned extension, a relatively limited amount of regulations were produced in the first half of 2018. Among the most notable to be introduced, however, mention must go to: the measures intended to initially implement the 2018 budget bill as regards a two-year time limit for supply contracts; a mechanism for enforcing standard credits concerning general system charges for distributing companies and a similar consultation for sales companies; the initial procedure aimed at revising current regulations for Last resort services (Sui) in the natural gas sector; the approval of the Consolidated text for regulating the criteria defining connection fees for district heating networks and the ways in which users may exercise the right of withdrawal (Tuar); lastly, interventions aimed at completing water regulations as regards arrearage and social bonuses.

Two-year invalidity as per Law 205/2017 and so-called "super-bills"

With resolution 97/2018/R/com, the Authority defined the measures for an initial implementation of law no. 205/2017 (2018 Budget Bill), which introduced regulations protecting consumers as regards balance invoicing for the supply of energy and water services, foreseeing in particular a two-year time limit for supply contracts regarding household customers and small businesses, beginning on 1 March 2018 for electricity, 1 January 2019 for the gas sector and 1 January 2020 for water services. More specifically, resolution 97/2018/R/com established that the seller is required to inform the end customer, at least 10 days prior to the deadline for payment, of the possibility of contesting the invalidity of credits dating to over two years before the deadline, as well as the right not to pay the sums invoiced in the event that data measured more than two years previously is rectified. With resolution 264/2018/R/com, the Authority later intervened to settle additional aspects regarding application along the supply chain, establishing in particular that the seller, in cases of missing payments due to an invalidity contested by the end customer, and concerning balance payments deriving from rectifications introduced by the distributor, is entitled to request that the distributor correspondingly redefine the amount to be paid and return any excess sums that may have been paid.

Mechanisms for noting general system charges that cannot be collected from electricity distribution and sales companies

With resolution 50/2018/R/eel and Consultation document (hereinafter Dco) 52/2018/R/eel, the Authority completed temporary regulations concerning the recovery of general system charges in the electricity system. More specifically, with resolution 50/2018/R/eel the Authority defined the mechanisms for noting payments towards distributors concerning sums that cannot be collected from traders involving general system charges, sums that distributors have regularly paid to the Fund for energy and environmental services (hereinafter Csea) and the Energy services manager (Gse), while with Dco 52/2018/R/eel the Authority opened consultation for proposals for paying to sellers those general system charges regularly paid to distributors and which cannot be collected from end customers. This mechanism is aimed at paying credits which could not otherwise be collected and are involved in transactions beginning from 1 January 2016, and calls for a request for participation to be presented to the Csea. Resolution 50 foresees that each distributor participate in the mechanism in relation to the credits accrued but not collected concerning transportation contracts annulled for non-fulfilment at least six months priorly. The first yearly session for paying the abovementioned charges will come to an end on 30 July 2018.

Proposed amendment to regulations for last resort natural gas services

As regards the end of protected prices in the electricity and gas sectors, which will come about on 1 July 2019, the Authority has launched a procedure (resolution 336/2018/R/gas) aimed at revising current regulations for Last resort services (Sui) in the natural gas sector. This procedure involves interventions intended to offer operators a required certainty as to the duration and the conditions in which said services can be offered and to define regulations for the fulfilment of public tender procedures used to select last resort suppliers (Fui) and sellers managing activities involved in regulating gas orders within the default service (Fdd), beginning on 1 October 2018. At the same time, the Authority published a consultation document (Dco 337/2018/R7gas) that proposes changes concerning the service's duration (annual, coinciding with the thermal year) and geographic areas, the structure of the price offered, a reduction in informational unbalance in favour of operators participating for the first time in the tender, and the mechanism responsible for reintegrating charges in arrears.

District heating: approval of consolidated text (TUAR) concerning connection fees and right of withdrawal

With resolution 24/2018/R/tlr, the Authority approved the "Consolidated text for regulating the criteria defining connection fees and the ways in which users may exercise the right of withdrawal for the 2018-2020 regulatory period" (Tuar), which defines the criteria and modalities for new connections for users of the district heat network and their right to cancel supply and disconnect from the service, for the period going from 1 June 2018 to 31 December 2020. The Consolidated text calls for a limit on revenues to be implemented in defining connection fees as of 1 October 2018 (as established by resolution 277/2018/R/tlr) along with ensuing obligations concerning reporting by managers, as well as obligations regarding the information provided to customers as to the presentation of requests and the introduction of connections. These measures furthermore give customers the possibility of withdrawing from district heat contracts without paying penalties, calling for an indemnity fee paid to managers in the event that the user annuls the contract less than three years after signing it, in addition to a protection clause for contracts signed at the date in which the resolution becomes effective.

Continuation of water regulations: arrearage and social bonuses

As regards the water sector, after a sustained output of regulations in 2017, in the first half of 2018 the Authority continued with a few regulatory interventions regarding factors such as service arrearage and social bonuses. In particular, Dco 80/2018/R/Idr illustrates the final orientation that the Authority intends to adopt concerning the measures necessary to contain arrearage in the integrated water cycle, including procedures for suspending supply and possibly cutting off users in arrears, as well as measures intended to protect end users in cases of suspension or deactivation of supply owing to arrearage. With resolution 227/2018/R/Idr, furthermore, the Authority defined regulations for the new bonus for water users in difficult economic and social conditions, entrusting the management of these bonuses to the System for managing subsidised energy tariffs (Sgate–Anci), which is already active in the gas and electricity sectors. Lastly, with resolution 55/2018/R/Idr the Authority approved temporary regulations valid from 1 July 2018 to 30 June 2019 concerning non-judicial solutions for disputes, so as to gradually come into line with measures that are already effective in the energy sectors.

Gas distribution: tariffary framework

2018 is the fifth year of the fourth regulatory period (2014-2019) for the gas distribution and metering tariff system, governed by reference text Rtdg, updated for the three-year period 2017-2019 by resolution 775/2016/R/gas.

The tariff system is consistent with the previous year and entitles each distributor to a total permitted revenue (Vrt), defined by the Authority on the basis of recognised costs and expressed by reference tariffs (based on the investments made and inflation), to which the average number of delivery points served during the year is applied; this mechanism ensures that revenues are independent from fluctuations 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:

- acknowledged invested capital (Rab) for tariffs in year t (2018) covers investments made until year t-1 (2017), and takes into account updates due to inflation (even though, for 2018, the deflator for gross fixed investments came to 0%). This capital is then remunerated by applying the rates of return set by the Authority, which are different for distribution and metering, amounting to 6.1% and 6.6% respectively for the three-year period 2016-2018, in line with the regulations introduced by reference text Tiwacc (resolution 583/2015/R/com). Distributors are furthermore entitled to an amount of tariff amortisation calculated on the basis of the regulatory useful lives set for each type;
- recognised operating costs are updated by the Foi inflationary indicator published by Istat, whose effect in updating the 2017 rates came to +0.58%. Unlike the components covering operating costs for metering and sales (which are the same for all companies), those involved in distribution are differentiated according to the size of the enterprise and customer density. The annual production improvement factor (x-factor) differs according to the size of the company and was set at 1.7% for Inrete Distribuzione Energia Spa and AcegasApsAmga spa (large-scale distributors) and 2.5% for Marche Multiservizi spa (medium distributor).

In line with these standards, with resolution 177/2018/R/gas the Authority approved the provisional reference tariffs for 2018 (based on an estimate of investments made in 2017), while approval of the definitive reference tariffs, which will take into account investments recorded in 2017, is due to be completed within February 2019. Within the consolidated scope of the Hera Group, at 30 June 2018 the companies operating in gas distribution and metering are Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa. In the present financial statement, as in the previous one, the revenue covering the underlying cost of amortisation related to investments made during the year, in this case 2018, is recognized on an accrual basis.

Based on the elements described above, revenues in gas distribution and metering for the Hera Group in the first half of 2018 amounted to € 125.3 million, for 1,789 million m^3 of volumes distributed, with a corresponding revenue per unit coming to 7.00 € 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. Given that tariff regulations for 2018 are entirely consistent with those for 2017, revenues for the first half of 2018 are the same as those for the first half of 2017, despite volumes distributed rising by 5.3% (equalisation ensures that recognised revenues are independent from volumes distributed).

Gas distribution and metering - regulated revenues	30 June 2018	30 June 2017	% Change
Hera Group consolidated			
Revenue (mn€)	125.3	125.3	0.0%
Volumes (mn/m3)	1,789	1,699	5.3%
Average revenue per unit (euro cent/m3)	7.00	7.38	-5.1%

These revenues refer to a Rab at 30 June December 2018 coming to roughly € 1,130 million, pertaining to assets owned by the Group.

Electricity distribution: tariffary framework

No changes in regulations appeared in 2018 with respect to the previous year. The comprehensive text containing guidelines for providing electricity transmission and distribution services (Tit) was introduced by resolution 654/2015/R/eel, with which the Authority extended the duration of the regulatory period to eight years, even while subdividing it into two distinct four-year periods (Npr1 2016-19 and Npr2 2020-23). The tariffary system calls for tariff decoupling, applied to invoicing to sales companies (so-called "Obligatory Tariff", which is the same nationwide) compared to the "Reference Tariff", that expresses the permitted revenue for distribution and metering to which managers are actually entitled. The process leading to permitted revenues is guaranteed by specific tariff equalisation mechanisms, calibrated with the Energy and environmental services fund (Csea). The Npr1 tariffary method, which as of 2016 extended accurate recognition of investments to low voltage sales and metering as well, furthermore includes as part of year t's Rab (and in the ensuing remuneration) investments made up to the previous year (t-1). The rate of return on invested capital for electricity distribution and metering, in line with the regulations introduced by the Tiwacc comprehensive text (resolution 583/2015/R/com), comes to 5.6%, fully consistent with the figure seen during the previous year.
Recognised operating costs for 2018, updated by applying the price-cap method, dropped slightly compared to 2017, financially updated based on an inflation rate coming to 0.58% and reflecting an efficiency correction based on an x-factor coming to 1.9% for distribution and 1% for measuring.
In line with the factors described above, during the first half of 2018, for the Hera Group companies operating in electricity distribution, Inrete Distribuzione Energia Spa and AcegasApsAmga Spa, the Authority:

- with resolutions 150/2018/R/eel of 15 March 2018 and 174/2018/R/eel of 29 March 2018, definitively set the 2017 reference tariffs for distribution and metering (completing them, compared to the provisional tariffs approved the previous year, by replacing the priorly recorded estimates with the definitive investments recorded for 2016);
- with resolutions 175/2018/R/eel and 176/2018/R/eel of 29 March 2018, approved provisional reference tariffs for 2018 distribution and metering, which are based on the preliminary estimates for 2017 investments. The definitive 2018 reference tariffs will be approved by the Authority within

28/02/2019 and will take into account the definitive investments recorded for 2017, which operators will communicate to the Authority during the Rab collection scheduled for November 2018.

Within the context described above, Group revenues for electricity transmission, distribution and metering for the first half of 2018 amounted to € 45.8 million, up € 1.1 over the first half of 2017; volumes distributed rose by roughly 1.8%. Net of a recovery of previously due sums amounting to precisely € 1.1 million, revenues were perfectly in line with the first half of the preceding year: the slight drop in operating costs was in fact offset by the systemically updated recognition of capital costs. In revenues for the first half of 2018, the revenue covering the underlying cost of amortisation related to investments made during the previous year, in this case 2017, are recognized on an accrual basis.

Electricity distribution and metering - Regulated revenues	30 June 2018	30 June 2017	% Change
Hera Group consolidated			
Revenue (mn€)	45.8	44.7	2.5%
Volumes (mn/kWh)	1,515	1,488	1.8%
Average revenue per unit (euro cent/kWh)	3.03	3.01	0.7%

Revenues here refer to a Rab for electricity distribution and metering estimated at roughly € 372 million, predominantly related to assets owned by the Group.

Water cycle: tariffary framework

2018 was the third 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 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 consistent with those for 2014-2015; each operator is assured a revenue (Vrg) defined on the basis of the operating (to which an efficiency factor can be applied, or external) and capital costs based on investments made, with guaranteed revenues, independently 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) internal costs (for which an efficiency factor has also been foreseen), b) external and updatable costs, mainly concerning the cost of purchasing 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 recognised.
Capital costs refer to investments made until two years earlier, and cover the costs of amortisation as well as the costs of the corresponding financial and fiscal charges.

In this financial statement, the revenue covering the underlying cost of amortisation related to investments made as of 2016 is recognized on an accrual basis.
In 2014, furthermore, owing to provisions included in the Authority's tariffary resolution 643/2013/R/idr, the Emilia-Romagna local agency for water and waste services (Atersir) defined the tariff balancing entries related to periods prior to 2012 and not already considered in the calculation of previous tariffs; those entries are expected to be recovered as of 2015 and will end in 2018.
Revenues from tariffs rose compared to 2017 by 0.8%, as an effect of the 2018 tariff balancing, which also includes the change in scope of AcegasApsAmga owing to the launch of the new Servola purifier.

Hera group consolidated water cycle - tariff revenues	30 June 2018	30 June 2017	% change
Revenues from tariffs (mn€)	306.4	304.1	0.8%
Volumes (mn/m3)	143	147	-2.6%
Average revenue per unit (euro cent/m^3)	214.6	207.3	3.5%

Urban waste: tariffary framework

The service of urban waste management is offered on the basis of conventions established with locally defined Agencies that 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, as of 2013, by regulations concerning first the Tares and then the Tari and Tcp (price per unit method).

Through the tariffs applied to citizens, single Municipalities (in the case of Tari) or operators (in the case of Tcp) purchase resources covering costs sustained by operators in carrying out services in sweeping, collection and disposal; when applying the Tari, controls and payment collection are assigned to Municipalities who, in some cases, have 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 required to continue offering services in areas in which the deadline for assignment has already passed, until new assignments are made; for expired concessions, locally defined Agencies have initiated the procedures for new assignments.

At June 30 2018, urban waste management services were offered in 174 municipalities, 29% of which chose to entrust Tari controls and payment collection to the Hera Group, while 5% chose to pass over to the Price per Unit method.

The following figures are the result of a comparison between the uniform and consolidated data of the Hera Group:

Hera group consolidated waste management - tariff revenues	30 June 2018	30 June 2017	% change
Revenues from tariffs (mn€)	254.6	267.3	-4.7%
Residents served	3,134	3,311	-5.3%
Average revenue per unit (euro/resident)	81.2	80.7	0.6%

Sgrua regulated revenues fell by 4.7%, mainly owing to change in scope concerning the 13 Municipalities of the Forlì area no longer served by Hera as of 1 January 2018.

1.08
Procurement policy and trading

As regards gas, in the first six months of the year total consumption decreased by 1.5% as compared to the same period of 2017, with an increase in the absolute value of over 600 Gmc. This drop is mainly due to the consumption of gas for the production of electricity: in the first six months of 2018 thermoelectric consumption decreased by 13.5% as compared to the first six months of 2017 and in absolute value corresponds to a reduction of approximately 1,600 Gmc. In contrast, industrial consumption does not display significant changes as compared to the first six months of 2017. In addition, as far as residential consumption is concerned, climate change has led to an increase in consumption in the first six months of 2018, an increase of approximately 1,000 Gmc as compared to the same period of the previous year, corresponding to 5.4%.

Natural gas consumption decreases:-1.5%

Portfolio optimization

The weather pattern of the first half of the year obviously had an impact on the Group's sales with a significant contraction in January, followed by an increase in February and March.
The trading activities of the first half of the year were directed at optimizing the portfolio, on one hand, with the aim of balancing the position on the short term, and on the other hand at negotiating and managing new procurement contracts for the 2018/2019 thermal year.

In detail, short-term adjustments, guided by the efficient forecasting of the needs, have been implemented 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 favorable terms and allowed the Group to achieve the established objectives in terms of results.

Since April 2018, Hera Trading has initiated the procurement of both gas earmarked to fill the store purchased by auction, approximately 0.48 billion cubic meters, and gas earmarked for the Hera Comm free market for the 2018/2019 thermal year, approximately 1.1 billion cubic meters, drawing directly on the spot market; This activity is still ongoing as of June 30.

Negotiation of modulated gas for approximately 1.0 billion cubic meters

During March, the modulated gas for the protected market on REMIs (delivery points) of the Group Sales Companies was negotiated, for a total of approximately 1.0 billion cubic meters for the 2018/19 thermal year. The volumes under contract display a decrease as compared to the supply contracts with third-party suppliers in the previous thermal year. The price indexes of the supplies are in line with the economic rates offered to the final customers, thus constituting a natural hedge against the price risk.

Electricity consumption on the rise:+2.4%

The electricity demand in the first half of 2018 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 wind and hydroelectric production, with increases of 8.4% (+0.75 TWh) and 41.1% (+7.5 TWh) respectively. This increase was counterbalanced by lower thermoelectric production, recording a significant decrease of -10.4% (-8.8 TWh), a lower photovoltaic power output of 1.28 TWh equal to -12.7%. The energy inflow from abroad was positive, with net imports increasing by 5.36 TWh, or 23.6%.

Reform of the electrical market

Regarding the prices of the electricity market, the first half of 2018 showed a significant increase: the NSP monthly average was € 53.84 / MWh while in the corresponding period of 2017 the NSP was 51.17 € / MWh. This trend is mainly due to the increased in the price of gas, leading to an increase in marginal costs of production from thermoelectric plants.

During the first half of the year, Terna initiated the procurement of dispatch resources for the entities holding virtual consumption units in the Dispatching Services Market for the period June-September 2018.
Hera Trading, in its role as an aggregator, was awarded power totaling 3 MW for the period June-September 2018 and additional 2 MW for the period July-September 2018.
Moreover, on 19 June 2018, Terna submitted for consultation the documentation on the pilot project for participation in the dispatching services market of the Mixed Virtual Units (Uvam) pursuant to Resolution 300/2017/R/eel of the Regulatory Authority for Energy, Networks and the Environment.

Electricity trading performance

Regarding the trading of electricity and environmental certificates, in the first half of the year performance improvements were achieved both in terms of EBTDA and in terms of average value of the import capacity held in comparison to the corresponding period of 2017. Particular attention has been given to the management / optimization of Hera Comm's purchasing portfolio through operations on the Italian Stock Exchange and Over the Counter (Otc) platforms,.

Price risk management

The management of the commodity and exchange risk has proved to be particularly effective in a context characterized by the sharp volatility of oil prices and the euro-dollar exchange rate as well.

1.09
Commercial policy and customer care

As of the first six months of 2018, the Group's client portfolio appears to have increased by roughly 3% compared to the same period of the previous year.
The number of clients increased for all services, especially for the electricity service: the increase of free-market provisions driven by a portfolio of competitive offerings and innovative options, the service quality and the latest business acquisitions in Friuli Venezia Giulia and Abruzzo are the main reasons for the increase of over 80 thousand clients (+8,9%).
Gas service clients, in spite of the transfer of Medea Spa (roughly 13 thousand clients), grew by about 14 thousand units (+1.0%): this increase is the result of the Group's ongoing commitment to commercial activities and Verducci Servizi Srl and Blu Ranton Srlentry's entry within the Hera Group, both companies active in the sale of electricity and gas in Abruzzo. Water service clients grew very slightly, by approximately 0.3%.

Supply points	30 June 2018	30 June 2017	Sp change, no.	Sp change, %
Gas	1,412.8	1,398.8	14.0	1.0%
Electricity	1,013.6	930.5	83.1	8.9%
Water	1,461.0	1,456.1	5.0	0.3%
DH	12.2	12.0	0.2	1.4%

Data expressed in thousands

In 2018, the volume of contacts handled by the Group's channels increased: in the first half of the year, contacts were altogether approximately 3 million, an increase of 5% compared to the same period of 2017.
The call centre channel (+3.4%) but, above all, digital channels experienced the most significant increases: the web channel (+36%) and, beginning in the second half of 2017, the application, through which 74,000 contacts were managed.
The Hera call centre significantly improved the service offered to its business customers: the average waiting time is 31.8 seconds (48.6 seconds in 2017), the number of calls answered increased (95.5% vs 93.4% in 2017) and the number of calls with an average waiting time of over 2 minutes decreased (7.9% vs 13.6% in 2017).
The average waiting time at helpdesks also decreased, which currently is approximately 8 minutes.
The Group's ongoing effort to improve service quality for the end customer, carried out for years through its contact channels, led to a further improvement in the quality perceived by clients in 2018. According to the customer satisfaction survey, in fact, helpdesks earned a score of 88, followed by the household call centre with a score of 86.5 and the business call centre (soho/sme) of 81.

Below are the main indicators for Hera helpdesks and call centres.

Average waiting time at the contact centre - no ivr (sec.)	1H 2018	1H 2017	1H 2016
Domestic clients	43	31	42
Business clients	32	49	39

Average waiting time at helpdesks (min, sec)	1H 2018	1H 2017	1H 2016
Average	8	10	9

1.10
Financial policy and ratings

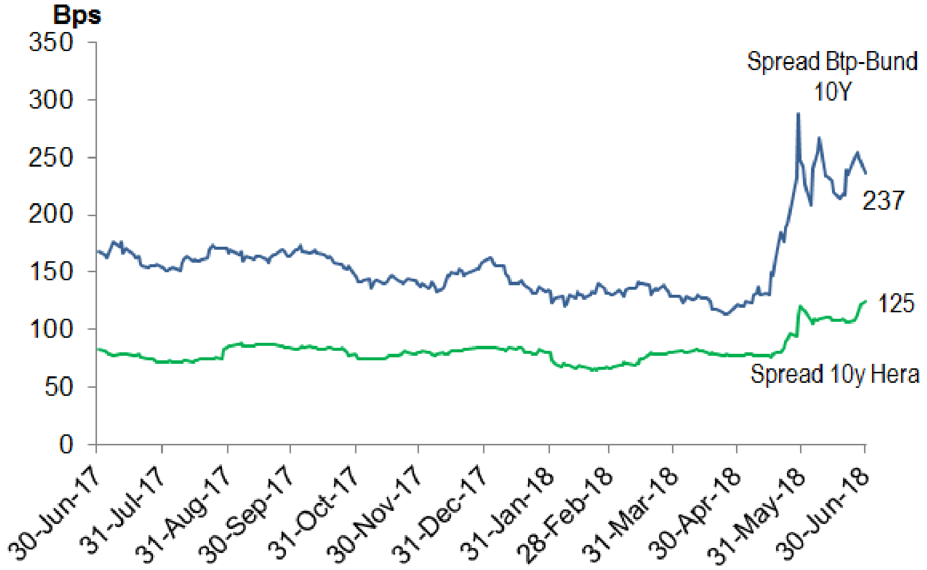
Ecb: no change in interest rates and reduction in qe

In June the Ecb announced a reduction of quantitative easing (qe) to 15 billion euro a month during the last quarter of the year (as compared to the current pace of 30 billion euro a month) followed by a definitive halt in purchasing. It was however underlined that interest rates are expected to remain at their current level at least until mid-2019 and, in any case, for as long as necessary to ensure that trends in inflation remain aligned with the current expectations for a sustained adjustment path. Therefore, no signs of an increase in interest rates will be seen until monetary policy has become completely normalised. The American central bank (Fed), instead, proceeded with a second 25 basis point rise (from 1.75% to 2.00%) since the beginning of the year and revised upwards the number of increases in rates foreseen for 2018, going to four instead of the three expected until present. This choice, made at a time when data on growth and inflation are positive and sustained by a good contribution from all components, suggests that the Fed intends to give the American economy free reign.

10y Btp-Bund Spread vs. Hera Spread

The 10-year Btp-Bund spread, a benchmark for measuring the cost of new long-term funding, after almost one year of regular trends, saw a sharp increase in May, reaching a peak of 288 bps, due to political uncertainty in Italy. In late June it underwent a slight reduction, coming back to around 237 bps. Hera's 10-year spread felt the effects of this, recording an increase, less than proportional to the sovereign spread however, of roughly 42 bps compared to the previous year. The consolidated trust shown by investors and the Group's positive credit standing maintained its spread roughly 112 bps lower than the Btp-Bund spread over the same time period.

10-Year Btp-Bund Spread vs. Hera Spread



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

To support liquidity risk indicators and optimise the costs/convenience of funding, the Group has obtained committed credit lines amounting to € 300 million. In May, € 200 million in committed lines were renegotiated with a new sustainable revolving credit line for an equal amount but with a postponed maturity date (2023), thus bringing the average date to maturity to over 4 years. The new credit line, named "ESG Linked RCF Facility", introduces elements of sustainability through incentives based on meeting specific environmental, social and governance (Environmental social governance, hereinafter Esg) targets. For this purpose, a few Esg performance measures have been defined, thanks to which the Group will be able to benefit over time from more favourable rates.
In January, the Group completed a € 110 million financing contract with the European investment bank (Eib) aimed at sustaining the investment programme for the period between 2017 and 2021 involving projects related to the waste cycle sector. More specifically, the credit line will be used to additionally improve the performances seen in waste management services, in particular increasing the percentage of sorted waste indicated in the regional objectives of the areas served, to further increase the efficiency of the operating processes involved in waste treatment, recycling and recovery, and to improve sustainability standards in plants.

Financial risk management strategy

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

Liquidity risk

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.

Proactive liquidity management

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 available credit lines, liquidity and a timely start of negotiations on maturing loans, optimizing the cost of funding on the basis of current and future market conditions.

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

Adequate liquidity for a worst case scenario

Worst case scenario	30 June 18			31 Dec 17		
(mn€)	from 1 to 3 months	over 3 months to 1	from 1 to 2 years	from 1 to 3 months	over 3 months to 1	from 1 to 2 years
Bonds	14	76	471	38	76	471
Debts and other financial liabilities	244	70	61	191	63	59
Trade payables	1,091	0	0	1,396	0	0
Total	**1,349**	**146**	**532**	**1,625**	**139**	**530**

In order to guarantee sufficient liquidity to meet every financial obligation for at least the next two years (the time limit of the worst case scenario shown above), at 30 June 2018 the Group had € 515 million in liquidity, € 300 million in unused lines of credit and a substantial amount that can be drawn down under uncommitted lines of credit (roughly € 686 million).

The lines of credit and the corresponding financial assets are not concentrated on a specific lender, but distributed among major Italian and foreign banks, with 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 over 7 years, with 66% maturing after over 5 years

The amount of debt maturing within the year comes to 8.6% and the amount of long-term debt comes to roughly 91.4% of total financial debt, of which approximately 75% consists in bonds with repayment at maturity. The average term to maturity is approximately 7 years, of which 63% maturing beyond 5 years.

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

Debt nominal flow (mn€) (*)	30 June 18	30 June 19	30 June 20	30 June 21	30 June 22	Over 5 years	Total
Bonds	0	395	0	290	68	1,867	2,620
Bank debt / due to others	301	55	51	60	58	339	864
Total	**301**	**450**	**51**	**350**	**126**	**2,206**	**3,484**

* Rolling year compared to the date of the financial statements

Default risk and debt covenants

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

No financial covenants

At 30 June 2018, a significant portion of the Group's net borrowings was covered by loan agreements containing a number of clauses, in line with international practices, that place some restrictions. The main clauses guarantee equal treatment of all debt holders with respect to the company's other non-guaranteed debts (pari passu) and a commitment towards bondholders preventing it from granting to subsequent lenders, with the same seniority status, better security and/or liens on its assets (negative pledge).

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

Change of control & Investment grade

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

Interest rate risk

A model of active and prudential management of interest rate risk

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 technical types of financing and the revenue from different types of liquidity investment, thus impacting the Group's cash flows and net financial charges.
The Group's financial policy has been designed to identify an optimal mix of fixed- and floating-rate funding, in line with a prudential approach to interest rate risk management. The latter aims to stabilize cash flows, so as to maintain the margins and certainty of cash flows deriving from its characteristic management.
Interest rate risk management entails, from time to time and depending on market conditions, a specific combination of fixed-rate and floating-rate financial instruments as well as derivative products.
The Group's exposure to interest rate risk, including the effect of derivatives, comes to 13% of total borrowings, while the remaining 87% of debt is at fixed rates.

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

87% of debt at fixed rates

Gross borrowings (*)	30 June 18			31 Dec 17		
(mn€)	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
Fixed rate	2,812	2,831	87%	2,692	2,714	86%
Floating rate	432	413	13%	454	431	14%
Total	**3,244**	**3,244**	**100%**	**3,146**	**3,146**	**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 a bond outstanding for 20 billion Japanese yen, fully hedged by a cross currency swap.

Ratings

Ratings confirm the strong points built up by the Group over time: positive outlook from S&P

Hera Spa has been given a long-term 'BAA1 negative outlook' rating by Moody's and a 'BBB positive outlook' rating by S&P.
On 13 March 2018, as part of its annual review, S&P improved the Group's outlook from stable to positive, with no change in long- and short-term creditworthiness, defined as BBB/A-2. S&P noted that the Group's good prospects for growth, confirmed by the expectations of its latest business plan, could allow it to stably improve its rating, as long as Group management maintains its growth strategy, improvements in cash flow and a well-disciplined policy in remunerating shareholders.
On 5 May 2017 Moody's released a credit opinion in which it confirmed the BAA1 rating and the negative outlook, positively evaluating the Group's risk profile in terms of the solidity and good balance of the portfolio of businesses managed, as well as the Group's good operating performance, its lack of liquidity risk and its resilient indicators as to creditworthiness, thus maintaining its rating one notch higher than the sovereign rating. The negative outlook, instead, depends on Italy's rating, in that most of the Group's Ebitda derives from domestic businesses and is therefore exposed to the country's macroeconomic trends and its political scenario. On 30 May, Hera's outlook was declared «Under review for downgrade» following the deterioration in sovereign risk that led to a review of the outlook for a downgrade of Italy.
Given the current context and the prolonged uncertainty as to the prospect of sovereign risk, the Group's actions and strategies are always particularly careful and aimed at guaranteeing the maintenance and improvement of adequate ratings.

1.11
Development and technological innovation

Projects were focused on the circular bio-economy, energy efficiency, and safe, sustainable and smart city environments with the aim of improving the services available to citizens and fostering the industrial growth of the Group.

Biomethane

In addition to completing the Sant'Agata Bolognese plant, which will produce about 7.5 million standard cubic metres of biomethane per year, research is continuing into technologies for obtaining advanced biofuels from biomass.
After some tests on raw plant trimmings, which confirmed the biomethane yields outlined in the literature, a pilot reactor was built to carry out a thermal pre-treatment (specifically, steam explosion) on the plant material. In the second half of 2018, the material produced by the reactor will be used to fuel two pilot digesters to confirm the high production yields of biomethane obtained in the laboratory, following thermal pre-treatment.
In addition, a feasibility study was launched regarding the construction of an industrial-scale plant to produce biomethane from pre-treated cuttings and trimmings, together with other waste matrices from the agro-industrial field.

Smart Waste PuntoNET

In the first half of 2018, tests were carried out on the outdoor prototype of the multifunctional centre for urban waste collection (PuntoNet) 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, etc.). During the second half of the year, the prototype will be sited in an urban area of the Castel Bolognese area so as to verify the services provided under real-life operating conditions.

Senseable Dep

The Senseable Dep project aims to create an IT platform for monitoring purification processes through the use of simplified dashboards designed to summarise, through only a few indicators, the "health status" of the purification process in terms of biological, hydraulic and energy aspects. After completing the testing and tuning phases for the Forlì purifier, the monitoring system will be extended to the Cesena, Cesenatico and Savignano purifiers by the end of the year.

Environmental Monitoring

Following the project carried out in the territory of Ferrara, a new network has been created to monitor air quality in the municipality of Castel Bolognese. The sensors have been placed in the most relevant strategic points, such as high population density areas, areas with heavy traffic (Via Emilia), industrial areas, areas subject to heavy use (railway station, sports centre), and rural areas. Thanks to monitoring during the first six months of the year, it was possible to assess the winter and spring trends, and this will continue for the summer season as well. By collecting these data and correlating them with environmental parameters (temperature, wind intensity or direction), it is possible to identify the spatial distribution of pollutants and the population's exposure index. These measurements will be supplemented by analyses of the sources of pollution (heating and/or traffic), in order to identify prevention and mitigation measures.

Underground Facility Management

The Underground Facility Management project involves applying a Business Process Management system to the integrated management of construction sites. This system represents a fully-fledged platform for document management and coordination of the excavation work carried out by the Group.
The Romagna aqueduct complex adopted this system at the beginning of the year, and the Emilia area is expected to begin participating in the second half of 2018. After having completed this period of activity, it will be possible to receive feedback in order to improve or extend the platform.

Municipality Dashboard

The dashboard developed for the Castel Bolognese area is an IT platform that brings together local services and is accessible via the web. It allows operators to dynamically view information collected in the field by the various sensors or devices and to correlate these different forms of information, thereby creating added-value displays.
During the first half of the year, the architecture of the platform was developed and simulations were carried out with information from a variety of domains/services in order to create a useful tool for municipal administrations and technical offices that facilitates their work in terms of supporting daily operations and strategic planning.. The dashboard integrates wi-fi services, video surveillance, environmental monitoring, energy maps (maps of buildings' energy consumption, to assess their historical performance and carry out predictive analysis), environmental passports (a tool to assess how well certain objectives of the UN Agenda 2030 have been reached) and waste collection, through the PuntoNet system. Before the end of the year, the dashboard will be made available to the municipality of Castel Bolognese.

Other initiatives

Several apps have been developed to allow Hera employees to more easily access Company functions (meeting room reservations, document approvals, authorisations, ...) using their smartphones and tablets.
The innovation platform open to all employees continues to be used to collect, comment on and evaluate innovative ideas and proposals (over a thousand employees are taking part in this initiative).
Tests were carried out to assess the validity and usability of the Augmented Reality (AR) technology in the network environment. This technology proved potentially useful in all cases in which the cartographic data is highly accurate. The tests will continue with the latest generation of visors and are verifying how AR might be used in providing remote assistance for maintenance work.

1.12
Quality, safety and environment and privacy

In the first half of 2018, Bureau Veritas Italia, the new certification body that won the public tender for providing services to the Group, began auditing within the Hera Group. In particular, the renewal audits of the ISO 9001, ISO 14001 and OHSAS 18001 certificates and maintenance of Hera Spa's certification of compliance with the SA8000 standard were successfully completed. A significant amount of coordination of third party audits for Group certifications was seen.

Management's commitment to coordinating the approach to transversal issues impacting management systems continued through monthly meetings with the various Group companies.

In particular, the "Group Review" project is underway with the aim of providing an overview of the management systems of Hera Spa and its subsidiaries and contributing to governance and the definition of risk management strategies in the area of health, safety and the environment.

In the area of health and safety, work was completed on the Group's health surveillance tender, with the aim of awarding this contract by the end of July. Following an assessment of the effectiveness of the management of individual safety devices/personal protective equipment, a working group was coordinated to formulate measures to improve the service. The first half of the year also saw the launch of the "Health and Safety: Culture and Awareness" project which, through Heureka+, pursued initiatives among Group employees to disseminate and promote the culture and awareness of workplace health and safety in their daily lives.

In the management of privacy and logical security, a synergy of methods and approaches has been enhanced with a view to sharing analyses on information security and the protection of personal data within the Group.

Requests for consultancy and specialised legal support were managed by drawing up the specific, in-depth regulations and documentation which are necessary to guarantee compliance with the privacy-side regulations governing the Group's processes, also as regards the execution of Service contracts.

The Group's compliance with General Data Protection Regulation 679/2016 was handled through an interdisciplinary project that impacted organizational aspects and entailed a thorough review of the Group's entire documentation system, with the aim of documenting compliance with the personal data protection provisions of the law starting from the outset, that is, the phase of designing and planning processing operations, establishing the methods, guarantees and limits of personal data processing.

Specific refresher training courses have been planned regarding the main new regulations and the role played by the heads of the organisational units responsible for data processing, activities in which the Group will be involved in the second half of the year.
One single data protection officer has been appointed for the Hera Group, in accordance with legal requirements.

1.13
Information systems

Standardisation of systems in other companies

Activity is continuing on the multi-year harmonisation plan for AcegasApsAmga Spa. The roll-out of systems for gas distribution services was completed, while the roll-out of systems for quality management and Geo-Business Intelligence is underway.. A feasibility study has been completed in relation to Acantho Spa, regarding its migration into Group systems; implementation activities will begin in the second half of 2018.

Regulatory adjustment

In addition, 14 initiatives were completed to bring the Group's systems into line with regulations; the main ones of note are those relating to power contribution (Resolution No. 786/16), the TARI fee for managing revenues from municipalities (Law Decree No. 225), unregulated price offers under equal levels of protection (Resolution No. 555/17) and improving the performance of the natural gas metering services (Resolution No. 522/17).

Efficiency and supporting business

Completed activities relating to process efficiency and business support include the rationalisation and end-to-end digitisation of Heratech Srl processes and the updating of the treasury platform, which facilitates more efficient management of administrative and financial processes, commercial offers relating to district heating, and other evolutions in the Group's core systems.
Finally, it is worth mentioning that production began on the new system of detailed fee payments for environmental services and its introduction in 8 municipalities, including Ferrara.

Information system efficiency

As part of the process of continuous technological innovation and improving the performance of the Group's information systems, various platforms as well as the Oracle database were upgraded. In March, work began on the technological overhaul of the Group's entire infrastructure at the Acantho Spa data centre in Imola and at the secondary disaster recovery data centre; activities are scheduled for completion in the second half of 2018.

Information system safety

The safety of data systems and company information, as well as compliance with data protection regulations, are among the key objectives of the Information Systems Division. Our commitment to preventing and monitoring potential cyber attacks is ongoing, through the planning and implementation of periodic risk analysis on the production systems (vulnerability assessment), updating existing systems and raising awareness among users.
In January 2018, the Soc (Security operational centre) service was activated to monitor the security events produced by Hera applications and systems with a view to detecting any attacks, attempted attacks or anomalies in terms of cybersecurity.

Quality certification and Auditing

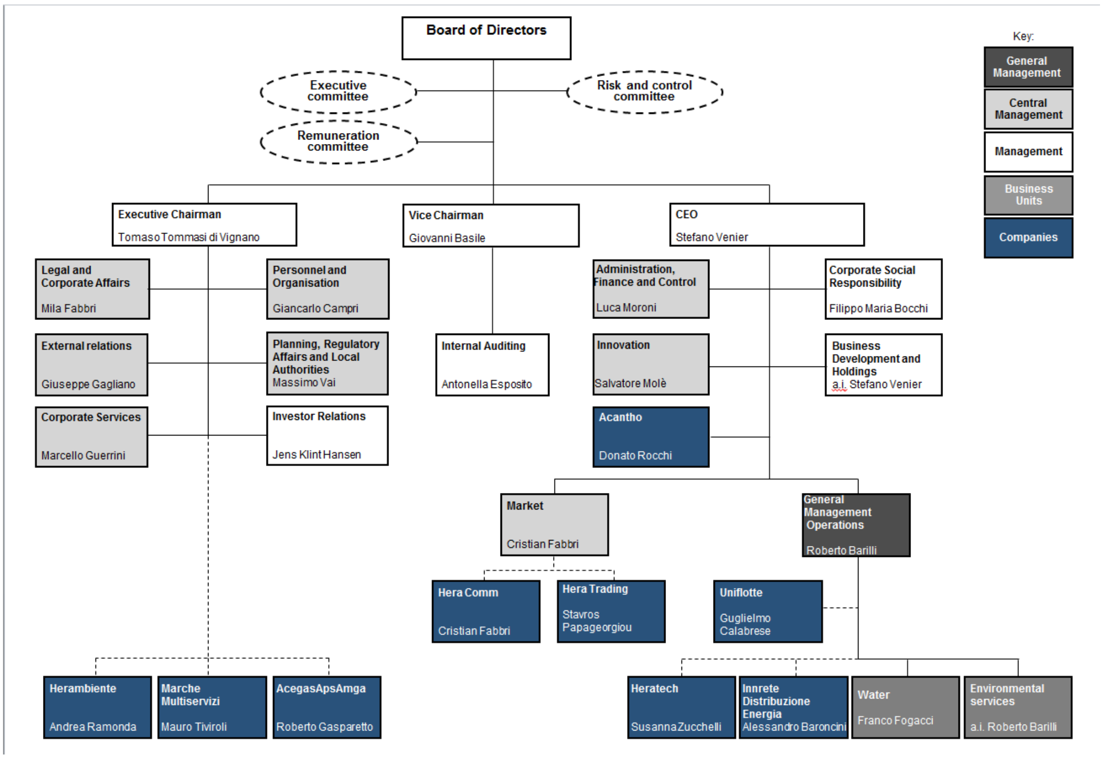
A third party audit (BVI certification body) was successfully performed in April to renew the certification of the Group's ISO standards. The audit encompassed all the processes within the Information Systems Department's remit. In addition, Internal Audit activities were completed in the first half of 2018, the outcome of which will be published in the second half of the year.

1.14
Personnel structure, industrial relations, staff development and training

Human Resources

The Hera Group employees with open-ended contracts as of 30 June 2018 number 8,555 (consolidated scope) and are distributed by role as: executive managers (149), middle managers (533), office clerks (4,593), and workers (3,280). In 2018 this structure is the result of 133 entries and 212 exits as well as changes in company structure that involved a reduction in the amount of 49 individuals (Alea AmbienteSpa, Blu Ranton Srl, Medea Spa and Megas. Net Spa). Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

Structure



Main developments in the General Operations department

More specifically, during the first half of 2018, the group planned an evolution in its organisation, formalised as of 1 July 2018, which led to a further rationalisation of Heratech Srl's organisational model by simplifying the company's underlying organisation and merging all activities connected with the planning, forecasting and execution of work in the electricity sector with Inrete Distribuzione Energia Spa.

In relation to Inrete Distribuzione Energia Spa, as of 1 July 2018, the company's underlying organisation was rationalised by further specialising distribution activities by business segment (gas and electricity), focusing on standardisation, project development and the monitoring of metering and remote management in a unified, transversal organisational setting.

Main developments in the Herambiente Group

As of 30 June 2018, the organisational model of the Industrial Market Department of Herambiente Spa was revised, integrating the commercial activities and processes of Waste Recycling Spa with those of Herambiente Servizi Industriali Srl in order to focus the commercial structures to a greater extent in relation to market segments served with a view to improving the overall customer experience. As of 30 June 2018, the preparatory activities for dismantling the Operational Services Division and relocating its activities and resources within Herambiente Spa have also been completed. The aim of this operation is to enhance the overall effectiveness and efficiency of the processes managed and to simplify relations with the top management of Herambiente Spa.

Main developments in the Central Market department

In relation to the Central Market department of Hera Spa, the following are worth mentioning:

- As of 30 June 2018, the organisational overhaul of the Customer Experience Management Department of Hera Comm Srl was completed. This operation was aimed at further improving service quality and customer satisfaction levels with a view to customer experience and continuous improvement, while continuing the integration of the customer relationship management (CRM) processes previously allocated to the Household and Company markets department;
- effective as of June 2018, the organisational fine-tuning of the Commercial and Marketing Department of Hera Comm Srl, particularly in terms of setting up the Commercial Innovation Division, which is designed to boost processes of scouting and developing innovation in the commercial energy field;
- effective as of May 2018, the organisational redesign of Hera Servizi Energia Srl to make it more market-oriented, in terms of optimising customer management activities and further focusing sales on the business segments.

Main developments in the Central Unit area

In the Central Unit area, the following are worth mentioning:

- effective as of May 2018, the appointment of the Hera Group's Data Protection Officer in the Quality, Safety and Environment Department, in compliance with the General Data Protection Regulation (GDPR) no. 2016/679 and in order to encourage a uniform approach to the application of this regulation to the Group as a whole;
- the organisational redesign of the Central Planning, Regulatory Affairs and Local Authorities Department, renamed Central Strategy, Regulation and Local Authorities Department, aimed at further strengthening its focus on strategic planning and policy making activities, regulation and tariff systems, and, finally, on area management in the various parts of the Emilia Romagna region.

Industrial relations

On 23 April 2018 agreements were signed for all Hera Group personnel regarding the finalisation of the performance bonus indicators for 2017, the identification of the new performance bonus indicators for 2018, and issues of work-life balance. The latter agreement in particular prolongs the Group's experiment with allowing smart-remote working and providing time-saving services and allows all employees to freely transfer their vacation time/time off/working time reduction ("solidarity-hours") to colleagues so that they might look after minor children and/or spouses who, due to disability and/or serious illness, require constant care. For every day gifted by an employee, the company will supplement this transferred time with an additional half hour. Following the acquisition of the majority of shares by the Hera Group, an agreement was signed, valid for 2018-2019, regarding the implementation of an economic incentive system (including Group welfare) for employees of Aliplast Spa. This is aimed to initiate a process of gradually integrating and harmonising the latter company with the treatment applied within the Group (including performance bonuses). In addition, agreements were signed regarding the 2018 financed training plan and the minutes of the 2018 training plan meeting. In the Emilia Romagna area, in order to make more rational use of the Imola cogeneration plant, new working hours have been established for staff based on a 24-hour shift schedule. An agreement was reached in the Environmental Services Department of Hera Spa to install a GPS localization system (called "hergo ambiente") on vehicles belonging to the environmental division, applicable to the Cesena and Ravenna areas.. This agreement implements the provisions of the Atersir technical regulations regarding the assignment of urban and similar waste management in the territories of Cesena and Ravenna. In keeping with the evolution of the organizational model of Inrete Distribuzione Energia Spa's electricity emergency response in the Modena area, an agreement was reached to replace the emergency response service based on 16-hour shifts with daily working hours,

from Monday to Friday. Together with this move to replace the 16-hour shift emergency response service, the on-call organisational model was also refined. In the Environmental Services Department of Hera Spa, a trade union agreement was signed regarding moving beyond standby duty outside of normal working hours. An agreement was also reached regarding the implementation of a system of standby availability outside normal working hours at Uniflotte Srl.
In the Friuli Venezia Giulia and Veneto areas, agreements were signed to implement organisational changes to the availability service as part of the Electricity Department of AcegasApsAmga Spa and Hera Luce Srl, for the Trieste and Gorizia areas. Agreements were also signed regarding financed training for AcegasApsAmga Spa and Hestambiente Srl. In the Marche region, agreements were signed with the unions regarding the procedure for Megas. Net Spa's merger by incorporation into Marche Multiservizi Spa as wel as financed training.

Development

In the first half of 2018, initiatives were launched to train employees and disseminate the leadership model, with about 5,000 people involved in various ways.. In the first half of the year, on-the-job training was also carried out for all Hera Group managers and executives. These initiatives will continue in the next half of the year as well.
The first phase of the smart working pilot project was completed and the second phase involving about 400 people was launched; this phase will continue until the end of 2018.

Training

In the first half of 2018, a total of 114,598 hours of training were delivered at the Group level: 13.6 hours per capita, equal to approximately 54% of the overall target for 2018, and approximately 94% of employees have already been involved in a training activity. The economic investment, net of trainee and in-house trainer costs, amounted to 430,589 euros. These data show a significant commitment in terms of both finances and resources the Group has made to continuously valorising and developing its human capital, including through the continuation of HerAcademy, the Group's Corporate University.
As to HerAcademy programs, particularly noteworthy is the seventh edition of the university orientation initiative and the fifth edition of the initiative orienting participants to the world of work as well as the third 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 2017-2018 school year, the expansion of the perimeter to include all the territories of the Hera and AcegasApsAmga Groups was consolidated.
As part of the HER@futura project, the process of developing basic digital skills was launched for all Group personnel, based on their own level of digital readiness.

Welfare

On 23 January 2018, 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 18 November 2018. All employees with fixed-term and open-ended contracts were awarded a flexible welfare sum of 385 euros each.
In keeping with the previous year, an additional education quota for employees who have school-aged children, from kindergarten to high school, will be allocated for 2018 as well.

The main new items introduced in 2018 concern:

- the possibility of converting up to 50% of the 2017 performance bonus into an additional welfare share free of taxation;
- the second edition of university scholarships which, on the basis of equity and meritocracy, rewarded the best academic performances achieved in the 2016/2017 academic year by making available 40 scholarships worth 750 euros each;
- the second edition of the language study courses "Un'estate nel mondo con intercultura" (A summer in the world with interculturalism), offering 10 scholarships worth 2,000 euros each for high school students;
- the management of the fifth 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 added contribution to cover part of the enrolment and tuition fees involved.
- the introduction of new initiatives and services in all areas of Hextra in line with the needs of employees as expressed in the 2017 listening phase to underline the pivotal role people play in developing the plan and foster the creation of a common culture of participatory welfare.

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

2

Consolidated Financial Statements of the Hera Group

2.01
Financial statement formats

2.01.01
Income statement

mn€	Notes	first six months of 2018	first six months of 2017
Revenues	1	2,966.7	2,754.0
Other operating revenues	2	209.8	202.3
Use of raw materials and consumables	3	(1,327.6)	(1,178.4)
Service costs	4	(1,031.6)	(981.7)
Personnel costs	5	(281.7)	(282.4)
Other operating costs	6	(30.3)	(25.8)
Capitalized costs	7	18.3	17.9
Amortisation, depreciation and provisions	8	(250.0)	(243.7)
Operating revenues		**273.6**	**262.2**
Share of profits (losses) pertaining to joint ventures and associated companies	9	8.6	8.2
Financial income	10	60.6	58.5
Financial expenses	10	(103.6)	(112.6)
Financial operations		**(34.4)**	**(45.9)**
Pre-tax profit		**239.2**	**216.3**
Taxes	11	(72.0)	(68.3)
Net profit for the year		**167.2**	**148.0**
To attribute to:			
Parent company shareholders		158.1	141.0
Minority shareholders		9.1	7.0
Earnings per share	**12**		
Basic		**0.108**	**0.096**
Diluted		**0.108**	**0.096**

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

mn€	Notes	first six months of 2018	first six months of 2017
Profit (loss) for the year		**167.2**	**148.0**
Items reclassifiable to the income statement			
fair value of derivatives, change in the year	19	15.0	3.1
Tax effect related to the other reclassifiable items of the comprehensive income statement		(4.5)	(0.8)
Other business components valued using the equity method			-
Items not reclassifiable to the income statement			
Actuarial income/(losses) post-employment benefits	27	(0.7)	1.4
Tax effect related to the other not reclassifiable items of the comprehensive income statement		0.3	(0.4)
Total comprehensive profit (loss) for the year		**177.3**	**151.3**
To attribute to:			
Parent company shareholders		168.0	144.2
Minority shareholders		9.3	7.1

2.01.03
Statement of financial position

mn€	Notes	30-June-18	31-Dec-17
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,998.1	2,015.7
Intangible assets	14	3,179.6	3,127.0
Goodwill	15	384.1	384.1
Equity investments	16	145.9	148.8
Non-current financial assets	17	119.2	125.2
Deferred tax assets	18	167.6	150.5
Financial instruments - derivatives	19	82.6	66.1
Total non-current assets		**6,077.1**	**6,017.4**
Current assets			
Inventories	20	140.4	121.2
Trade receivables	21	1,670.5	1,760.9
Current financial assets	17	44.7	41.5
Current tax assets	22	39.1	29.8
Other current assets	23	365.6	303.3
Financial instruments - derivatives	19	49.8	40.2
Cash and cash equivalents	17. 31	515.2	450.5
Total current assets		**2,825.3**	**2,747.4**
Assets held for sale	24	-	22.9
Total assets		**8,902.4**	**8,787.7**

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 outlined in paragraph 2.04.02 of this consolidated financial statement.

mn€	Notes	30-June-18	31-Dec-17
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	25		
Share capital		1,465.9	1,473.6
Reserves		910.5	820.2
Profit (loss) for the year		158.1	251.4
Group net equity		**2,534.5**	**2,545.2**
Non-controlling interests		181.1	160.8
Total net equity		**2,715.6**	**2,706.0**
Non-current liabilities			
Non-current financial liabilities	26	3,003.8	2,892.2
Post-employment and other benefits	27	138.3	142.3
Provisions for risks and charges	28	433.5	432.5
Deferred tax liabilities	18	47.1	45.5
Financial instruments - derivatives	19	45.5	34.5
Total non-current liabilities		**3,668.2**	**3,547.0**
Current liabilities			
Current financial liabilities	26	337.5	279.6
Trade payables	29	1,091.1	1,395.9
Current tax liabilities	22	122.1	37.9
Other current liabilities	30	927.3	769.4
Financial instruments - derivatives	19	40.6	46.0
Total current liabilities		**2,518.6**	**2,528.8**
Total liabilities		**6,186.8**	**6,075.8**
Liabilities associated with assets held for sale	24	-	5.9
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**8,902.4**	**8,787.7**

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 outlined in paragraph 2.04.02 of this consolidated financial statement.

2.01.04
Cash flow statement

mn€	Notes	30-June-18	30-June-17
Pre-tax profit		**239.2**	**216.3**
Adjustments to reconcile net profit to the cashflow from operating activities:			
Amortisation and impairment of property, plant and equipment		81.6	82.3
Amortisation and impairment of intangible assets		106.0	100.3
Allocations to provisions		62.5	61.1
Effect of valuation using the equity method		(8.6)	(8.2)
Financial expense / (Income)		43.0	54.1
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)		3.1	(4.9)
Change in provision for risks and charges		(15.7)	(16.0)
Change in provision for employee benefits		(6.2)	(4.0)
Total cash flow before changes in net working capital		**504.9**	**481.0**
(Increase) / Decrease in inventories		(19.2)	(8.7)
(Increase) / Decrease in trade receivables		29.7	5.9
(Increase) / Decrease in trade payables		(306.8)	(208.4)
(Increase) / Decrease in other current assets/ liabilities		87.3	133.0
Change in working capital		**(209.0)**	**(78.2)**
Dividends collected		13.5	5.2
Interests income and other financial income collected		25.3	22.5
Interest expenses and other financial charges paid		(63.1)	(63.3)
Taxes paid		(12.8)	(13.5)
Cash flow from (for) operating activities (a)		**258.8**	**353.7**
Investments in property, plant and equipment		(62.6)	(49.5)
Investment in intangible assets		(123.6)	(120.8)
Investments in companies and business units net of cash and cash equivalents	31	(8.3)	(94.7)
Sale price of property, plant and equipment and intangible assets		3.1	1.7
Divestment of unconsolidated companies and contingent consideration		15.9	0.1
(Increase) / Decrease in other investment activities		10.9	(19.6)
Cash flow from (for) investing activities (b)		**(164.6)**	**(282.8)**
New issues of long-term bonds	31	118.7	-
Repayments and other net changes in borrowings	31	27.6	34.9
Lease finance payments	31	(1.3)	(2.0)
Proceeds from the sale of shares without loss of control	31	1.8	-
Acquisition of Interests in consolidated companies		-	(1.4)
Dividends paid out to Hera shareholders and non-controlling interests		(142.7)	(134.2)
Change in treasury shares		(33.6)	4.1
Other minor changes		-	**0.2**
Cash flow from (for) financing activities (c)		**(29.5)**	**(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)		64.7	(27.5)
Cash and cash equivalents at the beginning of the period		450.5	351.5
Cash and cash equivalents at the end of the period		515.2	324.0

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

mn€	Share capital	Reserves	Reserves for derivative instruments recognized at fair value	Reserve actuarial income/(losses) post-employment benefits	Profit for the year	Equity	Non-controlling interests	Total
Balance as of 31-Dec-16	**1,468.1**	**772.4**	**(0.4)**	**(29.5)**	**207.3**	**2,417.9**	**144.2**	**2,562.1**
Profit for the year					141.0	141.0	7.0	148.0
Other components of comprehensive income:								
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
Overall profit for the year	**-**	**-**	**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
Changes in equity investments		(0.3)				(0.3)	(1.1)	(1.4)
Changes scope of consolidation						-	1.1	1.1
Allocation of profit:								
Dividends paid out					(132.4)	(132.4)	(8.0)	(140.4)
Allocation to reserves		74.9			(74.9)	-		-
Balance as of 31-Jun-17	**1,469.6**	**849.6**	**1.8**	**(28.5)**	**141.0**	**2,433.5**	**143.5**	**2,577.0**
Balance as of 31-Dec-17	**1,473.6**	**847.8**	**4.1**	**(31.7)**	**251.4**	**2,545.2**	**160.8**	**2,706.0**
Adoption of IFRS 9		(19.3)				(19.3)	(0.6)	(19.9)
Balance as of 01-Jan-18	**1,473.6**	**828.5**	**4.1**	**(31.7)**	**251.4**	**2,525.9**	**160.2**	**2,686.1**
Profit for the year					158.1	158.1	9.1	167.2
Other components of comprehensive income:								
fair value of derivatives, change in the year			10.4			10.4	0.1	10.5
Actuarial income/(losses) post-employment benefits				(0.5)		(0.5)	0.1	(0.4)
Overall profit for the year	**-**	**-**	**10.4**	**(0.5)**	**158.1**	**168.0**	**9.3**	**177.3**
Change in treasury shares	(7.7)	(19.2)				(26.9)	(6.7)	(33.6)
Changes in equity investments		1.5				1.5	0.3	1.8
Changes scope of consolidation		6.7		0.2		6.9	27.5	34.4
Allocation of profit:								

Dividends paid out					(140.9)	(140.9)	(9.5)	(150.4)
Allocation to reserves		110.5			(110.5)	-		-
Balance as of 31-Jun-18	**1,465.9**	**928.0**	**14.5**	**(32.0)**	**158.1**	**2,534.5**	**181.1**	**2,715.6**

2.02
Explanatory notes

2.02.01
Accounting policies and evaluation principles

The bi-annual abbreviated consolidated financial statement as of 30 June 2018 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), as well as the provisions enacted in implementing article 9 of Italian Legislative Decree no. 38/2005.

In preparing the bi-annual abbreviated consolidated financial statements, prepared in accordance with IAS 34 Interim Financial Reporting, the same accounting principles were adopted as those utilized in drafting the consolidated financial statements as at 31 December 2017, which should be consulted for more detailed information, except for what is described in chapter 2.02.02 "Adoption of IFRS 9" and chapter 2.02.04 "Changes in international accounting standards".

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

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

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

This bi-annual abbreviated consolidated financial statement as at 30 June 2018 was drawn up by the Board of Directors and approved by the same at the meeting held on 30 July 2018. 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 31 December 2017. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results. The Statement of comprehensive income is presented in a separate document from the income statement, distinguishing items that may be reclassified subsequently to profit and loss and those that will never be reclassified to profit and loss. The other components of comprehensive income are shown separately also in the Statement of changes in equity. The Statement of financial position makes the distinction between current and non-current assets and liabilities. The Cash flow statement has been prepared using the indirect method.

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

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

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

Evaluation criteria

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

Going concern

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

Recognition of revenues

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

Depreciation

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

Provisions for risks

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

Deferred tax assets

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

Fair Value assessment and evaluation process

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

It is also noted that certain valuation processes, specifically the more complex ones such as establishing any impairment of non-current assets, are generally carried out fully only for the preparation of the annual financial statements, except in cases where there are impairment indicators that require an immediate 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
Adoption of IFRS 9

The new international accounting standard IFRS 9, issued by IASB on 24 July 2014 to replace the previous IAS 39, must be applied as of from 1 January 2018, as a result of the approval of Regulation 2067/2016.

The standard introduces new criteria to classify and value financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on the management of financial instruments and the characteristics of the contractual cash flows of financial assets in order to determine the valuation criterion, replacing the various rules set out in IAS 39. For financial liabilities, on the other hand, the main change concerns the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value through profit and loss, if these changes are due to changes in the creditworthiness of the issuer of the liability itself. According to the new standard, these changes must be recorded in the statement of comprehensive income instead of in the income statement, as before. Another significant change also involves the recognition of valuation differences if the estimates of payments or receipts in relation to financial assets and financial liabilities measured at amortised cost are adjusted. In fact, the new approach requires that the adjustment be recognised as income or expense in profits (losses) of the reporting period.

The new standard requires that the estimate of losses on receivables be made on the basis of the expected losses model (rather than the incurred losses model used by IAS 39), using information that is robust and available without unreasonable charges or efforts, including historical, current and prospective data. The standard requires that this valuation criterion be applied to all financial instruments, i.e. to financial assets measured at amortised cost, those measured at fair value through other components of the comprehensive income statement, receivables arising from lease contracts and trade receivables.

Finally, the standard introduces a new model of hedge accounting in order to adapt the requirements of the current IAS 39, which were sometimes considered too stringent and not suitable for reflecting the risk management policies of companies. The main new elements introduced concern:

- an increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible for hedge accounting;
- a change in the method of accounting for forward contracts and options when they are included in a hedge accounting relationship, in order to reduce the volatility of the income statement;
- changes to the effectiveness test by replacing the current procedures based on parameters of 80-125% with the principle of the economic relationship between the hedged item and the hedging instrument; in addition, a retrospective assessment of the effectiveness of the hedging relationship will no longer be required.

The increased flexibility of the new accounting rules is offset by additional disclosure requirements for risk management activities.

The Group has opted to apply the new standard retrospectively, except where the standard itself requires that no recalculation be made for previous years. The comparative data for the first period in which it is applied have not been redefined, respecting the simplified approach foreseen by the standard itself. Lastly, due to the nature of its operating activities, the Group has not changed the way it classifies and measures financial assets.

The following outlines how the new standard will affect the carrying amounts as of 1 January 2018:

- the recalculation of the amortised cost of financial liabilities to reflect the new methods of recording adjustments due to the revision of payment estimates (in connection with restructuring operations carried out in previous years) led to the reporting of an increase in the value of liabilities amounting to 5.3 million euros. As a result, in line with the duration of the loans, lower financial charges of the same amount will be reported in future years;
- as regards the impairment model based on expected credit loss, the Group developed a new credit management model, whose retroactive application introduced a redefinition which increased the provision for doubtful accounts, which led to a rise amounting to 18.2 million euros, particularly with regard to receivables that have not yet come due;

The impairment model based on the expected credit loss adopted by the jointly controlled company EstEnergy Spa resulted in an increase of 1 million euros in this company's provision for doubtful accounts.
Previous adjustments resulted in the reporting in equity of a negative transition reserve amounting to a total of 19.9 million euros, net of the related deferred taxes.

Lastly, as allowed by the standard, the Group maintained all hedging relationships as of 31 December 2017 designated in accordance with IAS 39, since they were not impacted by the new hedge accounting criteria set out in IFRS 9.

2.02.03

Scope of consolidation

The bi-annual abbreviated consolidated financial statement as at 30 June 2018 includes the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Small-scale subsidiaries are valuated at cost and excluded from overall consolidation.

Equity investments in joint ventures in which the Hera Group exercises joint control together 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-June-18		31-Dec-17		30-June-17	
	Average	Specific	Average	Specific	Average	Specific
Bulgarian Lev	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Polish Zloty	4.221	4.373	4.257	4.177	4.2689	4.2259
Serbian Dinar			121.356	118.639	123.321	120.578

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the first six months of the 2018 financial year as compared to the consolidated financial statement as 31 December 2017:

Acquisition of control	Loss of control
Blu Ranton Srl	Medea Spa
Megas. Net Spa	

On 8 February 2018, Hera Comm Marche Srl acquired all the shares of Blu Ranton Srl, a company that sells natural gas and electric power operating in the Marche and Abruzzo regions. The cost of the acquisition was approximately 8.6 million euros and the merger led to a client list to be registered for 10.9 million euros.

On 7 March 2018, the respective shareholders' meetings approved the merger by incorporation of Megas. Net Spa (the company that owns the distribution networks in the Pesaro and Urbino areas) into Marche Multiservizi Spa. The operation resulted in an increase in the share capital of the merging company to service the exchange of all the shares of the merged company. This capital increase, which will service the non-controlling shareholders, led to a reduction in the Group's interest in Marche Multiservizi Spa from 49.59% to 40.80%, but this reduction did not affect governance. The cost of the acquisition, represented by the value paid to the new shares issued by Marche Multiservizi, amounted to approximately 34.4 million euros. It should also be noted that, given that no interim situation of reference was available at the acquisition date, the revenues and costs of Megas. Net Spa were consolidated as of 1 January 2018. The effects of this simplification are to be considered irrelevant for the income statement of the first half of 2018, in particular with reference to the margin indicators.

On 6 April 2018, the parent company Hera Spa completed the sale of all the shares it held in Medea Spa. As of 31 December 2017 the net assets of the company, identified as a disposal group, were classified as held for sale under the disposal agreement signed on 21 December 2017. The proceeds for the divestiture at the date the transfer of shares was carried out amounted to approximately15.9 million euros.

Changes in equity investments

On 26 March 2018, Hera Comm Srl sold 2.88% of its shares in Hera Comm Marche Srl to the non-controlling shareholder, with a resulting change in the Group's interest in the company from 86.88% to 84%. The operation involved a revenue of approximately 1.8 million euros.

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

Other corporate operations

With effect from 1 January 2018, Amga Calore & Impianti Srl was merged by incorporation into Sinergie Spa, both 100% owned by the Group. Following this operation, Sinergie Spa changed its name to AcegasApsAmga Servizi Energetici Spa.

On 20 March 2018, after presenting the winning bid at the public auction held by the municipalities of Atessa, San Vito Chietino and Paglieta, Hera Comm Srl acquired 49% of SangroServizi Srl, a company that sells natural gas. On the basis of its current governance structure, it is deemed that there are not sufficient elements to establish that the Group has a significant influence over the company.

Business Combination operations

Business combination operations were accounted for in accordance with the international accounting principle IFRS3 revised. Specifically, the management conducted analyses of the fair value of assets, 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.

	Blu Ranton Srl	Megas. Net Spa	Total business combination
Non-current assets			
Property, plant and equipment		4.7	4.7
Intangible assets	10.9	34.0	44.9
Current assets			
Trade receivables	2.8	2.8	5.6
Other current assets	0.1	0.4	0.5
Cash and cash equivalents	1.0	1.1	2.1
Non-current liabilities			
Non-current financial liabilities	(0.1)	(2.5)	(2.6)
Post-employment and other benefits	(0.1)	(0.3)	(0.4)
Deferred tax liabilities	(3.1)		(3.1)
Current liabilities			
Current financial liabilities	(0.2)	(0.5)	(0.7)
Trade payables	(2.0)	(0.2)	(2.2)
Current tax liabilities		(0.2)	(0.2)
Other current liabilities	(0.7)	(4.9)	(5.6)
Total net assets acquired	**8.6**	**34.4**	**43.0**
Equivalent Fair value	8.6	34.4	43.0
Non-controlling interests acquired			-
Total value of the business combination	**8.6**	**34.4**	**43.0**
(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:

	Blu Ranton Srl	Megas. Net Spa	Total business combination
Reporting value of net assets acquired	**0.8**	**34.4**	**35.2**
Adjustments for Fair Value valuation			
Intangible assets	10.9		10.9
Deferred tax assets (liabilities)	(3.1)		(3.1)
Fair value of net assets acquired	**8.6**	**34.4**	**43.0**
Cash outlay	5.1		5.1
Issuance of equity instruments		34.4	34.4
Contingent consideration	3.5		3.5
Equivalent Fair value	**8.6**	**34.4**	**43.0**

As regards the evaluation of the fair value of the tangible and intangible assets acquired, the management's evaluations, which also considered the recoverable value of said assets (calculated on the basis of the business plans of the acquired entities), have provisionally led, pending the conclusion of the valuation activities, to the identification of a significant difference associated with the transaction to acquire control of Blu Ranton Srl. Specifically, a customer list of 10.9 million euros was recorded for the sale of natural gas and electricity, gross of the related deferred tax effect.

Furthermore, during January of this year, the evaluation process relating to the acquisition of Verducci Servizi Srl was completed. Specifically, the valuation of the list of customers for natural gas and electricity was revised to 2 million euros, compared with the valuation of 1.8 million euros carried out as of 31 December 2017.

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

2.02.04

Changes in international accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2018

Starting 1 January 2018, the following accounting standards and associated amendments as issued by the IASB and endorsed by the European Union, apply:

On 8 December 2016, the IASB published the document "**Improvements in International Financial Reporting Standards: 2014-2016 Cycle**" (Regulation 182/2018). These improvements include amendment to three previously existing international accounting standards: **Ifrs 12** – Disclosure of interests in other entities (already applicable as of 1 January 2017), **Ifrs 1** – First-time adoption (applicable as of 1 January 2018) and **Ias 28** – Investments in associates and joint ventures (applicable as of 1 January 2018). The amendments clarify, correct or remove redundant expressions or formulations in the text of the standards in question.

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.

Amendments to IAS 40 - Real estate investments. Document issued by the IASB on 8 December 2016. The amendments clarify the requirements concerning sale or purchase transfers of real estate investments.

Amendments to IFRS 4 - Application of IFRS 9 "Financial instruments" and IFRS 4 "Insurance contracts" (Regulation 1988/2017). 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.

Ifric 22 – Foreign currency transactions and advanced consideration. This interpretation, published by the IASB on 8 December 2016, establishes the exchange rate to be used in foreign exchange transactions that involve considerations payed or received in advance.

With reference to the application of these amendments and new interpretations, there were no observable effects on the Group's financial statements. It should be noted that the effects on the financial statements deriving from the first application of IFRS 9 "Financial Instruments" are illustrated in section 2.02.02.

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 2019, the following accounting standards and amendments of accounting standards will be obligatorily applied, having also already concluded the process of community endorsement:

IFRS 16 – Leases (Regulation 1986/2017). Standard issued by the IASB on 13 January 2016, to replace the IAS 17 standard "Leasing", as well as the interpretations of IFRIC 4 "Determining whether an agreement contains a lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the substance of transactions in the legal form of leasing".
The new standard provides a new definition of leases and introduces a criterion based on the right of use of an asset to distinguish lease contracts from service contracts, identifying discriminating factors such as: the identification of the property, the right to replace it, the right to obtain essentially all the economic benefits deriving from the use of the property and the right to manage the use of the property named in the contract.
This standard establishes a single model for the reporting and valuation of leasing contracts for lessees, which provides for the entry of leased goods including operating leases among assets, with a financial liability as a balancing entry, while also providing the possibility of not reporting as leases contracts relating to low-value assets and leases with a contract duration of 12 months or less. In contrast, the standard does not include significant changes for lessors.
The standard is applicable from 1 January 2019, but early application is allowed only for companies that have already applied IFRS 15 - Revenues from contracts with customers.
The Group has launched a project to implement the new standard, which involves an initial phase of analysing in detail contracts and instances of accounting impact and a second phase of adjusting administrative processes, including by updating the company's information system. The Group believes that the introduction of IFRS 16 could have a significant impact on the amounts and related disclosures in the consolidated financial statements. Recognition of the contracts potentially concerned by the new standard, along with a detailed analysis and an evaluation of the ensuing impact on accounting has been essentially completed. Based on this activity, the Group is currently engaged in the second phase of the project concerning, among other things, updating administrative procedures, including updates in the company’s IT system. Considering the considerable amount of information to be elaborated in this phase of the project, and given that the IT system is still being implemented, it is not possible to provide a reasonable estimate of these effects, which partially depend on the transition method that will be defined and is currently being evaluated. These activities will be completed during the second half of the year.

IFRS 9 - Financial Instruments (Regulation 498/2018). Document issued by IASB on 12 October 2017, applicable from 1 January 2019 with early application allowed. The amendments allow companies, if a specific condition is met, to valuate certain prepaid financial assets by means of so-called negative compensation at amortised cost, or at fair value with changes in the other components of the comprehensive income statement, instead of at fair value in the income statement. The directors are currently assessing possible effects deriving from the introduction of these amendments into the Group's consolidated financial statement.

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

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

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.

On 12 December 2017 the IASB published the document "Improvements to the International Financial Reporting Standard: 2015-2017 Cycle". These improvements include amendments to four existing international accounting standards:

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

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

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

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

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

Amendments to Ifrs 10 and Ias 28 – Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. This document was published by Iasb on 11 September 2014 in order to resolve any conflict between the two standards mentioned, regarding the transfer of an asset or a subsidiary to an associate or joint venture, applicable as of 1 January 2016. The amendments introduced foresee that in the event that an asset or a subsidiary is transferred or conferred to an associate or joint venture, the amount of profit or loss to be identified in the financial statements of the transferring/conferring party must be related to the classification of the transferred/conferred asset or subsidiary as a business, as defined by standard Ifrs 3. In the event that the transfer/conferral represents a business, the entity must identify the profit or loss in relation to the entire amount previously held; while, in the opposite case, the entity must identify the amount of profit or loss in relation to the amount still held by the entity that is to be eliminated.

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

2.02.05
Commentary notes to the financial statement formats

It is noted that paragraphs 1.01 and 1.02 show an analysis of management performance in the first half of the year which can aid in better understanding the changes that occurred in the key items of operating expenses and revenues.

1 Revenues

	first six months of 2018	first six months of 2017	Changes
Revenues from sales and services	2,959.5	2,747.7	211.8
Changes in contract work in progress, semi-finished and finished products	7.2	6.3	0.9
Total	**2,966.7**	**2,754.0**	**212.7**

"Revenues from sales and services", the increase compared to the first half of 2017 mainly stems from the Gas and Electricity operating sectors. In particular, there was an increase in volumes of both trading activities on the natural gas markets and the sale of electricity and methane gas, partially offset by a decrease in trading activities on electricity and revenues from the sale of energy produced by the plants managed by the Group.

Revenues are achieved mainly in Italy.

2 Other operating revenues

	first six months of 2018	first six months of 2017	Changes
Long-term contracts	100.3	105.3	(5.0)
White certificates	48.2	40.3	7.9
Operating grants and grants for separated waste collection	28.2	29.9	(1.7)
Grants related to plants	5.2	4.8	0.4
Use of funds	4.2	4.5	(0.3)
Other revenues	23.7	17.5	6.2
Total	**209.8**	**202.3**	**7.5**

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

"Long-term contracts" include revenues generated from the construction or improvement of infrastructures held in concession as per the interpretation of IFRIC 12 The change is due to lesser investments being made as compared to the first six months of 2017.

“White Certificates”, highlight the revenues calculated on the basis of energy efficiency objectives for the year as established by the Gse and accounted for in relation to the Cassa per i Servizi Energetici e Ambientali. The positive change was mainly due to the higher market value of these certificates as compared to the first six months of the previous year.

"Operating grants and grants for separated waste collection" include operating grants, amounting to 13.1 million euros (15.4 million euros in the first six months of 2017), mainly comprising incentives provided by the GSE for the production of electricity using photovoltaic plants and contributions received from public bodies, agencies or institutions for specific projects carried out by Group companies, and contributions from separated waste collection, amounting to 15.1 million euros (14.5 million euros in the first six months of 2017), consisting mainly of the value of packaging materials (cardboard, iron, plastic and glass) sold to the Conai consortia.

“Grants related to plants” represent the revenues related to the amount of amortisation involved in the asset concerned by the grant, mainly regarding the water cycle.

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

"Other revenues" mainly relate to the recovery of costs, safety incentives, rental income, the sale of materials and capital gains on the disposal of assets.

3 Use of raw materials and consumables

	first six months of 2018	first six months of 2017	Changes
Electricity	554.9	559.2	(4.3)
Gas earmarked for sale, net of changes in stocks	613.8	460.8	153.0
White and grey certificates	56.9	38.3	18.6
Maintenance materials net of changes in stocks	31.5	31.6	(0.1)
Water	25.4	24.3	1.1
Plastics net of changes in stocks	25.3	22.7	2.6
Methane gas for industrial use	9.9	9.6	0.3
Chemical products	8.8	7.9	0.9
Fuels, motor fuels and lubricants	8.0	9.0	(1.0)
Charges and revenues from certificate valuation	(4.8)	3.0	(7.8)
Charges and revenues from derivatives	(16.9)	(1.8)	(15.1)
Consumables and miscellaneous	14.8	13.8	1.0
Total	**1,327.6**	**1,178.4**	**149.2**

"Gas earmarked for sale net of changes in stocks", the increase as compared to the first six months of 2017 is mainly due to the greater volumes of trading activity on the wholesale natural gas markets and to the increase in sales to end customers.

"White, grey and green certificates" includes the purchase cost of the various types of environmental certificates incurred during the first half of 2018: 48.8 million euros in white certificates (36.7 million euros in 2017) and 8.1 million euros in grey certificates (1.6 million euros in 2017). The change from the previous year was due to different procurement dynamics in relation to the Group's need for certificates, as well as rising purchase prices.

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

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

4 Service costs

	first six months of 2018	first six months of 2017	Changes
Transport and storage	542.7	488.7	54.0
Work and maintenance charges	161.2	174.3	(13.1)
Waste transportation, disposal and collection	159.3	147.4	11.9
Fees paid to local authorities	33.9	39.0	(5.1)
Other commercial services	23.0	21.0	2.0
IT and data processing services	19.9	16.2	3.7
Rents and leases payable	15.2	14.7	0.5
Professional, legal and tax services	14.1	12.7	1.4
Recruitment, training and other staff costs	9.3	9.0	0.3
Technical services	9.0	9.6	(0.6)
Insurance	7.8	8.6	(0.8)
Postal and telephone costs	7.0	8.1	(1.1)
Bank fees and charges	5.4	5.4	-
Legal and financial announcements and advertising, communication with customers	3.8	2.9	0.9
Remuneration to statutory auditors and directors	3.0	3.0	-
Other service costs	17.0	21.1	(4.1)
Total	**1,031.6**	**981.7**	**49.9**

"Transport and storage" includes the costs of distributing, transporting and storing gas as well as electricity distribution. The increase compared with the first half of 2017 is mainly due to the increase in electricity sales volumes to end customers.

"Charges for works and maintenance" includes the costs for the construction or improvement of infrastructures under concession pursuant to the application of the IFRIC 12 interpretation and costs for maintaining the plants: The change compared to the previous year is mainly due to fewer investments in networks under concession, as already highlighted in note 2 "Other operating revenues", and to the decrease in activities relating to the environment business as compared to the first half of 2017.

“Waste transportation, disposal and collection”, the increase is due to the higher costs involved in the environment business unit, in keeping with the increases reported from waste management revenues.

The item "Fees paid to local authorities" includes, among other charges, the fees 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 telecommunications networks and recycling centres.

"Other commercial services" includes the costs incurred in developing natural gas and electricity sales, particularly in view of the need to strengthen sales and support structures.

For the item "IT and data processing services", the increase is due both to higher costs for maintenance activities on existing applications used by the Group and to the greater number of projects developed during the first half of 2018 compared ot the same period in the previous year.

5 Personnel costs

	first six months of 2018	first six months of 2017	Changes
Social security contributions	265.1	266.9	(1.8)

Post-employment and other benefits	0.4	0.4	-
Other costs	16.2	15.1	1.1
Total	**281.7**	**282.4**	**(0.7)**

The decrease of 0.7 million euros in labour costs as compared with the first half of 2017 is mainly due to the decrease in the number of employees during the period, an effect partially offset by the normal evolution of contractual trends.

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

	first six months of 2018	first six months of 2017	Changes
Managers	150	151	(1)
Middle management	532	536	(4)
Clerks	4,585	4,592	(7)
Blue-collar workers	3,295	3,407	(112)
Total	**8,562**	**8,686**	**(124)**

Overall, the average cost of labour per capita for the first six months of 2018 was 32.9 thousand euros (32.5 thousand euros in the first half of 2017).

At 30 June 2018, the actual headcount of employees was 8,555 (8,689 as of 30 June 2017).

6 Other operating costs

	first six months of 2018	first six months of 2017	Changes
Taxation other than income taxes	6.8	6.5	0.3
State rentals	5.8	3.0	2.8
Bad debt losses	3.5	-	3.5
Landfill special tax	2.4	2.5	(0.1)
Losses on the sale and disposal of assets	1.3	0.6	0.7
Other minor charges	10.5	13.2	(2.7)
Total	**30.3**	**25.8**	**4.5**

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

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

"Bad debt losses" refer mainly to the sale of "non performing" loans for which extra-judicial recovery activities ended without recovering the outstanding amounts.

"Special landfill tax" refers to the relevant environmental tax for the period on landfills operated by the Group.

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

7 Capitalized costs

	first six months of 2018	first six months of 2017	Changes
Increase in self-constructed assets	18.3	17.9	0.4

This item includes mainly the labour costs and other charges (such as materials and vehicle hours) directly attributable to orders carried out within the Group itself.

8 Amortisation, provisions and depreciation

	first six months of 2018	first six months of 2017	Changes
Amortisation property, plant and equipment	81.6	82.3	(0.7)
Amortisation intangible assets	106.0	100.3	5.7
Allowance for bad debts	44.5	48.8	(4.3)
Provisions for risks and charges	18.7	15.6	3.1
De-provisioning	(0.8)	(3.3)	2.5
Total	**250.0**	**243.7**	**6.3**

As breakdowns and further detail about these items, please refer to the comments under note 13 "property, plant and equipment", note 14 "intangible assets", note 21 "trade receivables" and note 28 "provisions for risks and charges".

For "Amortisation property, plant and equipment", the decrease is mainly due to the lower contributions made to the Group's landfills as compared to the first half of 2017, which led to lower amortisation and depreciation amounting to 1.4 million euros.

For "Amortisation intangible assets", the increase is mainly due to goods relating to public services under concession as a result of contract work carried out in previous years, in particular involving the methane gas distribution sector and water cycle.

The item “De-provisioning” includes the re-verification of the various funds in view of the fact that the underlying risks no longer exist. As of 30 June 2018, there were reclassifications in the amount of 0.7 million euros to the "Waste disposal provision", while as of 30 June 2017 there were reclassifications to the "Provision for legal and personnel disputes" in the amount of 2 million euros and to the "Provisions for risks and charges" in the amount of 1.3 million euros.

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

	first six months of 2018	first six months of 2017	Changes
joint venture share of net profits	4.4	4.2	0.2
associated companies share of net profits	4.2	4.0	0.2
Total	**8.6**	**8.2**	**0.4**

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

The "joint venture share of net profits" mainly refers to the share of the Group's net income earned by Enomondo Srl, 1.2 million euros (0.9 million euros in the first half of 2017) and Estenergy Spa, 3.2 million euros (3.3 million euros in the first half of 2017).

"Associated companies share of net profits" relates mainly to the companies:
- Aimag Spa, 1.7 million euros (2 million euros in profits in the first half of 2017);
- Sgr Servizi Spa, profits for 2.1 million euros (2.1 million euros in the first half of 2017).
- Set Spa, 0.3 million euros (0.1 in losses in the first half of 2017);

10 Financial income and expenses

	first six months of 2018	first six months of 2017	Changes
Revenues from derivatives	35.2	33.7	1.5
Customers	15.2	11.5	3.7
Income from valuation at fair value of financial liabilities	-	10.3	(10.3)
Other financial income	10.2	3.0	7.2
Total income	**60.6**	**58.5**	**2.1**
Financing and Bonds	45.4	45.6	(0.2)
Charges from derivatives	28.3	42.3	(14.0)
Charges from valuation at fair value of financial liabilities	9.3	4.0	5.3
Discounting of provisions and finance leases	9.0	10.6	(1.6)
Valuation at depreciated cost of financial liabilities	5.2	4.1	1.1
Factoring	3.1	2.4	0.7
Loans	2.2	2.5	(0.3)
Other financial charges	1.1	1.1	-
Total expenses	**103.6**	**112.6**	**(9.0)**
Total net financial expense (Income)	**(43.0)**	**(54.1)**	**11.1**

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

For further details on "Loans" and "Financing and bonds", see note 26 "Non-current and current financial liabilities", while for "Income and charges from valuation at fair value of financial liabilities" and "Income and charges from derivatives", see note 19 "Derivative financial instruments".

For "Customers", the increase is mainly due to the fact that the billing system for interest on payments in arrears for gas and electricity customers is now fully operational and comprehensive.

"Other financial income" includes a gain of 4.8 million euros generated by the April 2018 sale of the Group's investment in Medea Spa and dividends of 3 million euros received from unconsolidated investee companies.

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

	first six months of 2018	first six months of 2017	Changes
Post-closure landfill	6.0	7.4	(1.4)
Restoration of third-party assets	2.1	2.0	0.1
Employee leaving indemnity and other benefits	0.6	0.9	(0.3)
Finance leases	0.2	0.2	-
Plants dismantling	0.1	0.1	-
Total	**9.0**	**10.6**	**(1.6)**

The item "Valuation at depreciated cost of financial liabilities" represents the breakdown (depreciation) of the costs associated with financial liabilities for the entire duration of the loans using the effective interest method. The item is affected by the first application of the accounting principle IFRS 9, as illustrated in section 2.02.02, which should be consulted for further details.

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

11 Taxes

This item is made up as follows:

	first six months of 2018	first six months of 2017	Changes
IRES	56.8	54.2	2.6
IRAP	14.9	15.0	(0.1)
Substitute tax	0.3	(0.9)	1.2
Total	**72.0**	**68.3**	**3.7**

The tax due the first half of 2018 amounted to 72 million euros, generating a tax rate of 30.1%, significantly improved as compared to 31.6% for the same period of the previous financial year. The benefits recognised by law that the Group proved able to grasp contributed to this improvement. In particular: maxi and over amortization (the latter relating to substantial investments in capital goods needed for the technological and digital transformation of the company as it moves towards Industry 4.0), tax credits for research and development and the final balance on previously acquired benefits (patent box).

Below is a brief summary of tax litigation as of 30 June 2018:

- 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. 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 were served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. These notices of assessment relate to tax periods from 2011 to 2015 and altogether amount to 2.1 million euros. The company filed appeals or complaints against these notices in February 2017. Some of these disputes were settled by judicial settlement in June 2018, resulting in an outlay of 1.1 million euros. The Group, having obtained the advice of its legal counsel, decided to maintain a provision of 1.0 million euros to cover residual risks;
- 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 ruling, handed down on 12 February 2018, went against the company. On 31 May 2018 appeals were lodged with the Regional Tax Commission of Emilia Romagna in reference to the two unfavourable rulings. At the moment, a hearing has been set for 15 October 2012 exclusively for the IMU period 2012-2015. The Group, on the basis of the advice provided by its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- tax audits to Herambiente Spa, for tax 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 handed down in 2015. With regard to the 2010 and 2011 tax years, two sentences were handed down in 2017, also in the company's favour. The Inland Revenue has filed appeals and a hearing has not yet been scheduled. In 2016, additional notices of assessment were served for the 2012 and 2013 tax years, against which the company filed the relevant appeals. On 10 November 2017 the relative rulings were filed, both unfavourable to the company. On May 8, 2018, the company filed appeals against the abovementioned rulings. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- tax audits to Hera Trading Srl, concerning the tax periods from 2010 to 2014. The most significant of these notifications regards the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates for the purposes of calculating IRES. In 2016, a notice of assessment was served in relation to IRES 2011, for 2.1 million euros of tax, against which the company appealed; on 18 January 2018 the ruling was filed as unfavourable to the company, but without the application of penalties. On 17 July 2018, the company filed an appeal. On 7 September 2017 a similar assessment notice was served for IRES 2012, amounting to 0.5 million euros in taxes, for which a presidential suspension of execution was obtained. The hearing was held on 30 January 2018 and the sentence, which was unfavourable to the company, was filed on 8 May 2018. In this case, too, an appeal will be made in accordance with the provisions of the law. On 20 July, a notice of assessment relating to 2013 for 0.4 million euros in taxes was served along with two notices of assessment for minor findings relating to IRAP and VAT, already contested in the 2015 PVC of the Guradia di Finanza. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- assessment notices for the tax periods from 2013 to 2017 for TOSAP and COSAP, notified on 28 June 2018 and 20 July 2018 to Hera Spa by the Municipality of Riccione, relating to the permanent occupation of public land with waste bins, for a total amount of 3.5 million euros. The Group is preparing the relative appeals and, having also consulted its lawyers, has decided not to make any provision to the risk provision for the litigation in question.

12 Earnings per share

	first six months of 2018	first six months of 2017
Profit (loss) for the year attributable to holders of ordinary shares of the Parent Company (A)	158.1	141.0
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
basic (B)	1,468,760,420	1,470,582,675
diluted (C)	1,468,760,420	1,470,582,675
Earnings (loss) per share (in euros)		
basic (A/B)	**0.108**	**0.096**
diluted (A/C)	**0.108**	**0.096**

Basic earnings per share are calculated on the operating result attributable to holders of ordinary shares of the parent company. Diluted earnings per share are equal to the base as there are no classes of shares other than ordinary shares and there are no instruments that can be converted into shares.

As of this writing, the share capital of the parent company, Hera S.p.A., consisted of 1,489,538,745 ordinary shares, unchanged from 30 June 2017, which were used in determining basic and diluted earnings per share.

13 Property, plant and equipment

	30-June-18	31-Dec-17	Changes
Land and buildings	565.4	571.3	(5.9)
Plants and machinery	1,158.5	1,201.6	(43.1)
Other moveable assets	122.0	120.3	1.7
Assets under construction	149.7	119.9	29.8
Total operating assets	**1,995.6**	**2,013.1**	**(17.5)**
Investment property	2.5	2.6	(0.1)
Total	**1,998.1**	**2,015.7**	**(17.6)**

The following are held on the basis of finance leasing arrangements:
- "Land and buildings" for 16.6 million euros (16.8 million euros as at 31 December 2017);
- "Plants and machinery" for 5.8 million euros (6.5 million euros as at 31 December 2017);

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

	Net opening balance	Investments	Disinvestments	depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	Of which amortisation provision
30-June-17									
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)
Assets under construction	99.6	36.8	(0.1)	-	0.2	(15.5)	121.0	121.0	-
Total	**2,016.4**	**49.4**	**(1.2)**	**(82.3)**	**33.4**	**(1.9)**	**2,013.8**	**3,936.5**	**(1,922.7)**
30-June-18									
Land and buildings	571.3	1.0	(1.6)	(9.0)	1.4	2.3	565.4	772.3	(206.9)
Plants and machinery	1,201.6	5.4	(2.1)	(58.6)	3.2	9.0	1,158.5	2,666.2	(1,507.7)
Other moveable assets	120.3	3.8	(0.3)	(14.0)	-	12.2	122.0	454.9	(332.9)
Assets under construction	119.9	52.1	-	-	0.1	(22.4)	149.7	149.7	-
Total	**2,013.1**	**62.3**	**(4.0)**	**(81.6)**	**4.7**	**1.1**	**1,995.6**	**4,043.1**	**(2,047.5)**

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

"Land and buildings", totalling 565.4 million euros, consists of 117.8 million euros in land and buildings and 447.6 million euros in buildings. These are mainly company-owned properties on which the majority of the sites and production plants stand.

"Plant and machinery", amounting to 1,158.5 million euros, is made up mainly of distribution networks and plants relating to business not falling within the scope of the concession system and, therefore: district heating, electricity in the Modena area, waste disposal, waste treatment, purification and composting, material recovery and chemical-physical treatment, anaerobic digesters, and special waste treatment plants. The main investments and disinvestments during the year related to waste treatment and disposal activities.

"Other moveable assets", equal to 122 million euros, include the equipment, waste disposal bins for 59.5 million Euros, moveable assets, furniture and electronic machines for 16.8 million Euros, and vehicles and cars for 45.7 million Euros.

"Assets under construction and advance payments", amounting to 149.7 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.

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

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

14 Intangible assets

	30-June-18	31-Dec-17	Changes
Industrial patents and intellectual property rights	71.9	55.8	16.1
Concessions, licences, trademarks and similar rights	80.7	86.7	(6.0)
Public services under concession	2,547.1	2,574.3	(27.2)
intangible assets under construction and public services under concession	238.2	161.3	76.9
intangible assets under construction	50.6	63.9	(13.3)
Customer lists	154.9	148.1	6.8
Other intangible assets	36.2	36.9	(0.7)
Total	**3,179.6**	**3,127.0**	**52.6**

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

	Net opening balance	Investments	Disinvestments	depreciation and amortisation	Changes in the scope of consolidation	Other changes	Net closing balance	of which gross final amount	Of which amortisation provision
30-June-17									
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 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	-
Customer lists	86.1	-	-	(8.5)	92.3	-	169.9	198.3	(28.4)
Other intangible assets	27.4	1.4	-	(2.7)	0.1	2.5	28.7	115.1	(86.4)
Total	**2,968.0**	**120.9**	**(0.5)**	**(100.3)**	**92.4**	**2.0**	**3,082.5**	**5,379.4**	**(2,296.9)**
30-June-18									
Industrial patents and intellectual property rights	55.8	0.8	-	(14.2)	0.1	29.4	71.9	381.5	(309.6)
Concessions, licences, trademarks and similar rights	86.7	0.2	-	(6.2)	-	-	80.7	385.8	(305.1)
Public services under concession	2,574.3	12.9	-	(75.0)	33.9	1.0	2,547.1	4,326.8	(1,779.7)
intangible assets under construction and public services under concession	161.3	87.5	(0.2)	-	-	(10.4)	238.2	238.2	-
intangible assets under construction	63.9	18.7	-	-	-	(32.0)	50.6	50.6	-
Customer lists	148.1	2.0	-	(6.5)	11.0	0.3	154.9	192.9	(38.0)

Other intangible assets	36.9	1.5	-	(4.1)	0.1	1.8	36.2	126.4	(90.2)
Total	**3,127.0**	**123.6**	**(0.2)**	**(106.0)**	**45.1**	**(9.9)**	**3,179.6**	**5,702.2**	**(2,522.6)**

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

"Industrial patents and intellectual property rights," in the amount of 71.9 million euros, mainly refers to costs incurred in purchasing and implementing corporate information systems.

"Concessions, licences, trademarks and similar rights," amounting to 80.7 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 2,547.1 million euros, include assets relating to gas distribution, electricity distribution (Imola area), the integrated water cycle and public lighting activities (except for the latter, as specified in note 17 'Current and non-current financial assets') provided through contracts awarded the respective public bodies. These concession relationships and associated assets involved in carrying out the activities for which the Group holds the use rights, are accounted for by applying the intangible asset model as set forth by IFRIC interpretation 12. Investments for the year related mainly to the water networks, in the amount of 11.8 million euros, and gas distribution networks, in the amount of 1 million euros.

"Intangible assets under construction and public services under concession," amounting to 238.2 million euros, refers to investments related to the these same contracts that have yet to be concluded at year-end. The significant increase in investments compared to the previous period is mainly due to the works carried out on the water network under management.

"Intangible assets under construction", equal to 50.6 million euros, essentially comprises IT projects that are still incomplete.

"Customer lists", amounting to 154.9 million euros, are recorded as a result of business combination transactions and the consequent valuation of the assets acquired. The amortisation period of these customer lists is correlated to the churn rate identified for each individual transaction.

The item "Other intangible assets", amounting to 36.2 million euros, refers mainly to use rights for networks and infrastructures for the passage and laying down of telecommunication networks, as well as multi-year contractual rights.

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

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

15 Goodwill

	30-June-18	31-Dec-17	Changes
Goodwill	384.1	384.1	-

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 2018 has not been prepared.

16 Equity investments

	30-June-18	31-Dec-17	Changes
Investments valued using the equity method	131.0	135.6	(4.6)
Other investments	14.9	13.2	1.7
Total	**145.9**	**148.8**	**(2.9)**

The changes in joint ventures and associated companies as compared to 31 December 2017 take into account the pro-quota losses and profits reported by the respective companies (including the other components of the comprehensive income statement) as well as the reduction of the value for any dividends that were distributed. The share of profit/(loss) pertaining to companies accounted for by the equity method is shown in note 9 "Share of profit (loss) of joint ventures and associated companies".

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

	31-Dec-17	Investments	Valuation net equity	Dividends paid	Other changes	30-June-18
Aimag Spa	48.1	-	1.7	(1.7)	-	48.1
Enomondo Srl	15.3	-	1.2	(1.8)	-	14.7
EstEnergy Spa	12.8	-	3.2	(5.9)	(0.8)	9.3
Set Spa	34.8	-	0.3	-	-	35.1
Sgr Servizi Spa	22.1	-	2.1	(2.9)	-	21.3
Other minor	2.5	-	0.1	-	(0.1)	2.5
Total	**135.6**	**-**	**8.6**	**(12.3)**	**(0.9)**	**131.0**

Other changes relating to the investment in EstEnergy Spa, amounting to 0.8 million euros, represent the effect on the shareholders' equity of the company (for the portion pertaining to the Group) of the adoption of the new IFRS 9 standard, specifically with reference to the valuation of receivables using the expected loss method.

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

	31-Dec-17	Investments	Disinvestments	Depreciation	Other changes	30-June-18
Calenia Energia Spa	7.0	-	-	-	-	7.0
Veneta Sanitaria Finanza di Progetto Spa	3.6	-	-	-	-	3.6
SangroServizi Srl	-	1.7	-	-	-	1.7
Other minor	2.6	-	(0.1)	-	0.1	2.6
Total	**13.2**	**1.7**	**(0.1)**	**-**	**0.1**	**14.9**

On 20 March 2018 Hera Comm Srl acquired 49% of the share capital of SangroServizi Srl, a company operating in the sale of natural gas.

17 Current and non-current financial assets

	30-June-18	31-Dec-17	Changes
Loan receivables	73.3	78.4	(5.1)
Portfolio securities	2.5	2.5	-
Receivables for construction services	12.3	12.7	(0.4)
Other financial receivables	31.1	31.6	(0.5)
Total non-current financial assets	**119.2**	**125.2**	**(6.0)**
Loan receivables	11.1	9.0	2.1
Portfolio securities	0.1	0.2	(0.1)
Other financial receivables	33.5	32.3	1.2
Total current financial assets	**44.7**	**41.5**	**3.2**
Total cash and cash equivalents	**515.2**	**450.5**	**64.7**
Total financial assets, cash and cash equivalents	**679.1**	**617.2**	**61.9**

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

	30-June-18			31-Dec-17		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Aloe SpA	8.8	1.2	10.0	9.2	0.8	10.0
Calenia Energia Spa	14.6	2.5	17.1	17.0	0.3	17.3
Set Spa	25.7	4.6	30.3	27.0	4.5	31.5
Tamarete Energia Srl	18.4	2.6	21.0	19.4	2.5	21.9
Other minor	5.8	0.2	6.0	5.8	0.9	6.7
Total	**73.3**	**11.1**	**84.4**	**78.4**	**9.0**	**87.4**

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

"Receivables for construction services", are recorded in relation to municipalities for construction services for public lighting systems in compliance with the financial activity model provided for by the IFRIC 12 interpretation.

For "Other financial receivables", the non-current section refers to 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 17.9 million euros;
- receivable from the "Collinare" Consortium of Municipalities in the amount of 12 million euros represents the credit for the compensation owed to the outgoing provider when the gas distribution services contract comes to an end;

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

- public grant receivables to be received from various different subjects (Cato, the Friuli Venezia Giulia Region and the Veneto Region, among others) in the amount of 16.8
- Receivables from the Consorzio stabile energie locali (Csel) by the subsidiaries AcegasApsAmga Spa and Hera Luce Srl totalling 5.6 million euros;

- advance payments to cover expenses paid by several Group companies as gas distribution service operators in view of the commencement of the calls for tender, in the amount of 4.5 million euros;
- receivables for collections to be received following the award of the public tender for the lighting service (launched by Consip to award the contract to serve public administrations) to the agent ATI in the amount of 3.3 million euros.

To better understand the financial dynamics taking place during the first half of the 2018 financial year, see the financial statement and the comments shown in the management report.

18 Deferred tax assets and liabilities

	30-June-18	31-Dec-17	Changes
Deferred tax assets	243.8	220.7	23.1
Offsetting of deferred tax liabilities	(77.7)	(72.0)	(5.7)
Substitute tax credit	1.5	1.8	(0.3)
Total net deferred tax assets	**167.6**	**150.5**	**17.1**
Deferred tax liabilities	124.8	117.5	7.3
Offsetting of deferred tax liabilities	(77.7)	(72.0)	(5.7)
Total net deferred tax liabilities	**47.1**	**45.5**	**1.6**

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

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

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

19 Financial instruments - derivatives

Current assets and liabilities					
		30-June-18		31-Dec-17	
Underlying	**Fair Value Hierarchy**	**Fair value assets**	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Loans	2	82.6	45.5	66.1	34.5
Total non-current derivatives		**82.6**	**45.5**	**66.1**	**34.5**
Current assets and liabilities					
		30-June-18		31-Dec-17	
Underlying	**Fair Value Hierarchy**	**Fair value assets**	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Commodity	3	9.6	0.5	3.8	0.2
Commodity	2	40.2	40.1	36.4	45.8
Total current derivatives		**49.8**	**40.6**	**40.2**	**46.0**
Total financial instruments - derivatives		**132.4**	**86.1**	**106.3**	**80.5**

Derivative financial instruments classified under non-current liabilities amounted to 82.6 million euros (66.1 million euros as of 31 December 2017); they refer to interest rate derivatives for 69.1 million euros and to derivatives on exchange rates in connection to loans for 13.5 million euros. Derivative financial instruments classified under non-current assets amounted to 45.5 million euros (34.5 million euros as of 31 December 2017) and referred entirely to interest rate derivatives.
With regard to derivatives on current and long-term interest rates in the form of Interest Rate Swaps (IRS) as at 30 June 2018, the Group's net exposure was positive by 23.6 million euros, compared with a positive exposure of 26.3 million Euros as of 31 December 2017. The most significant change compared with 31 December 2017, therefore, refers to foreign exchange derivatives, whose increase in fair value is due mainly to the appreciation of the Japanese yen versus the euro in the first six months of 2018 (about 6 basis points).

The financial instruments recognized as current assets and liabilities represent derivatives that are expected to be realized within one year and refer exclusively to commodity derivatives. The increase in total outstanding exposure compared with 31 December 2017 is mainly due to the increase in the volumes underlying outstanding contracts.

During the first six months of 2018, no transfers took place between the different levels of fair value indicated above.

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

Hedging relationships						
	30-June-18			**31-Dec-17**		
	Fair value assets	Fair value liabilities	**Net effect .**	**Fair value assets**	Fair value liabilities	**Net effect .**
Cash flow hedges	25.4	5.6	19.8	6.2	0.9	5.3
Fair value hedges	13.5	24.6	(11.1)	5.3	25.7	(20.4)
Non hedge accounting	93.5	55.9	37.6	94.8	53.9	409
Total fair value	**132.4**	**86.1**	**46.3**	**106.3**	**80.5**	**25.8**

Operating management						
	first six months of 2018			**first six months of 2017**		
	income	expenses	**Net effect .**	**income**	expenses	**Net effect .**
Cash flow hedges	3.5	-	3.5	-	-	-
Non hedge accounting	54.7	(41.3)	13.4	44.1	(42.3)	1.8
Total operating income (expenses)	**58.2**	**(41.3)**	**16.9**	**44.1**	**(42.3)**	**1.8**

Financial operations						
	first six months of 2018			**first six months of 2017**		
	income	expenses	**Net effect .**	**income**	expenses	**Net effect .**
Cash flow hedges	0.1	(0.6)	(0.5)	0.1	(0.6)	(0.5)
Fair value hedges	11.5	(4.1)	7.4	6.4	(14.4)	(8.0)
Non hedge accounting	23.6	(23.6)	0.0	27.2	(27.3)	(0.1)
Total financial income (expenses)	**35.2**	**(28.3)**	**6.9**	**33.7**	**(42.3)**	**(8.6)**

Derivatives designated as cash flow hedges refer to:

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

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

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

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

In relation to fair value hedging, as of 30 June 2018 the breakdown of income and charges relating to underlying liabilities, adjusted for gains and losses attributable to the hedged risk, is as follows:

Underlying amounts hedged	first six months of 2018			first six months of 2017		
	income	expenses	Net effect .	income	expenses	Net effect .
Valuation of financial liabilities	-	(9.3)	(9.3)	10.3	(4.0)	6.3

Interest rate risk and currency risk on financing transactions

The cost of financing is affected by interest rate fluctuations. In the same way, the fair value of financial liabilities is also subject to interest rate and exchange rate fluctuations.

To mitigate interest rate volatility risk and simultaneously ensure a correct balance between fixed rate debt and variable rate debt, the Group has stipulated interest rate derivatives (cash flow hedges and Fair Value hedges) in relation to a portion of its financial liabilities. At the same time, to mitigate exchange rate volatility risk, the Group has stipulated foreign exchange derivatives (Fair Value Hedges) to fully hedge loans in foreign currencies.

Market risk and currency risk on commercial transactions

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

With reference to these risks, the Group has set up a number of commodities derivatives aimed at pre-establishing the effects on sales margins irrespective of changes in market conditions. Only a residual part of these financial instruments meets the necessary requirements to be recorded as cash flow hedges. As for the remaining part, although not formally meeting the criteria outlined in the IFRS 9 standard to be accounted for under hedge accounting, these derivatives effectively serve the function of hedging for fluctuations in prices and exchange rates on raw materials purchased, and fall within the Group's risk mitigation policy.

20 Inventories

	30-June-18	31-Dec-17	Changes
Raw materials and stocks	82.2	73.5	8.7
Materials earmarked for sale and final products	19.4	15.5	3.9
Contract work in progress	38.8	32.2	6.6
Total	**140.4**	**121.2**	**19.2**

"Raw materials and stocks", stated net of an obsolescence provision, mainly comprise gas stocks, for 39.1 million euros(32.3 million euros as at 31 December 2017), spare parts and equipment used for maintenance and running of operating plants and networks, equal to 35.5 million euros (34.9 million euros as at 31 December 2017) and plastic materials earmarked for regeneration in the amount of 7.6 million euros (6.3 million euros as at 31 December 2017).

"Materials earmarked for sale" mainly consists of:

- GVG system - Steam Grid Generator - and complementary plant components for a total of 9.6 million euros (the value attributed as of 31 December 2017 has been confirmed, lacking new elements useful in defining the recovery value).
- plastic products made in the Group's regeneration plants equal to 6.7 million euros (5.5 million euros at 31 December 2017);
- 2.9 million euros in equipment and devices used to provide services and finished products for projects commissioned by customers in the telecommunications sector

The item "contract work in progress" includes long-term contracts for plant construction work, mainly in relation to gas, water, heat management and public lighting (the latter having increased 6.9 million euros since 31 December 2017).

21 Trade receivables

	30-June-18	31-Dec-17	Changes
loans to customers	1,412.2	1,317.4	94.8
Allowance for bad debts	(316.4)	(271.0)	(45.4)
loans to customers for bills and invoices not yet issued	574.7	714.5	(139.8)
Total	**1,670.5**	**1,760.9**	**(90.4)**

Trade receivables comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 30 June 2018, as well as receivables for revenues coming due during the period, referring to the water sector, which will be billed in the following period in accordance with the billing methods for final customers established by Aeegsi.

Changes in the provisions for bad debts were as follows:

	Final balance previous period	Adoption of IFRS 9	Initial balance	Allocations	Changes scope of consolidation	Uses and other movements	Closing balance
30-June-17	**211.1**	-	**211.1**	48.8	0.5	(14.0)	**246.4**
30-June-18	**271.0**	18.2	**289.2**	44.5	0.8	(18.1)	**316.4**

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

The change in the scope of consolidation as of 30 June 2018 reflects the acquisition of Blu Ranton Srl for 0.5 million euros and the merger of Megas. Net Spa into Marche Multiservizi Spa for 0.3 million euros.

As a result of the application of the impairment model based on the expected credit loss, the adoption of IFRS 9 resulted in an increase in the provision in the amount of 18.2 million euros, with particular reference to receivables not yet past due.

Credit risk

The value of trade receivables reported in the financial statements at 30 June 2018 represents the Group's theoretical maximum exposure to credit risk. The Group's credit management model makes it possible to analytically determine the different risks associated with the collectability of trade receivables from customers as soon as they arise and progressively according to their increasing seniority. This approach allows the company to reduce the concentration and exposure to credit risk posed by both business customers and retail ones. With regard to mass client base receivables, write-downs are carried out on the basis of future-oriented analysis regarding the amount of probable future income, taking into consideration the seniority of the receivables, the type of recovery action undertaken and the status of the creditor. From time to time, analyses are conducted on the individual credit positions yet to be resolved, identifying any criticality, and if the amounts outstanding are uncollectible, in whole or in part, the related receivables are written down.

22 Current tax assets and liabilities

	30-June-18	31-Dec-17	Changes
Income tax credits	17.5	8.2	9.3
IRES refund credit	21.6	21.6	-
Total current tax assets	**39.1**	**29.8**	**9.3**
Income tax payables	107.8	23.6	84.2
Substitute tax payables	14.3	14.3	-
Total current tax liabilities	**122.1**	**37.9**	**84.2**

"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 2018.

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

"Income tax payables" includes the IRES and IRAP amounts allocated in relation to the profit produced in the first half of 2018.

"Substitute tax payables" reflect the remaining tax instalments in relation to exemption operations.

23 Other current assets

	30-June-18	31-Dec-17	Changes
Energy efficiency bonds and emissions trading	147.4	104.7	42.7
Incentives from renewable sources	43.9	32.1	11.8

Security deposits to suppliers	37.2	32.3	4.9
Prepaid costs	34.6	18.3	16.3
VAT, excise and additional taxes	33.3	50.0	(16.7)
Fund for electricity and environmental services for standardisation and continuity income	16.6	21.5	(4.9)
Advances to suppliers and employees	8.0	8.4	(0.4)
Other receivables	44.6	36.0	8.6
Total	**365.6**	**303.3**	**62.3**

"Energy efficiency bonds and emissions trading", includes:

- green certificates, 9.8 million euros (unchanged as of 31 December 2017);
- White certificates, 129.3 million euros (92.5 million euros as of 31 December 2017);
- grey certificates, 8.3 million Euros (2.4 million euros as of 31 December 2017);

It should be noted that 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 due 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.

"Incentives from renewable sources", amounting to 43.9 million euro (32.1 million euro at December 31, 2017), consist of receivables from the GSE for the new incentive mechanism to promote the production of electricity from renewable sources, which replaced the mechanism for recognising green certificates.

“Security Deposits”, amounting to 37.2 million euros (32.3 million euros as of 31 December 2017), include:

- security deposit made to Acosea Impianti S.r.l. in the amount of 12.5 million euros;
- Deposits provided as security for participation in foreign platforms that deal in commodity contracts, auctions on the electricity market, and to secure transactions on wholesale markets for electricity, natural gas and certificates, totalling 15.6 million euros;
- security deposits required by Customs amounting to 2.3 million euros.

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

"VAT, excise and additional taxes", amounting to 33.3 million euros (50 million euros as at 31 December 2017), is comprised of tax credits payable to the treasury for value added tax in the amount of 12.2 million euros (43.9 million euros as at 31 December 2017) and for excise and additional taxes in the amount of 21.1 million euros (6.1 million euros as at 31 December 2017). The changes as compared 31 December 2017 should be interpreted together with the same changes shown in note 30 "Other current liabilities". In particular, with regard to excise duties and additional taxes, the procedures that govern the financial relations with the tax authorities should be taken into account: as a matter of fact, advance payments made during the year are calculated on the basis of the quantities of gas and electricity billed in the previous year. These methods can generate credit or debit positions with differences that may be significant even between one period and another.

For "Fund for electricity and environmental services for standardisation and continuity income“, amounting to 16.6 million euros (21.5 million euros at December 31, 2017), the decrease is mainly due to a lower receivable for components and equalisation of gas distribution and for the equalisation of the electricity sector in relation to standard offer sales, only partially offset by the higher receivable for components of electricity distribution.

24 Assets and liabilities held for sale

As of 31 December 2017, in accordance with IFRS 5, this item almost exclusively represented the contribution that Medea Spa, identified as a disposal group, made to the consolidated financial statements in terms of assets and liabilities. During the course of 2018, the sale of the entire investment was completed, with the consequent derecognition of all assets and liabilities.

It should be noted that, as of 31 December 2017, assets and liabilities held for sale were entered at their book value, as they were valued at less than their fair value, and were included in the item "Attributed net working capital" of the "Gas" operating segment in the disclosure by operating segment provided in section 2.02.05.

25 Share capital and reserves

Compared to 31 December 2017, shareholders' net equity increased by 9.6 million euros due mainly to the combination of the following effects:

- overall revenues for the period in the amount of 177.3 million euros;
- the distribution of dividends in the amount of 150.4 million euros;
- decrease due to transactions on treasury shares, in the amount of 33.6 million euros;
- increase due to changes in the scope of consolidation, in the amount of 34.4 million euros;
- decrease due to the adoption of accounting standard IFRS 9, in the amount of 19.9 million euros.

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

Share capital
The share capital as at 30 June 2018 amounted to 1,465.9 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 2018 was 22.9 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 910.5 million euros, include retained earnings and reserves accrued in previous financial years and in-kind equity injections, or shares, in the amount of 947.4 million euros, cumulative losses in the other components of comprehensive income for 17.5 million euros and negative reserves for operations on treasury shares in the amount of19.4 million euros. The latter reflect the transactions carried out on treasury shares by the parent company and subsidiaries as at 30 June 2018. Changes over the course of the financial year generated an overall capital gain in the amount of 1.9 million euros.
The change in the scope of consolidation (34.4 million euros) refers to the acquisition of 100% control over Megas. Net Spa. The operation was in fact carried out through merger by incorporation into the subsidiary Marche Multiservizi Spa through an increase in the share capital dedicated to the shareholders of Megas. Net Spa, as described in more detail in paragraph 2.02.03 "Scope of consolidation".
With regard to the effects associated with the first application of the new IFRS 9 standard, please refer to paragraph 2.02.02 "Adoption of IFRS 9" for a detailed explanation of these effects.

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

26 Current and non-current financial liabilities

	30-June-18	31-Dec-17	Changes
Bonds and loans	2,969.8	2,856.9	112.9
Payables for the acquisition of controlling interests and potential payments	17.4	17.4	-
Financial leasing payables	13.0	13.9	(0.9)
Other financial liabilities	3.6	4.0	(0.4)
Total non-current financial liabilities	**3,003.8**	**2,892.2**	**111.6**
Bonds and loans	61.3	55.3	6.0
Payables for the acquisition of controlling interests and potential payments	9.5	7.0	2.5
Financial leasing payables	1.8	2.0	(0.2)
Other financial liabilities	25.2	28.3	(3.1)
Overdrafts and interest expenses	239.7	187.0	52.7
Total current financial liabilities	**337.5**	**279.6**	**57.9**
Total financial liabilities	**3,341.3**	**3,171.8**	**169.5**

"Bonds and loans" increased as a result of the assumption on 15 June 2018 of a new loan, granted by the European Investment Bank to the parent company Hera Spa, with a nominal value of 110 million euros and a fixed interest rate of 1.031%, to support the implementation of an investment programme in the waste collection, treatment and disposal sector. The loan repayment schedule is due to expire in June 2030.

"Payables for the acquisition of controlling interests and potential payments" include the amounts still to be paid to transferor shareholders as part of the business combination transactions concluded in the period or in previous periods, as well as the estimate of the potential payments foreseen by the agreements signed at the time of the acquisition, as of the balance sheet date. As of 30 June 2018 this item mainly refers to:

- the acquisition of the Aliplast Group, in the non-current part for 17.4 million euros and in the current part for 5.2 million euros;
- the acquisition of Blu Ranton Srl and Verducci Servizi Srl by Hera Comm Marche Srl for a total of Euro 3.9 million in the current portion.

The item "Financial leasing payables" represents the recording of payables due from leases arising from accounting for leasing transactions using the financial method. The change as compared to 31 December 2017 is mainly due to paying down overdue principal instalments. The value of the lease payments still due on 30 June 2018 amounted to 16.7 million euros.

The item "Other financial liabilities", in relation to the portion due after the current period, includes 3.6 million euros due to the Municipal Pension Fund of the Municipality of Trieste. The current part mainly consists of payables due to:

- a factoring company, for the collection of receivables factored without recourse still to be transferred at year-end, in the amount of 14.8 million euros (19 million euros as of 31 December 2017);
- Fund for energy and environmental services in relation to collections from customers under safeguard, customers for last resort services and advances on earthquake accounting, against advances already received for the same, amounting to 3.7 million euros (4.2 million euros as of 31 December 2017);
- RAI licence fee collection for 5 million euros (2.5 million euros at 31 December 2017);
- Municipalities for Tari collections of 0.5 million euros (1 million euros as of 31 December 2017);
- Municipal pension fund of the Municipality of Trieste for 0.7 million euros (unchanged compared to 31 December 2017).

In "Overdrafts and interest expenses", the change compared with the previous year is represented by the disbursement of two short-term loans in the form of hot money, amounting to 65 million euros.

The table below shows the financial liabilities broken down by category as at 30 June 2018, with an indication of the portion expiring within the period, within 5 years and after 5 years:

Type	Residual amount 30-Jun-18	Portion due within the period	Portion due within 5th year	Portion due beyond 5th year
Bond	2,410.3		706.3	1,704.0
Bank loans	620.8	61.3	226.3	333.2
Payables for the acquisition of controlling interests and potential payments	26.9	9.5	17.4	
Finance lease payables	14.8	1.8	6.5	6.5
Other financial liabilities	28.8	25.2	3.6	
Overdrafts and interest expenses	239.7	239.7		
Total	**3,341.3**	**337.5**	**960.1**	**2,043.7**

The main conditions of the bonds outstanding as of 30 June 2018 are as follows:

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

As of 30 June 2018 the outstanding bonds, totalling a nominal value of e 2,619.7 million (unchanged from 31 December 2017), had a fair value of 2,949.6 million euros (3,023.4 as of 31 December 2017) determined by market quotations where available.
The covenants on the debt in the case of a few loans involve a corporate rating limit, namely that the company not have even one agency lower its corporate rating below "Investment Grade" (BBB-). As of the balance sheet date this covenant has been complied with.

Liquidity risk

Liquidity risk concerns the inability to meet the financial obligations taken on due to a lack of internal resources or an inability to find external resources at acceptable costs. Liquidity risk is mitigated by adopting policies and procedures that maximise the efficiency of management of financial resources. For the most part, this is done through the centralised management of cash inflows and outflows (centralised treasury service); in the prospective assessment of the liquidity conditions; in obtaining adequate lines of credit; and preserving an adequate amount of liquidity.

Current cash and lines of credit, in addition to the resources generated by the operating and financing activities, are deemed more than sufficient to meet future financial needs. In particular, at 30 June 2018 unused lines of credit amounted to approximately 686 million euros while available committed credit lines amounted to 300 million euros.

The analysis of cash flows, broken down by maturity date, related to borrowings outstanding at the balance sheet date is illustrated in the Report on operations in the section 1.10 "Financial policy and rating".

27 Post-employment and other benefits

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

The changes in the existing employee benefit plans in the first half of 2018 are shown below:

	31-Dec-17	Service cost	Financial expenses	Actuarial income/(losses)	Uses and other movements	Changes scope of consol.	30-June-18
Post-employment	126.3	0.4	0.5	0.6	(5.5)	0.4	122.7
Tariff reduction	7.3	-	-	-	(0.2)	-	7.1
Premungas	4.4	-	0.1	0.1	(0.3)	-	4.3
Gas discount	4.3	-	-	-	(0.1)	-	4.2
Total	**142.3**	**0.4**	**0.6**	**0.7**	**(6.1)**	**0.4**	**138.3**

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

Nearly all of the item "Uses and other movements", coming to 6.1 million euros, refers to the amounts paid to employees over the course of the period.

28 Provisions for risks and charges

	31-Dec-17	Allocations	Financial expenses	Uses and other movements	Changes scope of consol.	30-June-18
provision for landfill closure and post-closure expenses	143.2	0.3	6.0	(9.1)	-	140.4
Restoration of third-party assets fund	193.6	4.9	2.1	(9.4)	-	191.2
Legal risks and personnel disputes fund	14.1	0.8	-	(0.6)	-	14.3
Waste disposal fund	7.1	5.9	-	(5.3)	-	7.7
Other provisions for risks and charges	74.5	6.8	0.1	(1.5)	-	79.9
Total	**432.5**	**18.7**	**8.2**	**(25.9)**	**-**	**433.5**

The "provision for landfill closure and post-closure expenses", equal to 140.4 million euros, represents the amount set aside to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently managed. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted to present value in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component derived from the discounting and provision procedure due to changes in the assumptions about future outlays, following the change in estimates on closed landfills. Uses represent the effective outlays during the year.

The" provision for restoration of third-party assets", totalling 191.2 million euros, includes provisions made in relation to law and contractual requirements for the Group companies as lessees of the distribution networks of the entity that owns the assets. The allocations are made on the basis of depreciation rates held to be representative of the remaining useful life of the assets in question in order to compensate the lessor companies for the wear and tear of the assets used for business activities. The provision reflects the present value of these outlays which will be determined in future periods (usually on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation, as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the year, including those discounted to present value, and the financial charges for the period associated with the cash flows discounted to present value.

The "provision for legal cases and disputes brought by personnel", amounting to 14.3 million euros, reflects the outcomes of lawsuits and disputes brought by employees. The provision includes 0.8 million euros relating to the dispute with INPS (unchanged with respect to 31 December 2017) to be attributed to a previous dispute with the INPS office of Ravenna.

"Waste disposal fund", amounting to 7.7 million euros, represents the estimated cost of disposal of the waste already stored at the Group's plants. The provisions, amounting to 5.9 million euros, reflect the estimated costs of contributions for the first half of 2018 not yet processed at the end of the period, while the uses, amounting to 4.6 million euros, represent the costs incurred during the first half of 2018 for the processing of waste that was residual at the end of the previous year.

The item "Other provisions for risks and charges", amounting to 79.9 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 AcegasApsAmga S.p.A.) in case of abandonment of the operations run by the foreign subsidiary Aresgas (Bulgaria).
- 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.
- 8.8 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;

- 7.5 million euros, for the future work of decommissioning waste-to-energy plants.
- 6 million euros for uncertainties regarding how to calculate the reimbursement value of the networks when participating in tenders for the gas distribution service in certain areas already served by the Group;
- 4.5 million euros for the dispute that arose with the subsidiary Hestambiente Srl in connection with the payment of CIP6 incentives for the Trieste waste to energy plant for the years 2010-2012;
- 4.1 million euros, set aside following the publication of the Ministerial Decree from the Ministry for Economic Development dated 20 November 2012 "New methods for determining the avoided fuel cost (ECS) component, as per CIP6/92, and determination of the 2011 ECS adjustment value", which introduced new methods for determining the avoided fuel cost (ECS) component in relation to 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 .

"Provisions" for the year under the item "Other provisions for risks and charges" refer, in particular, to the following risks:

- 4.5 million euro for the risk that the CIP6 incentives for the waste to energy plant in Trieste will not be recognised;
- 1 million euros for the risk that a portion of the green certificates produced by the Herambiente WtE plants will not be recognized, particularly for years prior to 2013..

The item "Uses and other changes" in "Other provisions for risks and charges" shows a net decrease of 1.5 million euros, mainly due to the use, for 1.1 million euros, of a provision set up in previous years following the judicial settlement of some ICI/IMU tax assessment notices against Herambiente for the years 2011 to 2015, as illustrated in note 11 "Taxes".

29 Trade payables

	30-June-18	31-Dec-17	Changes
Payables to suppliers	447.2	716.8	(269.6)
Payables to suppliers for invoices to be received	643.9	679.1	(35.2)
Total	**1,091.1**	**1,395.9**	**(304.8)**

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

30 Other current liabilities

	30-June-18	31-Dec-17	Changes
Payables for advances to the fund for energy and environmental services:	221.5	221.5	-
Plant investment grants	178.7	174.5	4.2
VAT, excise and additional taxes	142.8	13.7	129.1
Security deposits from customers	101.9	103.5	(1.6)
Fund for components and equalisation of the energy and environmental services	91.9	74.0	17.9
Payables to social security institutions	47.0	45.6	1.4
Personnel	46.1	47.2	(1.1)
Employee withholdings	13.2	16.4	(3.2)
Damage deductibles	12.9	12.8	0.1
Prepaid revenues and other charges	8.9	9.2	(0.3)
Other liabilities	62.4	51.0	11.4
Total	**927.3**	**769.4**	**157.9**

The item "Payables for advances to the fund for energy and environmental services", which is unchanged compared with 31 December 2017, consists of payables for interest-free advances granted by the Fund for Energy and Environmental Services. specifically:

- 210.4 million euros in payables for advances in accordance with the integration mechanism provided for by Authority Resolutions No. 370 of 20 September 2012 and No. 519 of 6 December 2012, against expired and uncollected receivables due from customers receiving safeguard services, until 31 December 2015;
- 9.2 million euros in liabilities for advances in accordance with the mechanism provided for in Law No. 239 of 23 August 2004 for reintegrating charges for late payments for services of last resort in the natural gas area, until 30 September 2016;
- 1.8 million euros in liabilities for advances in compliance with the mechanism provided for by Authority Resolution 627 of 17 December 2015 for recording charges for late payments relating to the supply of electricity, gas and integrated water service to the populations affected by the 20 May 2012 earthquake in the Emilia-Romagna region.

"Plant investment grants", referring mainly to investments made in the water, methane distribution and environmental sectors, decreases in proportion to the amount of depreciation calculated on the fixed assets in question and increases as a result of new investments subjected to taxation. The change as compared to 31 December 2017 is mainly due to the higher grants received for investments in the water sector, net of the company's share for the period.

"VAT, excise and additional taxes" include payables for value added tax amounting to 20.6 million euros (0.5 million euros at 31 December 2017) and excise duties and additional taxes amounting to 122.2 million euros (13.2 million euros at 31 December 2017). As illustrated in note 23, "Other current assets", these changes must be interpreted taking into account the factors that regulate financial relations with the Inland Revenue Office, which can generate credit or debit positions with differences that can be significant even between one financial period and another.

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

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

- equalisation on the distribution and measurement of gas and on the distribution and sale of electricity for a total of 15.3 million euros, down by 3.3 million euros compared to 31 December 2017;
- A total of 76.6 million euros for system components for the natural gas, electrical and water services, an increase of 21.2 million euros compared with 31 December 2017.

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

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

"Damage deductibles", amounting to 12.9 million euros, includes the value of insurance deductibles that the Group must reimburse directly to damaged third parties or insurance companies.

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

- liabilities owed to minority shareholders for dividends, amounting to 9.7 million euros (1 million euros as at 31 December 2017);
- sundry tax payables of 5.9 million euros (2.5 million euros as of 31 December 2017);
- payables to users for payments on account and specific tariff subsidies amounting to 4.4 million euros (4.3 million euros as of 31 December 2017);
- payables related to the obligation to return Energy Efficiency Certificates for 2 million Euros, comprising almost entirely grey certificates, to the competent authorities (2.1 million euros as of 31 December 2017).

31 Comments to the consolidated cash flow statement

Investments in companies and business operations

During the first half of 2018, the Group acquired control of Megas. Net Spa, a company that owns distribution networks, and of Blu Ranton Srl, a sales company that sells natural gas and electricity. A minority stake was also acquired in the gas sales company SangroServizi Srl which does not, however, fall within the Group' s scope of consolidation. The table below details the main cash disbursements and cash holdings acquired:

30-June-18	Blu Ranton Srl	Megas. Net Spa	Other investments	Total investments
Cash outlays that led to acquiring control	(5.1)			(5.1)
Cash outlays in non-consolidated shareholdings			(1.8)	(1.8)
Considerations to pay out	(3.5)			(3.5)
Cash and cash equivalents acquired	1.0	1.1		2.1
Investments in shareholdings net of cash and cash equivalents	**(7.6)**	**1.1**	**(1.8)**	**(8.3)**

Divestiture of interests in consolidated companies

The value refers to the income from the sale of a non-controlling stake in Hera Comm Marche Srl, as described in paragraph 2.02.02 "Scope of consolidation".

Change in liabilities generated by financing activities

The table below shows the changes in financial liabilities that occurred in the first half of 2018, broken down into cash and non-monetary flows.

Type	30-June-18	31-Dec-17	Changes	Non-monetary flows				Monetary flows
				Acquisitions divestitures	exchange rate differences	Changes in fair value	Other changes	
Banks and financing coming due after the period	2,990.8	2,878.3	112.5	2.6		9.3	(18.1)	118.7
Banks and financing coming due within the period	335.7	277.6	58.1	0.7			29.8	27.6
Finance lease payables	14.8	15.9	(1.1)	-			0.2	(1.3)
Liabilities from financing activities	**3,341.3**	**3,171.8**	**169.5**	**3.3**	**-**	**9.3**	**11.9**	**145.0**

2.02.06
Reporting by operational sector

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

As of 30 June 2018, 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 2017 and the first half of 2018 are outlined:

30-June-18	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets (tangible and intangible)	1,474.9	541.9	1,830.5	1,212.3	118.1	5,177.7
Goodwill	93.8	42.1	43.0	200.4	4.8	384.1
Equity investments	59.5	42.4	18.2	25.5	0.3	145.9
Non-attributable fixed assets						120.5
Net property, plant and equipment	**1,628.2**	**626.4**	**1,891.7**	**1,438.2**	**123.2**	**5,828.2**
Attributed net working capital	(89.3)	271.2	(106.3)	66.3	16.1	158.0
Non-attributed net working capital						(73.8)
Net working capital	**(89.3)**	**271.2**	**(106.3)**	**66.3**	**16.1**	**84.2**
Other provisions	(148.0)	(26.8)	(137.1)	(256.1)	(3.8)	(571.8)
Net invested capital	**1,390.9**	**870.8**	**1,648.3**	**1,248.4**	**135.5**	**5,340.6**

31-Dec-17	Gas	Electricity	Water cycle	Environment	Other services	Total
Assets (tangible and intangible)	1,435.3	546.8	1,806.9	1,237.6	116.1	5,142.7
Goodwill	93.8	42.1	43.0	200.4	4.8	384.1
Equity investments	59.7	44.3	18.3	26.2	0.3	148.8
Non-attributable fixed assets						105.0
Net property, plant and equipment	**1,588.8**	**633.2**	**1,868.2**	**1,464.2**	**121.2**	**5,780.6**
Attributed net working capital	61.3	166.4	(174.2)	(18.7)	2.3	37.1
Non-attributed net working capital						(13.9)
Net working capital	**61.3**	**166.4**	**(174.2)**	**(18.7)**	**2.3**	**23.2**
Other provisions	(155.1)	(26.1)	(134.3)	(255.2)	(4.1)	(574.8)
Net invested capital	**1,495.0**	**773.5**	**1,559.7**	**1,190.3**	**119.4**	**5,229.0**

The most significant indicators of results by operational sector for the first half of 2018 and same period of the previous financial year are outlined as follows:

first six months of 2018	Gas	Electricity	Water cycle	Environment	Other services	Structure	Total

Direct revenues	1,076.6	1,111.2	396.7	530.4	50.7	10.8	3,176.5
Revenues within the cycle	46.5	70.4	2.7	26.9	16.9	14.5	177.9
Total direct revenues	**1,123.1**	**1,181.6**	**399.4**	**557.4**	**67.6**	**25.4**	**3,354.4**
Indirect revenues	5.7	2.6	12.9	4.1	-	(25.4)	-
Total revenues	**1,128.8**	**1,184.2**	**412.3**	**561.4**	**67.7**	**-**	**3,354.5**
Gross operating margin	**188.4**	**84.0**	**112.8**	**125.9**	**12.6**	**-**	**523.6**
Direct amortisation and provisions	57.0	34.0	58,9	67.2	8.1	24.9	250.0
Indirect amortisation and provisions	3.0	1.0	11.4	9.3	0.2	(24.9)	-
Amort. and prov.s Totals	**60.0**	**34.9**	**70.3**	**76.5**	**8.2**	**-**	**250.0**
Operating profit	**128.3**	**49.0**	**42.5**	**49.4**	**4.3**	**-**	**273.6**

first six months of 2017	**Gas**	**Electricity**	**Water cycle**	**Environment**	**Other services**	**Structure**	**Total**
Direct revenues	896.4	1,092.0	386.2	520.8	47.1	13.9	2,956.4
Revenues within the cycle	31.6	52.4	3.9	21.8	16.1	19.9	145.6
Total 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 revenues	**937.9**	**1,147.6**	**406.8**	**546.4**	**63.3**	**-**	**3,102.0**
Gross operating margin	**171.8**	**91.6**	**111.3**	**121.3**	**9.9**	**-**	**505.9**
Direct amortisation and provisions	62.8	32.3	52.7	68.5	7.0	20.4	243.7
Indirect amortisation and provisions	1.9	0.5	8.9	9.0	0.1	(20.4)	-
Amort. and prov.s Totals	**64.8**	**32.8**	**61.6**	**77.5**	**7.1**	**-**	**243.7**
Operating profit	**107.0**	**58.7**	**49.7**	**43.8**	**2.8**	**-**	**262.2**

2.03
Net financial indebtedness

2.03.01
Net financial indebtedness

		30-June-18	31-Dec-17
a	**Cash and cash equivalents**	**515.2**	**450.5**
b	**Other current financial receivables**	**44.7**	**41.5**
	Current bank debt	(239.7)	(187.0)
	Current portion of bank debt	(61.3)	(55.3)
	Other current financial liabilities	(34.7)	(35.3)
	Finance lease payables due within 12 months	(1.8)	(2.0)
c	**Current financial debt**	**(337.5)**	**(279.6)**
d=a+b+c	**Net current financial debt**	**222.4**	**212.4**
	Non-current bank debt and bonds issued	(2,932.6)	(2,825.3)
	Other current financial liabilities	(21.0)	(21.4)
	Lease payments due after 12 months	(13.0)	(13.9)
e	**Non-current financial debt**	**(2,966.6)**	**(2,860.6)**
f=d+e	**Net debt - CONSOB Communication No. 15519/2006**	**(2,744.2)**	**(2,648.2)**
g	**Non-current financial receivables**	**119.2**	**125.2**
h=f+g	**Net financial indebtedness**	**(2,625.0)**	**(2,523.0)**

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

		30-June-18					31-Dec-17				
			A	B	C	D		A	B	C	D
a	cash and cash equivalents	515.2	-	-	-	-	450.5	-	-	-	-
	of which related parties										
b	Other current financial receivables	44.7					41.5				
	of which related parties		0.1	7.4	2.5	4.3		0.1	7.3	2.4	1.6
	Current bank debt	(239.7)	-	-	-	-	(187.0)	-	-	-	-
	Current portion of bank debt	(61.3)	-	(0.8)	-	-	(55.3)	-	(0.8)	-	-
	Other current financial liabilities	(34.7)	-	-	(0.4)	-	(35.3)	-	-	(1.1)	-
	Finance lease payables due within 12 months	(1.8)	-	-	-	-	(2.0)	-	-	-	-
c	Current financial debt	(337.5)					(279.6)				
	of which related parties		-	(0.8)	(0.4)	-		-	(0.8)	(1.1)	-
d=a+b+c	Net current financial debt	222.4					212.4				
	of which related parties		0.1	6.6	2.1	4.3		0.1	6.5	1.3	1.6
	Non-current bank debt and bonds issued	(2,932.6)	-	-	-	-	(2,825.3)	-	-	-	-
	Other current financial liabilities	(21.0)	-	-	(3.6)	-	(21.4)	-	-	(4.0)	-
	Lease payments due after 12 months	(13.0)	-	-	-	-	(13.9)	-	-	-	-
e	Non-current financial debt	(2,966.6)					(2,860.6)				
	of which related parties		-	-	(3.6)	-		-	-	(4.0)	-
f=d+e	Net debt - CONSOB Communication No. 15519/2006	(2,744.2)					(2,648.2)				
	of which related parties		0.1	6.6	(1.5)	4.3		0.1	6.5	(2.7)	1.6
g	Non-current financial receivables	119.2					125.2				
	of which related parties		0.3	45.8	18.5	27.3		0.2	48.1	18.7	30.1
h=f+g	Net financial indebtedness	(2,625.0)					(2,523.0)				
	of which related parties		0.4	52.4	17.0	31.6		0.3	54.6	16.0	31.7

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

2.04
Financial statement formats as per Consob resolution 15519/2006

2.04.01

Income statement as per Consob resolution 15519/ 2006

	Notes	first six months of 2018	of which related parties						first six months of 2017	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
Revenues	1	2,966.7	-	29.9	147.6	7.5	185.0	6.2%	2,754.0	-	41.6	160.7	2.9	205.2	7.5%
Other operating revenues	2	209.8	-	0.1	3.6	-	3.7	1.8%	202.3	-	0.3	0.7	-	1.0	0.5%
Use of raw materials and consumables	3	(1,327.6)	-	(10.8)	-	(24.0)	(34.8)	2.6%	(1,178.4)	-	(17.5)	-	(22.8)	(40.3)	3.4%
Service costs	4	(1,031.6)	-	(6.4)	(12.6)	(11.5)	(30.5)	3.0%	(981.7)	-	(4.6)	(15.6)	(14.6)	(34.8)	3.5%
Personnel costs	5	(281.7)	-	-	-	-	-		(282.4)	-	-	-	-	-	0.0%
Other operating costs	6	(30.3)	-	-	(0.6)	(0.5)	(1.1)	3.6%	(25.8)	-	-	(0.9)	-	(0.9)	3.5%
Capitalized costs	7	18.3	-	-	-	-	-		17.9	-	-	-	-	-	0.0%
Amortisation, depreciation and provisions	8	(250.0)	-	-	-	-	-		(243.7)	-	-	-	-	-	0.0%
Operating revenues		**273.6**	**-**	**12.8**	**138.0**	**(28.5)**	**122.3**		**262.2**	**-**	**19.8**	**144.9**	**(34.5)**	**130.2**	
Share of profits (losses) pertaining to joint ventures and associated companies	9	8.6	-	8.6	-	-	8.6	100.0%	8.2	-	8.2	-	-	8.2	100.0%
Financial income	10	60.6	-	1.2	-	0.2	1.4	2.3%	58.5	-	1.3	-	0.1	1.4	2.4%
Financial expenses	10	(103.6)	-	-	(0.1)	-	(0.1)	0.1%	(112.6)	-	-	(0.1)	-	(0.1)	0.1%
Financial operations		**(34.4)**	**-**	**9.8**	**(0.1)**	**0.2**	**9.9**		**(45.9)**	**-**	**9.5**	**(0.1)**	**0.1**	**9.5**	
Pre-tax profit		**239.2**	**-**	**22.6**	**137.9**	**(28.3)**	**132.2**		**216.3**	**-**	**29.3**	**144.8**	**(34.4)**	**139.7**	
Taxes	11	(72.0)	-	-	-	-	-		(68.3)	-	-	-	-	-	0.0%
Net profit for the year		**167.2**	**-**	**22.6**	**137.9**	**(28.3)**	**132.2**		**148.0**	**-**	**29.3**	**144.8**	**(34.4)**	**139.7**	
To attribute to:															
Parent company shareholders		158.1							141.0						
minority shareholders		9.1							7.0						
Earnings per share	**12**														
basic		**0.108**							**0.096**						
diluted		**0.108**							**0.096**						

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

2.04.02

Statement of financial position as per Consob resolution 15519/2006

	Notes	30-June-18	of which related parties						31-Dec-17	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
ASSETS															
Non-current assets															
Property, plant and equipment	13	1,998.1	-	-	-	-	-		2,015.7	-	-	-	-	-	
Intangible assets	14	3,179.6	-	-	-	-	-		3,127.0	-	-	-	-	-	
Goodwill	15	384.1	-	-	-	-	-		384.1	-	-	-	-	-	
Equity investments	16	145.9	2.1	132.0	-	7.2	141.3	96.8%	148.8	0.2	136.7	-	7.2	144.1	96.8%
Non-current financial assets	17	119.2	0.3	45.8	18.5	27.3	91.9	77.1%	125.2	0.2	48.1	18.7	30.2	97.2	77.6%
Deferred tax assets	18	167.6	-	-	-	-	-		150.5	-	-	-	-	-	
Financial instruments - derivatives	19	82.6	-	-	-	-	-		66.1	-	-	-	-	-	
Total non-current assets		**6,077.1**	**2.4**	**177.8**	**18.5**	**34.5**	**233.2**		**6,017.4**	**0.4**	**184.8**	**18.7**	**37.4**	**241.3**	
Current assets															
Inventories	20	140.4	-	-	-	-	-		121.2	-	-	-	-	-	
Trade receivables	21	1,670.5	0.1	10.5	63.1	19.5	93.2	5.6%	1,760.9	0.1	26.8	58.4	21.0	106.3	6.0%
Current financial assets	17	44.7	0.1	7.4	2.5	4.3	14.3	32.0%	41.5	0.1	7.3	2.4	1.6	11.4	27.5%
Current tax assets	22	39.1	-	-	-	-	-		29.8	-	-	-	-	-	
Other current assets	23	365.6	-	2.4	5.4	16.0	23.8	6.5%	303.3	-	1.0	2.7	14.2	17.9	5.9%
Financial instruments - derivatives	19	49.8	-	-	-	-	-		40.2	-	-	-	-	-	
Cash and cash equivalents	17. 30	515.2	-	-	-	-	-		450.5	-	-	-	-	-	
Total current assets		**2,825.3**	**0.2**	**20.3**	**71.0**	**39.8**	**131.3**		**2,747.4**	**0.2**	**35.1**	**63.5**	**36.8**	**135.6**	
Assets held for sale	24	-	-	-	-	-	-		22.9	-	-	-	-	-	
Total assets		**8,902.4**	**2.6**	**198.1**	**89.5**	**74.3**	**364.5**		**8,787.7**	**0.6**	**219.9**	**82.2**	**74.2**	**376.9**	

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

	Notes	30-June-18	of which related parties						31-Dec-17	of which related parties					
			A	B	C	D	Total	%		A	B	C	D	Total	%
SHAREHOLDERS' EQUITY AND LIABILITIES															
Share capital and reserves	25														
Share capital		1,465.9	-	-	-	-	-		1,473.6	-	-	-	-	-	
Reserves		910.5	-	-	-	-	-		820.2	-	-	-	-	-	
Profit (loss) for the period		158.1	-	-	-	-	-		251.4	-	-	-	-	-	
Group net equity		**2,534.5**	**-**	**-**	**-**	**-**	**-**		**2,545.2**	**-**	**-**	**-**	**-**	**-**	
Non-controlling interests		181.1	-	-	-	-	-		160.8	-	-	-	-	-	
Total net equity		**2,715.6**	**-**	**-**	**-**	**-**	**-**		**2,706.0**	**-**	**-**	**-**	**-**	**-**	
Non-current liabilities															
Non-current financial liabilities	26	3,003.8	-	-	3.6	-	3.6	0.1%	2,892.2	-	-	4.0	-	4.0	0.1%
Post-employment and other benefits	27	138.3	-	-	-	-	-		142.3	-	-	-	-	-	
Provisions for risks and charges	28	433.5	-	-	-	-	-		432.5	-	-	-	-	-	
Deferred tax liabilities	18	47.1	-	-	-	-	-		45.5	-	-	-	-	-	
Financial instruments - derivatives	19	45.5	-	-	-	-	-		34.5	-	-	-	-	-	
Total non-current liabilities		**3,668.2**	**-**	**-**	**3.6**	**-**	**3.6**		**3,547.0**	**-**	**-**	**4.0**	**-**	**4.0**	
Current liabilities															
Current financial liabilities	26	337.5	-	0.8	0.4	-	1.2	0.4%	279.6	-	0.8	1.1	-	1.9	0.7%
Trade payables	29	1,091.1	-	12.6	18.7	23.6	54.9	5.0%	1,395.9	0.1	17.7	18.7	34.2	70.7	5.1%
Current tax liabilities	22	122.1	-	-	-	-	-		37.9	-	-	-	-	-	
Other current liabilities	30	927.3	-	2.3	8.9	0.1	11.3	1.2%	769.4	-	3.8	8.3	-	12.1	1.6%
Financial instruments - derivatives	19	40.6	-	-	-	-	-		46.0	-	-	-	-	-	
Total current liabilities		**2,518.6**	**-**	**15.7**	**28.0**	**23.7**	**67.4**		**2,528.8**	**0.1**	**22.3**	**28.1**	**34.2**	**84.7**	
Total liabilities		**6,186.8**	**-**	**15.7**	**31.6**	**23.7**	**71.0**		**6,075.8**	**0.1**	**22.3**	**32.1**	**34.2**	**88.7**	
Liabilities associated with assets held for sale	24	-	-	-	-	-	-		5.9	-	-	-	-	-	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**8,902.4**	**-**	**15.7**	**31.6**	**23.7**	**71.0**		**8,787.7**	**0.1**	**22.3**	**32.1**	**34.2**	**88.7**	

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

2.04.03

Financial statement as per Consob resolution 15519/2006

	30-June-18	of which related parties
Pre-tax profit	**239.2**	
Adjustments to reconcile net profit to the cashflow from operating activities:		
Amortisation and impairment of property, plant and equipment	81.6	
Amortisation and impairment of intangible assets	106.0	
Allocations to provisions	62.5	
Effect of valuation using the equity method	(8.6)	
Financial expense / (Income)	43.0	
(Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives)	3.1	
Change in provision for risks and charges	(15.7)	
Change in provision for employee benefits	(6.2)	
Total cash flow before changes in net working capital	**504.9**	
(Increase) / Decrease in inventories	(19.2)	
(Increase) / Decrease in trade receivables	29.7	13.9
(Increase) / Decrease in trade payables	(306.8)	(15.8)
(Increase) / Decrease in other current assets/ liabilities	87.3	(4.9)
Change in working capital	**(209.0)**	
Dividends collected	13.5	10.6
Interests income and other financial income collected	25.3	1.4
Interest expenses and other financial charges paid	(63.1)	(0.1)
Taxes paid	(12.8)	
Cash flow from (for) operating activities (a)	**256.8**	
Investments in property, plant and equipment	(62.6)	
Investment in intangible assets	(123.6)	
Investments in companies and business units net of cash and cash equivalents	(8.3)	(1.7)
Sale price of property, plant and equipment and intangible assets	3.1	0.9
Divestment of unconsolidated companies and contingent consideration	15.9	
(Increase) / Decrease in other investment activities	10.9	2.4
Cash flow from (for) investing activities (b)	**(164.6)**	
New issues of long-term bonds	118.7	
Repayments and other net changes in borrowings	27.6	(1.1)
Lease finance payments	(1.3)	
Proceeds from the sale of shares without loss of control	1.8	
Acquisition of Interests in consolidated companies	-	
Dividends paid out to Hera shareholders and non-controlling interests	(142.7)	(57.3)
Change in treasury shares	(33.6)	
Cash flow from (for) financing activities (c)	**(29.5)**	
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	
Increase / (Decrease) in cash and cash equivalents (a+b+c+d)	**64.7**	
Cash and cash equivalents at the beginning of the period	450.5	
Cash and cash equivalents at the end of the period	515.2	

2.04.04
List of correlated parts

The figures in the table as at 30 June 2018 refer to the correlated parties listed below:

Group A - Non-consolidated subsidiaries and joint ventures

Black Sea Comp.Compr.Gas Ltd
Sigas Doo

Group B- affiliated and jointly controlled companies:

Adria Link Srl
Aimag Spa
Centro Idrico di Novoledo Srl
Energo Doo
Enomondo Srl
EstEnergy Spa
Ghirlandina Solare Srl
H.E.P.T. Co. Ltd
Natura Srl in liquidation
Oikothen Scarl
Q.tHermo Srl
S2A Scarl
SangroServizi Srl
Set Spa
Sgr Servizi Spa
So.Sel Spa
Tamarete Energia Srl

Group C - Related parties with significant influence

Municipality of Bologna
Municipality of Casalecchio di Reno
Municipality of Cesena
Municipality of Ferrara
Municipality of Imola
Municipality of Modena
Municipality of 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 correlated parties

Acosea Impianti Srl
Dragone Impianti Spa Acqeaduct
Aloe Spa
Amir Spa - Asset
Aspes Spa
Baldassi Srl
Calenia Energia Spa
Cartasi
CO.RA.B. Srl

Dama Srl
Eurizon Capital SGR Spa
Executive Advocacy Srl
Fiorano Gestioni Patrimoniali Srl
Formigine Patrimonio Srl
Imola Gru Srl
Istituto Centrale Banche Popolari
KT Finance Srl
Maranello Patrimonio Srl
Rabofin Srl
Rest Srl
Romagna Acque Spa
Sassuolo Gestioni Patrimoniali Srl
Scr Servizi Srl
Serramazzoni Patrimonio Srl
Sinapsi Srl
Sis Società Intercomunale di Servizi Spa in liquidation
Società Italiana Servizi Spa - Asset
Te.Am Srl
Teikos Lab Srl
Unica reti - Asset
Vallicelli sollevamenti Srl
Mayors, administrators, strategic managers and family members related to strategic managers

2.04.05
Commentary notes to the relations with correlated parts

Service management

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

Water sector

The water services managed by the Hera Group are carried out in the areas served in the Emilia-Romagna, Veneto, Friuli-Venezia Giulia and Marche regions. It is carried out on the basis of conventions with the relevant local agencies, with a variable duration, which is usually twenty years.
Hera's mandate of managing integrated water services refers to activities of water collection and drinking water treatment and distribution for civil and industrial applications as well as sewerage and sewage treatment. 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.
Beginning in 2012, authority for rates was transferred from the state to the national agency ARERA which, as part of this task it has been assigned, approved a transitional rate method for the period 2012-2013, a two-year period of consolidation from 2014 to 2015 and a rate method in force for 2016-2019; under this last measure (Authority Resolution no. 664/2015/ R/IDR) the National Authority has also updated the agreements on the basis of a schema type it has established. Regulations for 2016-2019 continue along the lines of those for 2014-2015; a revenue (VRG) is recognised to each manager independently of variations in volumes distributed, defined on the basis of (internal and external) operating costs and capital costs according to the investments made.
For the purpose of carrying out the service, the operator uses networks, facilities and other equipment owned by the company itself or the municipalities or asset companies. These assets, part of the inaccessible water stores, or granted or leased to the provider, must be returned to the municipalities, asset companies or local area authorities at the end of the concession to be made available to the incoming provider. Any work carried out by Hera for the water service must be returned to above mentioned entities following payment or the residual value of the assets in question.
Hera's relations with users are regulated by provisioning regulations as well as Service Charters drafted on the basis of templates approved by local area authorities in compliance with provisions set out by ARERA regarding the quality of the service and the resource.

Environment sector

The municipal waste service managed by Hera in the area it serves is provided on the basis of agreements with local authorities and comprises the exclusive management of the collection, transportation, sweeping and cleaning of streets, preparations for waste recovery or disposal, etc. Agreements with local authorities regulate the economic aspects of the contract as well as the methods used to organize and manage these services and the quantity and quality of the services provided. The payments due to the operator for the services rendered, including municipal waste disposal/treatment/recovery activities, are defined annually by local authorities on the basis of the national rate method (Presidential Decree 158/1999), as supplemented, regarding regional regulations concerning disposal activities (regional decree 467/2015) as well as, beginning in 2013, by the

TARES/TARI regulation. The 2018 amounts approved by local authorities were invoiced to individual municipalities or citizens, in which case the precise fee is applied.
To run treatment plants for municipal waste, the Hera Group is required to obtain provincial authorizations; furthermore, for 2018, the subsidiary Herambiente signed with Atersir the service contract established by article 16 of Regional Law 23 of Emilia Romagna, dated 2011, for the disposal of unsorted waste.

Energy sector

The duration of licenses for the distribution of natural gas via local gas pipelines, initially set for periods ranging between ten and thirty years by the original agreements stipulated with the municipalities, was revised by Italian decree 164/2000 (so-called Letta Decree, transposing Directive 98/30/EC) and by subsequent reforms of the energy market quoted in the part "Regulations" of the report on operations. Inrete Distribution Energy Spa, an Hera Group company that took over natural gas and electricity distribution from Hera SpA, takes advantage of longer residual terms established for operators that have promoted partial privatizations and mergers. The duration of distribution concessions is unchanged with respect to that foreseen in the company's stock exchange listing. Agreements for distribution contracts govern the distribution of natural gas or other similar products for heating, domestic, craft, industrial and other general uses. Rates for the distribution of gas are fixed under current regulations and by periodical resolutions issued by the agency in charge of this sector (ARERA). The area in which the Hera Group company Inrete Distribuzione Energia Spa provides gas distribution services is divided into rate zones in which a uniform distribution rate is applied to different categories of customers. The main tariff regulations in force at the time of approval of these consolidated half-year financial statements are Resolutions 859/2017/R/Gas of 14 December 2017 (Update of tariffs for gas distribution and metering services, for the year 2018), which replaced the 774/2016/R/Gas in force for 2017 and which serve to approve the mandatory tariffs for natural gas distribution, metering and marketing services for 2018, as per article 40 of the RTDG and 775/2016/R/Gas of 22 December 2016 (Intra-period updating of the tariff regulation for gas distribution and metering services) for the three-year period 2017-2019. RTDG approval for the 2017-2019 three-year period) that served to approve the new version of the regulations governing tariffs for natural gas distribution and metering services for the regulatory period 2014-2019 (RTDG), following the changes regarding recognized operating costs, determining the component of the tariff to cover the cost of metrological checks, accounting for the system costs of metering and management at a distance and concentrators and defining the standard costs of electronic measurement units for the 2017-2019 three-year period. Beginning 1 January 2014, in fact, the new Regulation governing gas distribution and metering service rates for the regulation period 2014-2019 (RTDG 2014-2019) went into effect, approved with resolution 367/2014/R/gas as subsequently modified and supplemented. Under the provisions of article 28 of the RTDG 2014-2019, the obligatory natural gas distribution and metering rates are differentiated into six rate areas:

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

The value of the components referred to in paragraph 27.3, sections c), d), e), f), g) and h) of the RTDG 2014-2019 is established by the Authority and subject to quarterly updating.
Consistent with the provisions of article 40, paragraph 9 of the RTDG, the fixed components of the mandatory rate for distribution and metering services have been divided into three bands based on the class of their size group.
With regard to electricity, the contracts (lasting thirty years and renewable pursuant to the current regulations) govern power distribution activities comprising, inter alia, the management of distribution networks and the operation of associated plants, ordinary and extraordinary maintenance, the planning and identification of development projects, and metering. The contract may be suspended or terminated, on the judgement of the sector Authority, if defaults and violations occur on the part of the concessionary company that seriously affect the performance of the distribution and metering of

electricity. The concessionary company is obliged to apply the rates set by current regulations and resolutions adopted by the sector Authority. The rate regulations in effect at the time the consolidated half-year financial statements attached to this report are approved is that of the Authority's resolution 654/2015/R/Eel of 23 December 2015 (Rate regulations for electricity transmission, distribution and metering, for the regulatory period 2016-2023), which replaced the previous Authority resolution Arg/elt no. 199/2011 and subsequent amendments and additions (Official directives for the provision of electricity transmission, distribution and metering services for the regulatory period 2012-2015 and provisions on economic conditions for the provision of connection services), in force until 31 December 2015.

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

The mandatory tariff for the distribution service is updated annually by the Sector Authority (ARERA) by means of a suitable measure, and on 21 December 2017 Resolution 882/2017/R/Eel was approved to update, for the year 2018, the mandatory tariffs for electricity distribution and metering services for non-domestic customers and on 27 December 2017 Resolution 907/2017/R/Eel updated tariffs for the provision of network services (transmission, distribution and metering) for domestic customers.

2.05
Equity investments: List of consolidated companies

Subsidiaries

Name	Registered office	Share capital (euros) where not otherwise specified	Percentage held		Total interest
			direct	indirect	
Parent Company: Hera Spa	Bologna	1,489,538,745			
Acantho Spa	Imola (BO)	23,573,079	77.36%		77.36%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasApsAmga Servizi Energetici Spa	Udine	11,168,284		100.00%	100.00%
Alimpet Srl	Borgolavezzaro (NO)	50,000		75.00%	75.00%
Alipackaging Srl	Zero Branco (TV)	20,000		75.00%	75.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sarl	La Wantzenau (France)	25,000		75.00%	75.00%
Aliplast Iberia SL	Calle Castilla -Leon (Spain)	815,000		75.00%	75.00%
Aliplast Polska Spoo	Zgierz (Poland)	200,000 PLN		75.00%	75.00%
Amga Energia & Servizi Srl	Udine	600,000		100.00%	100.00%
AresGas Ead	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
Aresenergy Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
Asa Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Blu Ranton Srl	Pescara	100,000		84.00%	84.00%
Cerplast Srl	Formigine (MO)	100,000		75.00%	75.00%
EnergiaBaseTrieste Srl	Trieste	180,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	100,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
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		84.00%	84.00%
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	2,000,000	100.00%		100.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Inrete Distribuzione Energia Spa	Bologna	10,000,000	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	16,388,535	40.80%		40.80%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		40.80%	40.80%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%

Tri-Generazione Scarl	Padova	100,000		70.00%	70.00%
Umbro Plast Srl	Gualdo Cattaneo (PG)	98,800		75.00%	75.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Variplast Srl	Quinto di Treviso (TV)	50,000		75.00%	75.00%
Verducci Servizi Srl	Gulianova (TE)	50,000		84.00%	84.00%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

Jointly controlled entities

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

Associated companies

Name	Registered office	Share capital (euros)	Percentage held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
Q.tHermo Srl	Florence	10,000		39.50%	39.50%
Set Spa	Milan	120,000	39.00%		39.00%
So.Sel Spa	Modena	240,240		26.00%	26.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

The company's share capital consists of 67,577,681 euros of ordinary shares and 10,450,000 euros of related shares.

2.07
Declaration on the consolidated financial statement pursuant to Article 154-bis of Legislative Decree 58/98

1 - I sottoscritti Stefano Venier, in qualità di Amministratore Delegato e Luca Moroni, in qualità di Dirigente Preposto alla redazione dei documenti contabili societari di Hera Spa, attestano, tenuto anche conto di quanto previsto dall'articolo 154-*bis*, commi 3 e 4, del decreto legislativo 24 febbraio 1998, n.58:

- l'adeguatezza in relazione alle caratteristiche dell'impresa e
- l'effettiva applicazione

delle procedure amministrative e contabili per la formazione del bilancio semestrale abbreviato nel corso del 1° semestre 2018.

2 - Si attesta, inoltre, che:

2.1 - il bilancio semestrale abbreviato:

a. è redatto in conformità ai principi contabili internazionali applicabili riconosciuti nella Comunità europea ai sensi del regolamento (CE) n.1606/2002 del Parlamento europeo e del Consiglio, del 19 luglio 2002;

b. corrisponde alle risultanze dei libri e delle scritture contabili;

c. è idoneo a fornire una rappresentazione veritiera e corretta della situazione patrimoniale, economica e finanziaria dell'emittente e dell'insieme delle imprese incluse nel consolidamento.

2.2 - La relazione intermedia sulla gestione comprende un'analisi attendibile dei riferimenti agli eventi importanti che si sono verificati nei primi sei mesi dell'esercizio e alla loro incidenza sul bilancio semestrale abbreviato, unitamente a una descrizione dei principali rischi e incertezze per i sei mesi restanti dell'esercizio. La relazione intermedia sulla gestione, comprende, altresì, un'analisi attendibile delle operazioni rilevanti con parti correlate.

L'Amministratore Delegato
Stefano Venier

Il Dirigente Preposto alla redazione dei documenti contabili societari
Luca Moroni

Bologna, 30 luglio 2018

2.08
Report by the Independent Auditor

Deloitte.

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

To the Shareholders of
HERA S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Hera S.p.A. and subsidiaries (the "Hera Group"), which comprise the statement of financial position as of June 30, 2018 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, 2018 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 3, 2018

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

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