

1

Directors' Report

984,6

million
Ebitda

266,8

million
Net profit

396,2

million
Investments

ROE 9,9 %

Return
on Equity

ROI 9,2 %

Return
on Investment

2,56 x

Net debt/Ebitda
ratio

Personnel structure

Human resources

Hera Group's employees with open-ended contracts as of 31 December 2017 numbered 8,683 (consolidated scope) and are distributed by role as: executive managers (154), middle managers (537), office clerks (4,612), and workers (3,380). This structure ensues from 284 entries and 324 exits as well as changes in the company scope of Aliplast Spa, Sinergie Spa Ramo Sud e Isole, Teseco Spa and Verducci Srl, which introduced 356 new units, and the change in the scope of consolidation with the exit of SiGas, accounting for 7 units. Hiring mainly results from a quality turnover entailing the entry of skilled workforce.

Organisation

The Hera model stands out in the multi-utility industry for implementing industrial and operational integration under one leading holding company, through central departments tasked with setting guidelines and carrying out checks, which ensures an overall governance for the Group.

Industrial and operational integration
The Hera model

The management of business units is entrusted to the individual departments and companies that are under the control of Hera's top management and, as far as energy, integrated water services and environmental services are concerned, are coordinated by the General Operations department.

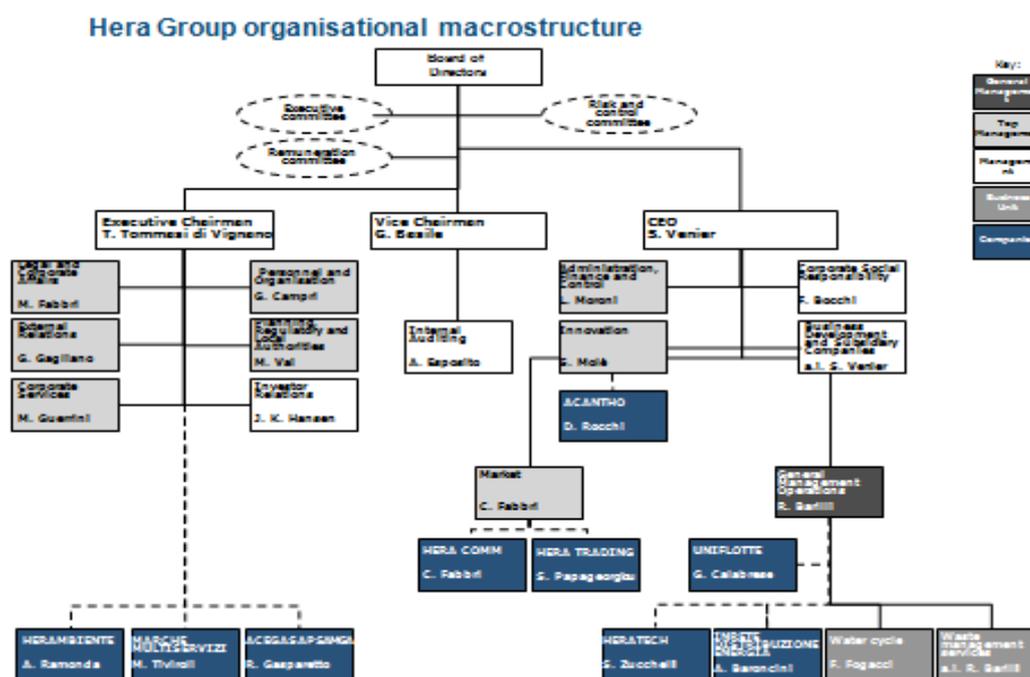
The utility sector is increasingly characterized by rapid changes, with competitive dynamics and a specialty-oriented regulatory setting, as well as other key elements such as water and environmental services legislation, service allocation tenders and regional regulations. In short, it is a field in which growth depends on the ability of enterprises to continually introduce innovations in industrial processes, taking advantage of synergies associated with economies of scale and ensuring the maximum efficiency of services.

In response to this competitive context and in line with the Group's strategic guidelines, organizational development initiatives were developed in 2017 that further consolidated our model through measures aimed at simplifying and streamlining processes, identifying possible opportunities for synergy, and continuously pursuing agility and service excellence.

Innovation and streamlining of operating processes

Below is the Group's organizational macrostructure as at 1 January 2018

Hera - organizational macrostructure



Specifically, in 2017 the organizational model of Heratech Srl was further rationalized by simplifying the basic organization of the company.

The main areas subject to intervention were the Engineering Department, with all the plant and network systems design and construction activities relocated there with the aim of improving customer service, and the Technical Customer Service department, which was reorganized to focus more specifically on all the distributor's activities in relation to customers linked to non-commercial services. Lastly, measurement and remote management activities were relocated to the company Inrete Distribuzione Energia Spa.

Main developments in the General Operations department

In the Environmental Services Division, a revision was carried out on the organizational model, establishing the Ravenna area and shifting all the activities and resources connected to the management of the collection centres to each individual area, according to territorial area of responsibility. With effect beginning 1 January 2018, Atersir has assigned the integrated urban waste management service in the Forlì-Cesena province basin area, managed by Hera Spa, to AleaAmbiente Spa according to a procedure of in-house providing.

In the Herambiente Group, a review of the organizational model was carried out aimed at focusing company structures on two specific business segments: the first, headed by the Industry Market Department, focused on marketing products and services relating to industrial waste; the second, headed by the Planning and Utilities Market Development Department, focused on the special urban waste market.

Main developments in Herambiente

In the Industry Market Department in particular, with a view to favouring the most synergy possible between the structures operating in the industrial waste market, Herambiente Servizi Industriali Srl merged with Waste Recycling Spa, which had acquired the business unit "Plants" from Teseco Spa over the course of the year, and with the Herambiente Spa structures involved in reclamation and global operational services.

In the Planning and Utilities Market Development Department, sales structures relating to the urban and special waste market deriving from the utilities sector and those operating in the materials recovery

market were merged. In addition to sales structures, the Logistics department that operates across all business segments was also merged.

Lastly, starting from April 2017, it should be noted that Aliplast Spa will be included in the Herambiente Group.

As regards the Central Market Department, the following changes of note occurred:

with effect beginning 15 September 2017, the overall reorganization of Hera Comm Srl aimed at furthering operational excellence with a view to the customer experience, the development of increasingly innovative processes and services and the adoption of a more agile operating model; the new structure includes: the Sales and Marketing Department (with a focus on marketing, transactional processes and sales to all markets), the Customer Experience Management Department (with a focus on processes of customer relationship management for all markets) and the Marche and Abruzzo Controlled Management department (with a focus on the management of companies in the Marche and Abruzzo regions);

with effect beginning 1 January 2018, the new structure of Hera Comm Marche Srl, associated with the fact that activities and resources relating to customer management for gas and electricity services, previously allocated to the Customers department of Marche Multiservizi Spa, have been relocated here.

**Main
developments in
the Central
Market
Department**

In terms of Central Bodies, the following developments are worth mentioning:

with effect beginning February 2017, the organizational review of the Quality, Safety and Environment Department aimed at enhancing logics for the flexible resource use through internal mechanisms of integrated activities planning ;

the reconfiguration of service activities associated with processes supporting the above-mentioned corporate restructuring operation.

**Main
developments in
Central Bodies**

As regards the Central Innovation Department, the following changes of note occurred:

with effect beginning February 2017, the reorganization of the Information Systems Department, aimed at strengthening the focus on the management of individual information technology processes, improving their performance ("Business relationship management", "Delivery & maintenance" and "It operations"), as well as shifting the operating model towards the effective management of new technological trends;

with effect beginning May 2017, the redefinition of the organizational structure of Acantho Spa.

Lastly, during the second half of 2017 plans for Group corporate streamlining were finalized, completed with effect beginning 1 January 2018 and characterized by the following transactions:

1. The integration of activities relating to public lighting into Hera Luce Srl, with the company being transferred under the control of AcegasApsAmga Spa.
2. The integration of activities related to heat management into AcegasApsAmga, with Amga Calore&Impianti Srl merging into Sinergie Spa and the consequent establishment of AcegasApsAmga Servizi Energetici Spa.
3. The transfer of AcegasApsAmga Spa's market-area equity investments:
 - 33% of AdriaLink Srl to Hera Trading Srl;
 - 51% of Estenergy Spa and 100% of EnergiaBaseTrieste to Hera Comm Srl.

**Uniforming
the Group's
organisational
model**

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

Management Review, which deals with examining and sharing corporate policies, strategies, goals and operational planning group-wide, as well as with fostering integration between corporate entities.

Business Review, whose duty is to report on periodic operating performance to each of the corporate business areas, and to assess the progress of specific budget unit actions set forth under the budget and business plans.

**Committees:
Management
Review and
Business Review**