

which match the main directions in which the sector is evolving: circular economy, utility 4.0 and customer experience.

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 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 towards directly producing goods that can be relocated on the market, through the use of recycled materials.

Circular economy

The Group furthermore intends to move towards utility 4.0, through the use of digital technologies in all its business areas. Intelligent 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.

Utility 4.0

A great deal of attention is expected to be given to customer experience and all related activities, which encourage customer relationship management tools to evolve. The target is an ever-increasing capacity and velocity 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.

Customer experience

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), which is inspired by the economic theory developed by Porter and Kramer in 2011. 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 in line with the UN's global Agenda.

Creation of shared value

1.06

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

The macroeconomic context

In 2017 the world economy confirmed the recovery that had begun in 2016, with solid rates of development and a more widespread geographical distribution. Most of the world's economic areas, in fact, recorded in 2017 a growth rate higher than the average seen over recent years, in spite of a few global risk factors, including the geopolitical tension surrounding North Korea and the Brexit negotiations between the United Kingdom and the European Union.

The International Monetary Fund's most recent estimates show a 3.7% rise in global gross domestic product in 2017, up 0.5% compared to the growth pertaining to the previous year. For over 120 countries (amounting to 75% of world GDP), 2017 witnessed the highest annual growth rate since 2010. The rate of development continues however to be highly uneven, varying between different areas of the world. The Asian market, China and India in particular, continues to be the driving force in world growth, with rates reaching +6.5% compared to 2016. The area under Russian influence consolidated the signs of recovery seen during the previous year, with a rate of development exceeding 2%, for reasons including the recovery in the price of energy raw materials. The United States as well showed growth above 2%, increasing compared to 2016 but lower than forecasted by analysts. On the contrary, the British economy seems to be slowing down, showing a growth of 1.7% compared to 2016, 0.2% less than the increase in GDP recorded the previous year, ensuing from the uncertainty surrounding its choice to become independent from the European Union.

As regards the Euro area, according to the most recent estimates the economy has shown a remarkable upturn due to an increasing amount of investments and the fundamental contribution given by the ECB's expansive monetary policy: GDP for the Eurozone recorded a 2.4% growth over 2016, the highest figure seen since 2007. Contributions to this result came from the German (+2.5%) and Spanish (+3,1%) economies in particular. Inflation should settle at 1.5%, rising over the previous year, partially due to the recovery in the price of energy products. Excluding energy products from the market basket, indeed, the rise in consumer prices came to less than 1%. The unemployment rate in the Euro area is slowly but steadily declining, even though significant differences are still found among the single countries.

In 2017, the Italian economy underwent a remarkable reinforcement, with GDP growing by 1.5% over the previous year, the highest increase recorded since 2010. This growth was mainly driven by a recovery in final consumption and investments.

Consumption, and private consumption in particular, increased thanks to an improvement in the confidence shown by families and the positive trend in available income. Concerning businesses, industrial production increased and investments significantly accelerated in the second part of the year, stimulated by factors including the tax incentives tied to the "Industry 4.0" package.

As regards foreign trade, the volume of exports grew by 5.4%, in particular towards EU countries not belonging to the Eurozone and those outside the EU. After the drop seen in 2016, inflation showed positive figures once again and according to the latest estimates should settle at +1.3%, essentially in line with the data recorded elsewhere in the Eurozone. As regards the job market, the unemployment rate should come to 11% at the end of 2017, a gradual decrease compared to the 11.7% recorded at the end of 2016.

Referring in particular to the areas served by the Hera Group, it is interesting to note that the rate of economic growth in 2017 in the Veneto and Friuli Venezia Giulia regions was higher than the national average, and that in Emilia-Romagna regional GDP grew by no less than +1.8%, turning it into one of the country's two "locomotives", along with Lombardy.

The context in terms of competition

Utilities act within a context marked by a growing degree of competition. This evolution can easily be detected in regulated businesses, but also in the case of free market businesses.

In regulated businesses, tenders to award service concessions are approaching, and will introduce a greater drive towards competition through forms of "competition for the market". During 2017, the process involved in awarding service concessions for gas distribution took important steps forward, with various announcements for tenders published and the first grant recently brought to a conclusion. In the wake of this initial experience completed on a national level, it is reasonable to expect more announcements to be gradually published and procedures to get underway in most areas. In the case of urban hygiene, competitive procedures are expected during the upcoming years for assigning these services in the Emilia-Romagna region and in the last weeks of 2017 the first announcement was published, concerning service management in the Ravenna and Cesena areas.

Free market businesses, instead, are characterised by forms of "market competition" by their very nature, and in 2017 as well an intensification of competition among operators was witnessed.

As regards energy sales, Arera, in its latest report monitoring the retail market, noted that the number of operators active in the free market increased in the five-year period from 2012 to 2016, reaching 373 operators in both gas and electricity sales. Referring to the electricity market in particular, 47% of operators are active in over half of Italy's regions, confirming the intense competition among sales companies to acquire final customers. In 2017, a number of operators whose business models were founded on an excessive level of risk left the market, showing the outcome of a healthy process of selection among competitors.

As regards activities in waste disposal, treatment and recovery, the current context is marked by various factors creating complexity, some of which are international. As of early 2018, China lowered the minimum quantity of materials that can be imported into this country in order to be treated. This caused a reduction in flows towards China, and in Europe (but not only) had the effect of making more low-quality materials from sorted waste available, which must be sent to European treatment and disposal plants. The context in Europe is thus characterised by a sharp capacity gap, with demand for treatment in recent years above the actual availability of plants. Similarly, in the market sector of dangerous industrial waste a situation involving a “short market” can be observed, a consequence of the strong growth seen in the country's main driving industrial sectors (in particular, the chemical and pharmaceutical sectors).

1.06.01

Regulatory framework and regulated revenues

Relevant legislation

Among the legislative measures introduced in 2017 with the greatest consequences for the Hera Group, particular attention must certainly be given to the Consolidated Act on governance for companies with public shareholders and the approval, through a vote of confidence, of the 2018 Budget and the three-year budget covering 2018-2020.

On 26 June 2017, amendments to the “Consolidated law on companies with public shareholders” were published in the *Gazzetta Ufficiale della Repubblica* no. 147. This measure responded to a twofold need: on the one hand, to fully implement enabling Act 124/2015, which provided for the possibility that the Government finalize legislative decree 175/1206 by means of corrective decrees to be adopted within twelve months of the effective date of the latter; on the other, to adapt to the recent Constitutional Court ruling no. 251/2016, which declared the constitutional illegitimacy of Act 124/2015, regarding the part regulating the procedural rules for adopting decrees implementing the reform.

Issuing this Consolidated law created a unitary body of legislation concerning publicly held companies, whose merit consisted in its organically conceived rules covering a broad and complex subject matter, regulations for which had previously been fragmentary and, in no few cases, uncoordinated and irregular. The new Consolidated law, indeed, beginning with an analysis of the requirements to be respected in order for public administrations to acquire or hold shares in companies, extended its scope of application to virtually all aspects linked to managing these companies: from legitimate activities to pursuable goals, and from requirements for administrators to financial norms for public bodies.

Consolidated law on companies with public shareholders

On 29 December 2017, the 2018 Budget and the three-year budget for 2018-2020 were published in the *Gazzetta Ufficiale della Repubblica*. Commas 305 to 308 gave the Authority for electricity, gas and the water system the function of regulating and controlling the waste cycle, now expressly included among network services. As a consequence of these broadened responsibilities, the Authority took on the name of Regulating authority for energy, networks and the environment.

The tasks given to the Authority include: issuing directives for separate management accounting and administration; providing indications as to service quality levels and monitoring how services are dispensed; defining and updating methods for defining tariffs; approving tariffs proposed by the specific governing body for integrated services and by single managers of treatment plants; defining model contracts for services; verifying that specific plans are correctly drafted; presenting an annual report to the Italian parliament on the state of service regulations.

Arera:

Regulating authority for energy, networks and the environment

Gas, electricity and integrated water service regulations

Among the new features that appear in regulations approved by the Authority in 2017, those with the greatest consequences for the Group include: measures heralding the end of protected energy services; new ways of recognising the costs involved in gas measurement; a redefinition of the tariff structure for general charges for non-household electricity customers; the completion of regulations for the integrated water service.

The Authority continued in its adoption of measures aimed at bringing the sector to abandon protected services in retail markets, with their consequent complete liberalisation taking place as of 1 July 2019. In particular, the Authority, by way of resolution 555/2017/R/com, approved regulations for Free price offers with conditions equivalent to protected services (so-called Placet offers), marked by general supply conditions fixed by the Authority except for the economic conditions that must necessarily be inserted by each single operator on the free market within its own list of offers. Arera furthermore redefined regulations for the minimal mandatory contractual conditions applicable to all free market offers not included among Placet offers. Lastly, these measures established that, for “Similar to Protected” contracts expiring after 12 months, if the customer does not choose otherwise, the contract may be prolonged for a further year under the same contractual and economic conditions (without however newly applying the non-recurring discount); only following this second year in which “Similar to Protected” conditions are applied will it be required, barring a different choice by the final customer, to apply a Placet offer, following the procedures set out by the Authority. With resolution 848/2017/R/com, the Authority furthermore provided for the launch of the Offer portal, whose functions will include collecting and comparing current offers on the retail market, through the integrated information system.

Following the verdicts of the Tar and the State Council on appeals against the previous regulations for system charges set out in the Code for Electricity Transmission Networks (Cade), with resolution 50/2018/eel for transmitting companies and consultation 52/2018/R/eel for sales companies, the Authority implemented transitory regulations (given that indications from the legislature are lacking) for collecting general system charges in the electricity sector. Resolution 50/2018 confirms the current system for collecting general system charges, introducing a mechanism aimed at reintegrating system charges paid by transmission companies to Csea and Gse which have not been collected and cannot be recovered by sales companies. Similarly, with consultation 52/2018 the Authority illustrated its own orientation concerning the rules for reimbursing to sales companies all system charges that have already been paid to transmission companies but not collected and impossible to recover due to arrearage in final customers. The consultation proposes that safeguarded contracts be included in the mechanism as of 2019.

Transitory regulations for collecting general service charges in the electricity sector

With resolution 904/2017/R/gas, the Authority adopted measures for the recognition of costs involved in gas metering services for the two-year period 2018-2019. The main indications concerned, first and foremost, the capital and operating costs related to remote reading and remote management systems and concentrators, for which a cap on recognition of carrying amounts for 2018 coming to 5.24 euro/redelivery point provided with a functional electronic measurer has been foreseen, with a gradual decrease of 0.50 euro/year for the following years. Standard costs have furthermore been set to be applied to meters installed in 2018 and 2019, and the amount of sharing compared to the carrying amounts has been defined progressively and asymmetrically. The method for recognising costs involved in verifying meters has been revised, calling for a rationale in which costs are recognised in the final balance for 2018-2019, considering the impact of new regulatory obligations in this area. In the same resolution, the Authority also postponed to February 2018 the definition of the obligations through to 2020 involved in the project for substituting traditional meters with electronic meters. Lastly, the resolution postponed to the end of 2018 the Authority's definition of the method through which to refer to standard costs for recognising investments in distribution, which is therefore expected to be seen as of the 2020 tariffs, referring to investments made in 2019.

2018 – 2019: measures concerning the recognition of costs related to gas metering

During 2017, the Authority held consultations for the initial orientation as to the new tariffary regulations for electricity transmission and distribution, focused around controlling overall expenses (Totex): according to consultation 683/17/R/eel, this would only apply to the top five distribution operators nationwide, thus excluding Group companies. The orientation expressed by the Authority in the aforementioned consultation involves, on the one hand, ensuring that the new approach is implemented gradually, conserving for the existing stock of capital the amount already recognised in the tariff and maintaining a building block tariffary structure (remunerating capital, amortisations and operating costs), and on the other, inserting innovative elements such as a system of incentives for operators who succeed in making accurate forecasts for expenses and who, above all, succeed in recording a total expense lower than the one defined by the Authority.

Once again concerning electricity transmission, the Authority postponed by one year, deferring it to 1 January 2019, the last phase of the tariff reform for household customers, which calls for tariffs

differentiated according to brackets of consumption to be abandoned as regards general system charges as well. The Authority concluded, instead, the general tariff structure for non-household customers, effective as of 1 January 2018, providing for two groupings: general charges related to sustaining renewable energy and cogeneration (Asos), separating the latter between high energy consuming customers and supported customers, and the remaining charges (Arim), for which a trinomial structure for costs will be applied, characterized by three rates: an energy rate, a fixed annual rate and a fixed power rate.

In 2017 the Authority virtually completed the process of regulating the integrated water service, bringing it into line in many ways with the fully mature energy regulations, but taking into account the specific features of this sector.

Resolution 917/2017/R/idr is highly significant for the integrated water service, and approves the consolidated text on technical quality for services (Rqti), effective as of 1 January 2018 for monitoring indicators and as of 2020 for the related system of incentives. The regulations call for both specific standards tied to programmed services suspensions, and six macro-indicators (associated with a few other general standards), each of which is subdivided into various clusters in which managers will be situated. For each class, a goal for improvement (or conservation) to be reached annually has been set, for which the investment plan concerning the necessary infrastructural interventions will be defined within 30 April 2018. Reaching these goals is linked to a system of bonuses/penalties, which can be accessed only after respecting a few prerequisites, which are valid at the level of single local areas. The system of incentives is sustained by a tariff equalisation component and, only partially, by a rate applied to operating costs, yet to be defined. The mechanism is based on two levels of bonuses/penalties: an initial level for operators who are already in the highest class (so-called conservation class, i.e. those operators whose performance already outdoes the others) and a second level of bonuses/penalties that follows variations in the operator's performance from year to year.

Regulations in technical quality are closely connected to tariffary regulations, which through resolution 918/17/R/idr define the ways in which two-year updates are introduced, as foreseen by the Mti-2 text, intended to update the tariffary multiplier in 2018 and 2019. The two-year balance will be based on adjustments involving operating and financial data based on 2016 balance sheets and 2017 provisional balance sheets, inflation rates for updating operating costs, and changes in the rate of deflation for fixed gross investments for updating capital costs. As regards the recognition of financial and fiscal charges, note the increase of the water utility risk premium, from 1.5% to 1.7%. The update furthermore takes into consideration current fiscal norms concerning taxes on yearly income, reducing the Ires rate from 27.5% to 24%, with an ensuing decrease in the T parameter, that reflects the overall tax rate, from 34.2% to 31.9%.

Once again regarding tariffs, and charges applied to service users, resolution 665/2017/R/idr approved the Integrated text on charges for the water service (Ticsi), with which local government bodies (Egato) are given the mandate of resolving on new tariff subdivisions within 30 June 2018, calling for a per capita tariff to be applied in all regions as of 1 January 2022, with a transitory period set as 2018-2022, regulated while waiting for a complete user registry to become available. This resolution also includes new methods for calculating tariffs for industrial waste water discharged into the public sewage system, moving towards a concrete and clear application of the EU principle that "those who pollute more pay more". The new subdivision of tariffs will also be influenced by the new social water bonus, introduced with resolution 897/17/R/idr (Tibsi), applied to resident household users. During the initial phase of the system, users will be able to request it as of 1 July 2018, with the bonus being valid as of 1 January 2018. The Sgate-Anci system, used for managing the social bonus in energy sectors, will be introduced to this purpose. The social bonus will be defined on the basis of the subsidised tariff set by each local government body and financed by an equalising component which increases charges for the aqueduct service. The bonus may be increased by an additional benefit, covered by a new Op social tariff component. The resolution furthermore granted operators the capacity to withhold the bonus for any unpaid amounts in arrears, communicating this capacity to the user in question. As regards regulations on arrears, the procedure is coming to a conclusion: consultation 80/2018/R/idr proposed orientations similar to those used in the energy sectors, for example in the default process, at the same time containing significant elements to protect customers in arrears.

Gas distribution: tariffary framework

2017 was the fourth year of the fourth regulatory period (2014-2019) of 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 certain revenues, defined by the Authority on the basis of recognised costs and expressed by both reference tariffs (according to 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 variations in volumes distributed. This result is obtained by specific tariff equalisation mechanisms whereby distributors, through the Energy and environmental services fund (CSEA), adjust the differences between their own permitted revenue and the revenue ensuing from invoicing to sales companies (defined by applying to customers the obligatory tariffs set by the Authority for the various macro-regional areas). In particular:

invested capital acknowledged in tariffs in year t (2017) covers investments made until year t-1 (2016), and takes into account updated inflation (the deflator for gross fixed investments in 2017 came to +0.3%). This capital is then remunerated by applying the rates of return set by the Authority, which are different for distribution and metering, and came 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 Fci inflationary indicator published by Istat, whose effect in updating the 2016 rates came to -0.12%. Unlike the components covering operating costs for measuring 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).

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

Within the consolidated scope of the Hera Group, at 31 December 2017 the companies Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa operate in gas distribution and metering.

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

Based on the elements described above, in 2017 revenues in gas distribution and metering for the Hera Group amounted to € 234.3 million, for 2.951 million m³ of volumes distributed, with a corresponding revenue of 7.94 € cent/m³. This revenue already includes an anticipation of the definitive reference tariffs and therefore reflects a reasonable estimate of the effects of tariff equalisation. Compared to 2016, and corresponding to a 0.5% rise in volumes distributed, a € 3.7 million increase in revenues was seen. This result is due to various factors, including an increase in the component covering commercialisation services recognised by Arera, the recognition of operating costs dating to previous years concerning remote reading systems and concentrators, and an increase in investments for measuring, which is associated with a shorter regulatory useful life than distribution.

Gas distribution and metering - Regulated revenue	31 Dec 17	31 Dec 16	% Change
Hera Group consolidated			
- revenue (mn€)	234.3	230.6	1.6%
Volumes (mn/m3)	2,951	2,935	0.5%
average revenue per unit (€cent/m3)	7.94	7.86	1.1%

Revenues here refer to a Rab at 31 December 2016 coming to roughly € 1,086 million, pertaining to assets owned by the Group.

Electricity distribution: tariffary framework

2017 was the second year of the fifth regulatory period governed by resolution 654/2015/R/eel, with which the Authority approved the comprehensive texts for electricity transmission, distribution and metering. The duration of the period was extended to eight years, subdivided into two clearly distinguished four-year periods (NPR1 2016-2019 and NPR2 2020-2023). The criteria used for tariffs in NPR1 are largely consistent in their method with regulations in force until 2015, except for a few new elements: the regulatory lag has been reduced to one year as regards return on capital, the recovery of investments through tariffs has become slower for electricity lines and connections due to their longer useful lives, and lastly investments in commercialisation and low-tension metering are accurately recognised. Operating costs recognised for 2017 have been updated by applying the price-cap method to the 2016 figures, updated for inflation with a change coming to -0.12%, and an efficiency correction based on an x-factor coming to 1.9% for distribution and 1% for measuring. The x-factor rates were set by the Authority with the aim of gradually including the production recovery achieved in the third and fourth regulatory period.

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

In the context described hereto, the Authority, for the Hera Group companies concerned (Inrete Distribuzione Energia Spa and AcegasApsAmga Spa):

with resolutions 188/2017/R/eel and 199/2017/R/eel, in March 2017, definitively set the reference tariffs for 2016 distribution and metering (completing them, compared to the provisional tariffs approved the previous year, by including definitive investments recorded for 2015 instead of the estimates priorly stated);

with resolutions 286/2017/R/eel and 287/2017/R/eel of 28 April 2017 approved provisional reference tariffs for 2017, respectively applied to distribution and metering (including the priorly stated estimates for 2016, communicated by operators to the Authority in November 2016).

By regulation, the definitive reference tariffs for 2017 distribution and metering are expected to be published within February 2018, brought to completion compared to the provisional ones by including investments recorded in 2016.

The rate of return on invested capital for distribution and metering services during the three-year period 2016-2018 came to 5.6%, in line with the regulations introduced by the Tiwacc (resolution 583/2015/R/com).

Within the context described above, Group revenues for electricity transmission, distribution and metering for 2017 amounted to € 92.8 million, up € 2.2 over 2016; volumes distributed also rose. Within a stable tariffary framework, increases in revenues are essentially tied to natural updates of the limit (recognition of investments and inflation and efficiency factors) and accrued remuneration.

Electricity distribution and metering - Regulated revenue	31 Dec 17	31 Dec 16	% Change
Hera Group consolidated			
- revenue (mn€)	92.8	90.6	2.5%
- volumes (mln kWh)	3,046	2,993	1.8%
- average revenue per unit (€cent/kWh)	3.05	3.03	0.7%

Revenues here refer to a Rab for electricity distribution and metering estimated at roughly € 379, predominantly related to assets owned by the Group.

Water cycle: tariffary framework

2017 was the second year of the four-year tariff period MTI-2, defined by the Authority with resolution 664/2015/R/idr. National tariffary regulation of the water system was introduced by the Authority

beginning in 2012, with an initial two-year period (2012-2013) consisting of transitory regulations (MTT), a following, fully functional two-year period (2014-2015; MTI) and a second regulatory period, 2016-2019 (MTI-2). Regulations for 2016-2019 are in line with those for 2014-2015; each operator is assured a revenue (VRG) defined on the basis of the operating and capital costs recognised by the aforementioned tariff method, making revenues independent from any changes in volumes distributed. This is ensured by a tariff balancing mechanism that permits operators to recover (in the VRG of the two following years) the differences between recognised revenues (VRG) and the actual turnover resulting from volumes sold.

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

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

In this financial statement, the revenue covering the underlying cost of amortisation related to investments made in 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) has defined the tariff adjustment entries relating 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 2016 by 3.6%, as an effect of the tariff balancing provided for by the application of the resolved VRG, and bonuses for contract quality (operative beginning 1 July 2016) owing to commitments for standards superior to those set out in the Authority's resolution 655/2015/R/idr.

Hera Group Consolidated Water cycle - Revenue from tariff	31 Dec 17	31 Dec 16	% Change
Revenue from tariff (mn€)	625.5	603.9	3.6%
volumes (mn/m3)	303	300	1.0%
average revenue per unit (€cent/m3)	206.6	201.3	2.6%

Urban waste: tariffary framework

The service of urban waste management is offered on the basis of conventions established with provincially defined Agencies (which have now come together in the Regional agency for Emilia-Romagna water and waste services, Atersir), which regulate, in addition to the forms and organisation of the service, the economic aspects of contracts. The sum pertaining to the operator for services offered is defined annually, in line with the provisions of Dpr 158/1999, integrated, beginning in 2013, by regulations concerning first the Tares and then the Tari.

Acting through the Tari, single Municipalities purchase resources covering costs sustained by operators in carrying out services in sweeping, collection and disposal; as of the year in which the Tares was established (2013), control and payment collecting were assigned to Municipalities who, in some cases, entrusted them to Hera.

Out of respect for the principle of continuity in public services, and according to conventions currently in force, the operator is required to continue offering services in areas in which the deadline for assignment has already passed, until new assignments are made; for expired concessions, Atersir has already initiated the procedures for new assignments.

At December 2017, urban waste management services were offered in 188 municipalities, 32% of which chose to entrust Tari controls and payment collecting to the Hera Group.

A comparison between the uniform and consolidated data of the Hera Group shows the following figures:

Hera Group Consolidated Urban waste - Revenue from tariff	31 Dec 17	31 Dec 17	% Change
Revenue from tariff (mn€)	534.4	525.1	1.8%
Users reached	3,310	3,310	0.0%
Average revenue per unit (€/user)	161.4	158.7	1.7%

Revenues regulated by the SGRUA rose by 1.8%, mainly owing to the tariffary updating resolved by local agencies, owing in particular to developments in sorted waste services.

1.06.02

Trading and procurement policy

The recovery in demand for natural gas continued in 2017, settling at 74.7 billion m³, up 6.1% compared to the 70.4 billion m³ recorded the previous year, thus confirming the turnaround seen as of 2015. More specifically, this growth in gas consumption is due to a rise in demand from thermoelectric plants, which came to 25.3 billion m³ compared to the 23.3 billion m³ seen in 2016, with an 8.6% increase recorded mainly during the first quarter of the year, and due both to lower electricity imports coming from France and a drop in hydroelectric production. The recovery was significant in household consumption, which made up over 40% of overall demand, with a 3.5% increase from 31.7 billion m³ in 2016 to 32.8 billion m³ in 2017. Lastly, a significant rise was also seen in industrial consumption, coming to 1.1% and amounting to 14.3 billion m³, confirming the solidity of the economic recovery.

Upturn in gas consumption: +6.1%

Trading operations were oriented on the one hand towards optimizing the portfolio, with a view to balancing short-term positions, and on the other towards negotiating and managing new supply contracts for the 2017/2018 thermal year.

An optimised portfolio

Going into further detail, short-term adjustments, supported by an efficient prediction of upcoming demand, were implemented through purchase or sales agreements at the Virtual exchange point (VEP-Italy), the Virtual trading point (VTP-Austria), the Title transfer facility (TTF-Holland) and Net Connect Germany (NCG-Germany). The conditions for these transactions were generally favourable and allowed objectives in terms of expected economic results to be met.

As of April, Hera Trading initiated gas procurement aimed at both filling the storage capacity purchased by auction, with roughly 0.33 billion m³, and providing gas destined to the free market for the Group's sales companies for the 2017/18 thermal year, with roughly 0.6 billion m³, sourcing it directly from the spot and futures markets.

During the month of April, as in the previous year, negotiations also took place for modulated gas intended for the protected market delivery points (so-called Remi) of the Group's sales companies. The total amount reached roughly 1.4 billion m³ for the 2017/18 thermal year, as per the supply conditions resolved by Arera beginning in October 2013. This negotiation allowed particularly favourable terms to be obtained in terms of both prices and payment conditions.

Negotiation of modulated gas coming to 1.4 billion m³

Electricity consumption returned to a phase of growth in 2017, reaching the highest amount seen since 2013. According to the preliminary data elaborated by the national network transmission company (Terna), the total amount of electricity requested in Italy in 2017 came to 320.4 billion kWh, with a 2.0% increase over 2016.

This increase did not change significantly among the country's various regions.

Domestic production accounted for 89% of the demand seen in 2017, up 1.9% over the previous year, coming to 285.1 TWh, while the foreign balance settled at 37.8 TWh (+2% over 2016). In particular, the contribution from thermoelectric plants grew to 199.5 TWh (+4.6%), as did photovoltaic production, even more significantly, coming to 24.8 TWh (+14%). Hydroelectric production, instead, dropped once again, falling by 14.3% to 24.8 TWh, while less remarkable decreases were seen in wind power, at

Electricity consumption begins to rise once again: +2.0%